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The Demand of Cost of Equity: Is Audit Attributes Matters?

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ABSTRACT

This paper examines the impact of the audit committee on external audit attributes and the cost of equity relationship. Before that, this study investigates the impact of auditor industry specialization, auditor tenure, and audit committee on audit quality. Samples are 588 non-financial companies listed on the Indonesian Stock Exchange for the period 2015-2020. The results show that auditor industry specialization and audit committee affect audit quality positively significant. However, audit quality has no significant effect on the cost of equity. The role of the audit committee on the relationship between audit quality and cost of equity is not significant either. Auditor tenure negatively significant affects the cost of equity. Therefore, only auditor tenure matters for investors to demand the cost of equity. However, based on the audit committee's task, we realize a big role of the audit committee in audit quality and cost of equity relationship. We argue that the audit committee has the power to evaluate internal audit and external audits of a firm so the existence of an audit committee provides good signals to capital providers and lenders regarding the credibility of an effective monitoring process and therefore affects the cost of equity.

INTRODUCTION

This study aims to examine the effect of the audit committee on the relationship between external audit attributes and the cost of equity. The issue of the relationship between external audit attributes and cost of equity has been studied extensively in previous studies (Li et al., 2011; Krishnan et al., 2013; Houqe et al., 2017; Coffie et al., 2018; Habib et al., 2021; Le et al., 2021). However, we did not find any paper that examine the role of the audit committee on the relationship between external audit attributes and cost of equity. According to the regulation issued by Indonesian Financial Services Authority (OJK) no 55/POJK.04/2015, the duties and authorities of an audit committee are, among others, providing recommendations to the board of commissioners regarding the appointment of an external auditors based on independence, the scope of the assignment, and remuneration for services. The audit committee is also tasked with evaluating the application of the audit by the internal auditor and supervising the follow-up by the board of directors on the findings of the internal auditors. Based on the audit committee's task, we claim that the audit committee has the power to evaluate internal audit and external audit of a firm so the existence of an audit committee provide good signals to capital providers and lenders regarding the credibility of an effective monitoring process and therefore affects the cost of equity (Appuhami, 2018). Besides, the audit committee has a unique relationship with audit quality (Alhababsah & Yekini, 2021). Therefore, we argue that the audit committee has an important role in the effect of audit quality on the cost of equity.

The cost of equity reflects investors' expected return from the capital they provide or the debt they lend to the company. It differs depending on the perceived information risk by investors or lenders. Higher the risk – financial or non-financial risk – perceived by the shareholders or lenders, the higher the cost of equity they demanded (Upreti, Adams, & Jia, 2021). The greater cost of equity can be caused by greater information risk or less financial information disclosure (Abdollahi, Safari Gerayli, Rezaei Pitenoai, Hassanpour, & Riahi, 2021). As indicated by (Vitolla, Salvi, Raimo, Petruzzella, & Rubino, 2020), better information will lead to lower equity capital costs due to better alignment between

a company's investment opportunity and its investment choices. Hence, public companies seek a saving in the cost of equity capital to increase their firm value and shareholder wealth. The companies can achieve this goal by providing quality financial statements. Better financial information may reduce agency costs and information risk (Houqe, Ahmed, & van Zijl, 2017). To reduce information risk, an independent external auditor must ensure that the financial information submitted does not mislead users of financial statements.

(Luo, Liu, & Tripathy, 2021) explain that the phenomenon of negative equity is currently global. Many companies on the stock exchange experience negative equity. Greater financial risk is raised from negative equity (Luo et al., 2021). The consequences of negative equity can be positive or negative. The negative consequences come from unproductive investment funded more than 100% by debt. Otherwise, the positive consequences come from productive investment funded more than 100% by debt, which presents healthy finance. The difference with (Luo et al., 2021), (Mokhova & Zinecker, 2016) show that negative equity represents higher risk. The negative equity can be raised from a large accumulated loss that exceeds retained earnings, or very large dividend payments. The negative equity is a sign of the future failure of a company.

Previous studies have shown that external audit attributes such as audit quality, auditor tenure, audit industrial specialization, and internal audit attributes such as audit committee affect the cost of equity. Audit quality plays a crucial role in decreasing the information risk of a company's financial statements which is not visible (Houqe et al., 2017). However, the audit quality is not listed directly in the financial statements but has important benefits for the company. As already explained, high audit quality could be influenced decision-making for users of financial statements reduces the cost of equity (Basiruddin, Benyasrisawat, & Rasid, 2014).

