The Effect of Audit Fee, Audit Rotation, and Auditor Reputation on Audit Quality (Empirical Study on Manufacturing Companies Listed on the Idx for the Period 2014-2018)

Nursiam, Febry Krisna Putri, Pardi

Accounting Study Program, Faculty of Economics and Business, Universitas Muhammadiyah Surakarta

nur183@ums.ac.id

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ABSTRACT

The purpose of this research is to examine the effect of audit fees, audit rotation, and auditor reputation on audit quality. The population in this study is manufacturing companies listed on the IDX period 2014-2018. The total sample of research is 345 companies determined by purposive sampling. Data analysis was done by logistic regression and SPSS Statistic 20. The result of this study shows that audit fee does not affect audit quality, while audit rotation and auditor reputation have a significant effect on audit quality.

INTRODUCTION

Today's business world is becoming more competitive, including competition in the public accounting service industry. These businesses, in particular, must survive in the face of today's competition; they must earn the trust of the wider community, and they can do so by requiring auditors to maintain a high audit quality. The results of the audit will be used by the company as well as parties such as potential investors, creditors, and Financial Institutions Supervisory Agency (Bapepam). As a result, public accounting services can produce the highest quality audits. The most important aspect of a quality audit is that it is performed by an auditor who is competent in detecting misstatements in financial statements and independent in reporting them in financial statements.

Empirical research findings show that factors such as audit fees, audit rotation, and auditor reputation have a great impact on audit quality. However, according to previous research, these three variables have very different influences. Some have an impact, and some others do not.

The financial statements will inform the public about the accuracy of the audited reports because the report's findings will be used by shareholders to make decisions. As a result, audit quality is critical in providing an opinion on financial statements (Rahayu and Suharti, 2010) in (Siregar and Elissabeth, 2018).

According to De Angelo's research (1981) in Fachruddin (2017), quality audits were only owned by foreign-affiliated public accounting firms known as the "big 8" at that time. The reason for this is that a large KAP will have well-established resources. They will not be afraid of losing clients, and they can even provide additional education to their auditors in order for them to learn more about their profession.

Audit quality is a critical factor to consider, particularly for users of audited reports. It is because the audit opinion will serve as the foundation for decisions made by investors and potential investors. If the audited report is not audited by a qualified auditor, the resulting opinion will be of low quality and may result in errors when the report user makes a decision (Fachruddin, et al., 2017)

According to the findings of research by Kurniasih and Rohman (2014), audit fees and audit rotation have a significant positive effect on audit quality. This means that the audit fee paid by the company for the auditor's service has a great impact on the quality of the audit produced by an independent auditor. The audit rotation has an impact on the quality of independent auditees.

Hartadi (2012) claims through his research that audit fees have an impact on audit quality. Meanwhile, the auditor's reputation has no significant effect on audit quality, which could be attributed to the big four's dominance as listed company auditors.

One of the external factors influencing audit quality is audit fees. This means that a qualified auditor will, for sure, be compensated generously for his or her services (Andriani and Nursiam, 2017). It is consistent with the findings of the research, which show that audit fees have an effect on audit quality; thus, the higher the value of audit fees generated by the company, the greater the improvement in audit quality, because high audit fees allow KAP to report more detailed audit procedures and depth to produce high audit quality. These findings also support research by Kurniasih and Rohman 2014, and Hartadi 2012. Meanwhile, audit rotation has been shown to have no impact on audit quality. This is because the market is unconcerned about whether or not the auditor who issued an audit opinion on the annual financial statements has been rotated. This study backs up Hartadi's (2012) research, which shows that auditor reputation has no effect on audit quality. It indicates that high audit quality is not always provided by KAPs affiliated with the Big Four KAPs.

Because audit quality is related to the delivery of information in a financial report, more research is needed to determine how the three variables (audit fees, audit rotation, and auditor reputation) influence audit quality.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Effect of Audit Fee on Audit Quality

The audit fee is the price received by the auditor that comes from payments made for audit services performed, the amount of which is determined by the risk of the assignment, the complexity of the services provided, and the level of expertise required.

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Kurniasih and Rohman (2014) prove that audit fees have a significant positive effect on audit quality. This finding implies that the audit fee charged or paid by the company for the auditor's service has a great impact on the quality of the audit produced by an independent auditor.

Research by Andriani and Nursiam (2017) also highlights that audit fees have an effect on audit quality. This demonstrates that the greater the value of the audit fee provided by the company, the higher the audit quality. The existence of this high audit fee allows the public accounting firm to report audit procedures in greater detail and depth, resulting in a high-quality audit.

Rizaldi's (2017) research also shows that audit fees affect audit quality because good audit quality necessitates adequate audit procedures to obtain audit evidence, which raises the required costs.

H1: *Audit fee affects audit quality.*

The Effect of Audit Rotation on Audit Quality

Audit quality is frequently used as the basis for issuing regulations governing auditor rotation in order to maintain audit quality. Auditor rotation can be divided into two categories: rotation caused by binding government regulations (mandatory) and rotation caused by reasons other than regulation (voluntary). Auditor rotation can also be done voluntarily if the client replaces the auditor.

According to the research findings by Andriani and Nursiam (2017), audit rotation does not affect audit quality because audit rotation does not guarantee high-quality audit results. The results of research by Hartadi (2012) also show that audit rotation has no effect on audit quality. It is because the market is unconcerned about whether or not the auditor who expressed an opinion on the annual financial statements has been rotated.

Meanwhile, research by Kuniasih and Rohman (2014) shows that audit rotation has a significant positive effect on audit quality, implying that audit rotation has a great influence on the quality of independent auditees.

According to Nizar (2017), audit rotation has no effect on audit quality. This means that companies that rotate or do not rotate will be the same in terms of disclosure of the company financial statement.

From the research results of Ishak, Perdana, and Widjajanto (2015) audit rotation has a negative and significant effect. This means that the more often the company performs audit rotation, will reduce audit quality.

H2: Audit rotation affects audit quality

The Effect of Auditor Reputation on Audit Quality

Auditors with experience and a high level of public trust are more likely to produce high-quality audits at KAP Big4.

Audit quality is not affected by auditor reputation. This demonstrates that public accounting firms affiliated with the Big Four KAPs do not always provide high-quality audits (Andriani and Nursiam 2017).

Hartadi (2012) reveals that auditor reputation has no effect on audit quality, which could be attributed to the big four's dominance as listed company auditors.

Similarly, according to Rizaldi's (2017) research, auditor reputation has no effect because each auditor is a public accountant who has met competency standards and obtained permission in accordance with applicable laws and regulations.

Research by Nizar (2017) also shows that audit reputation does not affect audit quality. This means that whether an auditor is affiliated with the big four KAPs or not, they will have the same level of quality in maintaining public trust.

H3: Auditor reputation affects audit quality

RESEARCH METHOD

Population and Sample

Secondary data were used in this research. Secondary data are information obtained from pre-existing sources that does not need to be searched by the researcher. The financial statements of manufacturing companies originating from the Indonesian Stock Exchange (IDX) were used in this research and can be obtained through the internet from the official website at www.idx.co.id.

This research's population consisted of all manufacturing companies listed on the Indonesia Stock Exchange (IDX). Purposive sampling was used to select the sample companies. The following are the sample selection criteria:

1. The company's financial statement data and variable calculation data are fully available for the reporting years 2014 to 2018.
2. The company publishes financial statements

with the last financial year on 31 December.
3. The company's financial statements are issued in the rupiah currency.

Research Variable
1. The dependent variable of this research is audit quality. Audit quality refers to research by Andriani and Nursiam (2017), which uses a going concern opinion proxy as a measure of audit quality. The audit quality variable is measured using a dummy variable, with a value of 0 for those who issue a going concern opinion and a value of 1 for those who do not.
2. Independent variable
   a. Audit Fee
      Audit fees are proxied in this research by professional fees listed in the financial statements of companies listed on the Indonesia Stock Exchange because audit fee disclosure is voluntary, so this variable is calculated using the natural logarithm (Kurniasih and Rohman 2014).
   b. Audit Rotation
      The audit rotation variable is measured using a dummy variable, with a value of 1 indicating auditor rotation and a value of 0 indicating no auditor rotation.
   c. Auditor Reputation
      Auditor reputation is measured using a dummy variable. For a value of 1, KAPs affiliated with the Big Four KAPs, and a value of 0 for those affiliated with non-Big Four KAPs.

Hypothesis Testing
The logistic regression analysis method was used to test the hypotheses because the dependent variable in this research is a dummy. The dependent variable is audit quality as determined by Going Concern Opinion. Meanwhile, the independent variables are audit fees, audit rotation, and auditor reputation. The logistic regression model used in this study is as follow:

Logit KA = α + β1Ln*Fee* + β2Rotation + β3Reputation + e

Where:

KA	= Audit Quality
α	= Constant
β1-β4	= Regression Coefficient
Ln*Fee*	= Natural Logarithm of Audit Fee
Rotation	= Audit Rotation
Reputation	= Auditor Reputation
e	= Residual *error.*

RESULTS AND DISCUSSION

Descriptive Analysis
The natural logarithm was used to calculate the LNFEE variable, which is proxied by the amount of professional fee issued by the company each year. The mean value from the descriptive analysis table is 22.3594, with a maximum value of 26.26 and a minimum value of 18.60. The median value obtained by dividing the maximum value (26.26) and the minimum value (18.60) yields a value of 22.43. With a mean value greater than the median, it can be concluded that the company pays a higher audit fee on average.