The term audit quality is often used to denote the probability that an independent auditors will find and report material misstatements in their clients' financial statements in order to support the reliability of the financial statements. So that, audit quality results the audited financial statements which are free from material misstatements. According to (Knechel, 2016), audit quality is proxied by the size of Public Accounting Firm

(hereafter PAF), Big Four and Non-Big Four. Big Four PAF has better quality when compared with the Non-Big Four PAF. For auditors, good quality is likely to reduce errors on the part of the auditor, because good quality auditors more maintain an attitude of independence and objectivity. However, (Basiruddin et al., 2014) state a positive effect of audit quality using the proxy PAF Big four on the ex-ante cost of equity capital and a negative effect of PAF industry specialization on the ex-ante cost of equity. Specifically, (Basiruddin et al., 2014) find that audit quality has a negative relationship with the cost of equity capital.

Audit quality is influenced by some factors, among others, auditor tenure, auditor industry specialization, and audit committee. Auditor tenure refers to the length of the relationship between PAF and clients. The longer their relationship, the higher the audit quality. Audit failures often occur at the beginning of the auditors and their client relationship, however, the old auditor tenure can also be a problem in audit quality. Azizkhani, Monroe, & Shailer, (2013) state that a long relationship between independent auditors and their clients is seen as a trigger for the decline in independence and objectivity due to excessive familiarity between them so that the quality of audits produced will be lower. It provides a signal to capital providers and lenders regarding a non-independence relationship between auditors and firms. Therefore, auditor tenure determines the cost of capital (Azizkhani et al., 2013).

Auditor industry specialization refers to the specific industry knowledge and expertise of an auditor obtained from extensive audits in any industry (Krishnan, Li, & Wang, 2013). Auditors who specialize in an industry can distinguish themselves from other rivals for audit quality because they are considered to have a better understanding and knowledge of internal control, business risk, and audit risk in the industry. (Fernando, Abdel Meguid, & Elder, 2010) and (Krishnan et al., 2013) find a significantly negative relation between the auditor's industry specialization and the firm's cost of capital. The more specialized the auditor is in a specific industry, the lower the cost of capital demanded by financiers and lenders.

This study contributes to extending the researches regarding external and internal audit attributes from the methodology side. Previous

researches on audit attributes use audit quality as the dependent variable with the audit committee, auditor tenure, and auditor specialization as independent variables (Andriani & Nursiam, 2018; Sari et al., 2019; Suwarno et al., 2020; and Putri et al., 2021). This study use audit quality as mediating (intervening) variable. Moreover, this study aims to examine the role of the audit committee (moderating variable) on the relationship between audit quality and cost of equity. As we explained at the beginning of this introductory section, the position of audit quality as mediating variable and audit committee as moderating variable in a comprehensive model is the novelty of this study. We hardly found the literature explaining these correlations in a comprehensive model, however, based on previous literature development, we argue that auditor industry specialization and audit tenure affect audit quality and then influence the cost of equity. The audit committee affects audit quality and cost of equity relation.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Cost of Equity

According to Vitolla et al. (2020), the cost of equity capital is the return expected by investors and lenders when they provide money, as equity and debt, into the company. In other words, the cost of equity capital is derived from trading between risk and return. Meanwhile, according to (Lambert, Leuz, & Verrecchia, 2007), the cost of equity capital is a part that must be incurred by companies to provide satisfaction to investors at a certain level. A fact that must be considered important by managers is that the risk of the information conveyed has an impact on the rate of return for investors. Information risk depends on the level of confidentiality and accuracy of the information reported. (Athanasakou, Eugster, Schleicher, & Walker, 2020) state that better information will lead to lower equity capital costs due to better alignment between a company's investment opportunity and its investment choices. Therefore, because companies seek to reduce the cost of their equity capital to increase the value of their companies and shareholder wealth, they can achieve this goal by providing quality financial statements. Yasser & Soliman (2018) state that if the audit quality is high

information risk is decline, which is not visible, the cost of equity capital should be translated as tangible benefits.

Audit Quality

There are no specific definitions for audit quality we can find in different literature. The term audit quality is often used to denote the probability that an independent auditors will find and report material misstatements in their clients' financial statements in order to support the reliability of the financial statements. According to Ahmad, Suhara, & Ilyas (2016), the chance Auditor find material misstatement depends on the auditor's technical ability while the option of reporting an error depends on the auditor's independence. Because the auditor's goal is to present the reliability of the financial statements, so the audit quality reflect that the audited financial statements are free from material misstatements.