The following variable is audit rotation, which was measured using the dummy variable method, with a maximum value of 1 and a minimum value of 0. The descriptive analysis results show that the mean value is 0.3710 and the standard deviation value is 0.48378, demonstrating that the rotational obligation in perspective demonstrates the existence of companies that should perform audit rotations.

Table 1. Descriptive Statistical Analysis of The Sample

	N	Minimum	Maximum	Mean	Std. Deviation
LNFEE	345	18.60	26.26	22.3594	1.69022
ROTATION	345	.00	1.00	.3710	.48378
REPUTATION	345	.00	1.00	.4232	.49478
KA	345	.00	1.00	.5507	.49814
Valid N (listwise)	345				

Source: Results of descriptive statistics, 2020

Auditor reputation was measured using a dummy variable with a maximum value of 1 and a minimum value of 0. The resulting mean value is 0.4232, and the standard deviation is 0.49478, indicating that the company used auditor services based on KAP affiliation with the KAP Big Four and KAP Non-Big Four.

From the descriptive analysis test, the value of audit quality proxied by going concern opinion using the dummy variable method has a mean value of 0.5507 and a standard deviation of 0.49814 with a minimum value of 0 and a maximum value of 1, indicating that companies evaluated evidence about information to determine and report on the degree of conformity between the information and the criteria set by the auditor.

Hypothesis Testing

Logistic regression analysis was the hypothesis testing method proposed in this research. To test the above hypotheses, the researchers employed multivariate analysis, specifically the dummy variable, to determine whether the test tool is capable of analyzing the effect of the variables of audit fee, audit rotation, and auditor reputation on audit quality. The following are the test steps:

a. Overall Model Fit Test

This test is used to determine whether or not the hypothesized model fits the data. If Ho: the hypothesized model fits the data, and H1: the hypothesized model does not fit the data. The overall model fit of the research data is shown in table 2.

Table 2. Comparison of Value -2LOG L

Iteration		-2 Log likelihood Constant	Coefficients
Step 0	1	458.258	.825
Step 1	2	458.219	.872

Source: Secondary data, 2020

In the overall assessment of the regression model using -2log likelihood (LL), if the number of -2log likelihood in the second block decreases when compared to the first block, it can be concluded that the regression used is good. This phase of testing was carried out by comparing a value of -2 Log Likelihood (2LL) at the beginning (Block Number = 0) with a value of -2 Log Likelihood (-2LL) at the end (Block Number = 1). The initial value of -2LL was 458,258. After entering all data for the three independent variables, namely LnFee, rotation, and reputation, the final -2LL value showed a 458.219 decrease. A decrease in likelihood (-2LL) indicates a better regression model or a fit model.

b. Analyzing the Coefficient of Determination (*Nagelkerke R Square*)

The Nagelker R Square test determines how much the independent variable can explain and influence the dependent variable. The value of Nagelkerke R Square, as shown in Table 3, is based on the value of the coefficient of determination in the logistic regression model.

Table 3. Nagelkerke R Square Value

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	458.219[a]	.047	.062

Source: Secondary data, 2020

The value of Nagelkerke R Square is 0.062, indicating that the ability of the Lnfee, rotation, and reputation variables to predict the audit quality variable is 6.2%, while the other variables are 93.8%.

c. Assessing the Feasibility of the Regression Model

The Hosmer-Lemeshow Goodness of Fit Test was used to assess the feasibility of the regression model in this research. The purpose of this model is to test the null hypothesis that the empirical data fit the model. The Hosmer-Lemeshow Goodness of Fit Test, which was measured by the chi-square value, was used to test the feasibility of the logistic regression model. If the value of the Hosmer-Lemeshow Goodness of Fit Test is equal to or less than 0.05 or 5%, the null hypothesis is rejected, indicating that there is a significant difference between the model and the observed value, implying that the Goodness of Fit model is

ineffective because it cannot predict the value of the observations. However, if the Goodness of Fit statistical value is greater than 0.05 or 5%, the null hypothesis is accepted, indicating that the Goodness of Fit model is good because it can predict the value of the observations.

Table 4. Feasibility of the Regression Model

Step	Chi-square	df	Sig.
1	12.822	8	.118

Source: Secondary data, 2020

Based on these findings, the Hosmer-Lemeshow test has a value of 0.118. It means H_0 is rejected because the statistical value of the Hosmer-Lemeshow Goodness of Fit Test is greater than 0.05. It can be concluded that the null hypothesis is rejected, which means that the model used in this research is able to predict the observed value, or that the model can be accepted because it is consistent with the observation data. In other words, the model is capable of predicting the value of the observation, or that the model is acceptable because it is consistent with the observations.

d. Model Classification Matrix

The classification matrix illustrates the regression model's ability to predict the sample companies' potential timeliness. The value of the classification matrix can be seen in table 5.

Table5. Classification Table

Observed		Predicted		
		KA		Percentage
		0	1	Correct
KA	0	45	110	29.0
	1	26	164	86.3
Overall Percentage				60.6

Source: Secondary data, 2020

The regression model's predictive power to predict timeliness is 60.6%, as shown in the table. This demonstrates that, according to the regression model used, there are as many as 110 affiliated companies, while a total of 345 companies are non-affiliated. This means that the model's predictive ability with Lnfee, rotation, and reputation variables can statistically predict audit quality by 60.6%.

e. Parameter Model and Its Interpretation

To evaluate the results of the logistic regression analysis, the researchers employed the second equation model, which includes all of the independent variables, as indicated by the equation. The results of parameter estimation can be seen in the regression coefficient, as shown in table 6.

Table 6. Logistics Regression Test Results

		B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1	LNFEE	-.034	.081	.173	1	.678	.967	.825	1.133
	ROTATION	-.621	.229	7.334	1	.007	.537	.343	.842
	REPUTATION	.766	.279	7.539	1	.006	2.150	1.245	3.713
	Constant	.872	1.750	.248	1	.618	2.391		
a. Variable(s) entered on step 1: LNFEE, ROTASI, REPUTASI..									

Source: Secondary data, 2020

The model that emerged from the regression model testing is as follow:

KA = 0,872 – 0,034 LNFEE – 0,621 ROTATION + 0,766 REPUTATION + e

The above model can be interpreted as follows: It shows a 0.872 constant with a positive coefficient direction. This demonstrates that if the variables of audit fees, audit rotation, and auditor reputation remain constant or do not change, audit quality will improve. With negative parameters, the LNFEE regression coefficient is -0.034. This means that whenever audit fees rise, the company's audit quality falls. With negative parameters, the ROTATION regression coefficient is -0.621. This means that as audit rotation increases, the audit quality of the company decreases. With positive parameters, the

REPUTATION coefficient regression value is 0.766. This means that the higher the auditor's reputation, the higher the quality of the company's audit.

Hypothesis testing with logistic regression is shown in table 7. The significant column (sig.) is compared to the significant value used (α), which is 0.05 or 5%. If the significance level is less than 0.05, H_0 is accepted; if the significance level is greater than 0.05, H_0 is rejected; and the value (B) or regression coefficient in the table shows the relationship between the independent and dependent variables.

The Effect of Audit Fee on Audit Quality

The audit fee variable has a value of -0.034, a Wald value of 0.173, and a significance level of 0.678, indicating that the first hypothesis (H1) in this research is rejected because the significance value is greater than 0.05. It means the audit fee has no impact on the audit quality of companies listed on the Indonesia Stock Exchange (IDX) between 2014 and 2018. This suggests that high fees are not a good indicator of audit quality.

The Effect of Audit Rotation on Audit Quality

The audit rotation variable shows a value of -0.621, a Wald value of 7.334, and a significance level of 0.007, indicating that the second hypothesis (H2) in this research is accepted because the significance value is less than 0.05. Thus, audit rotation has an impact on the audit quality of companies listed on the Indonesia Stock Exchange (IDX) between 2014 and 2018. This suggests that audit rotation will improve audit quality.

The Effect of Auditor Reputation on Audit Quality

The auditor reputation variable has a value of 0.766 with a Wald value of 7.539 and a significance level of 0.006, indicating that the third hypothesis (H3) in this research is accepted because the significance value is greater than 0.05. As a result, audit reputation influences the audit quality of companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2018. This suggests that the reputation of KAP Big4 auditors results in higher audit quality.

CONCLUSION

Based on the results of the tests, it is possible to conclude that audit fees do not affect the audit quality of companies listed on the Indonesia Stock Exchange (IDX) between 2014 and 2018. Meanwhile, audit rotation and audit reputation have an impact on audit quality.

The limitation of this research is that the sample of companies studied is only manufacturing companies from 2014 to 2018. This research only employs three independent variables, audit fees, audit rotation, and auditor reputation, as well as one dependent variable, audit quality. The audit quality variable is only proxied by going concern opinion.

Further research can be expanded by including research samples from all companies listed on the IDX, such as other industrial companies, as well as a longer observation period, resulting in better results that can be generalized to describe actual conditions over a long period of time. Future research should add independent variables such as auditor specialization, audit committee, and workload. Other proxies for measuring audit quality, such as discretionary accruals, should be investigated further.

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