Alzeaideen (2018) defines audit quality as the ability of auditors to find the manipulation of net income. As already stated, higher audit quality plays an critical role in making decisions by users of financial statements. Poor audit quality can eliminate the confidence of users of financial statements in the company. Therefore, users refuse to invest capital or demand a very high rate of return to compensate them for the potential risk of capital takeover by managers (Houqe et al., 2017). Based on the Public Accountant Statement Standards (SPAP, IAI 2001) audits carried out by auditors can be said to be of high quality if they have complied with auditing requirements or standards. Auditing standards include the quality of independent audit professionals, the considerations used in conducting audits and preparing audit reports (Siti Istiana, 2010).

Audit Committee and Audit Quality

Based on POJK No 55/POJK.04/ 2015 about establishment and guidelines for implementation of the audit committee, the definition of an audit committee is a committee formed by and responsible to the board of commissioners in assisting in carrying out the duties and functions of the board of commissioners. Issuers or other public companies are required to have an AC. The AC acts independently in carrying out its duties and responsibilities. The Audit Committee

acts independently in carrying out its duties and responsibilities. The audit committee formed as a special committee in the company is useful to optimize the oversight function which was previously the full responsibility of the board of commissioners. The supervisory function carried out by the audit committee includes the scope of company management, company financial information, company performance, and risks faced by the company. An effective audit committee in carrying out its supervisory functions enables better control of the company so that agency conflicts arising from opportunistic behavior by management can be reduced.

In POJK no 55/POJK.04/2015, the formation of an audit committee consists of at least three people. One independent commissioner is the chair of the audit committee, and at least 2 (two) other members come from outside the issuer or an independent public company and mastered and has an accounting and financial background. The rules regarding the size of the audit committee indicate that the government as a policymaker considers it important to have an audit committee as an integral whole in controlling the company's accounting process.

High audit quality for company external parties can also be seen in terms of the existence of an independent and reliable audit committee (Khanh, 2018). The existence of an audit committee is very important as one of the main tools in the implementation of good corporate governance where independence, transparency, accountability, and responsibility, as well as fairness, become the principles and, the foundation of the company's organization. The presence of an independent and reliable audit committee is highly expected by the company's external parties to reduce financial reporting problems and increase the credibility of the reliability of financial information presented by the company. According to Putra & Muid (2012), market is more positively reacting to companies that have audit committees. This is indicated by the low cost of debt enjoyed by the company as a high creditor trust.

Auditor tenure and Audit Quality

Tenure is the period of engagement that exists between PAF and the same auditee. Longer audit tenure, higher the quality of audit services by

independent auditor. Auditors who are familiar with the company can make optimal use of the technology and knowledge they have previously obtained at the same company so that their audit quality is better after getting the first audit experience. However, tenure that is too long is also not good because it can eliminate auditor independence (Azizkhani et al., 2013). In the Decree of the Minister of Finance of the Republic of Indonesia Number 17 / PMK.01 / 2008 article 2 explained the terms of the auditor tenure, which is a PAF tenure of a maximum of 6 years in a row, and a public accountant conducting an audit of the financial statements in the same company is 3 years in a row. If after one year they have not provided audit services, a PAF and a public accountant can provide audit services to the company. When viewed from the results of research and logical reasons submitted related to tenure relationship and audit quality, then it can raise a proposition that audit quality will be higher when tenure auditors are getting longer. However, some theories suggest things that are different from that. Long tenure audits can reduce audit quality because they can influence auditor independence (Azizkhani et al., 2013).

Auditor Industry Specialization and Audit Quality

(SMII, 2016) shows that the specialty of auditors in a particular field is another dimension of audit quality. The PAF industry specialization illustrates an auditor's expertise and audit knowledge which is an extensive process in auditing certain industries. Specialist auditors are believed to be able to detect mistakes better, improve efficiency and improve the assessment of the honesty of financial statements. The specialization of the PAF industry is seen through the frequency of PAF in conducting audits on similar industrial companies according to the industrial grouping by the IDX.

The more frequently the PAF inspects similar companies; the PAF will specialize in the group of companies (SMII, 2016). Industry specialization refers to the specific industry knowledge and expertise of an auditor gained from extensive audits in any industry (Hajiha & Sobhani, 2012). In this study, market share is used as a proxy for auditor specialization industries, because it shows the priority of the industry rather than other auditors. The more auditor market share, the more industry

specialization (Krishnan et al., 2013). PAF industry specialization can be measured by the size of the market share, specialist auditors have a market share of more than 20% of the number of clients received in certain industries (Hajiha & Sobhani, 2012). Two measurements to determine a PAF as a specialist auditor in a particular industry, i.e. if a particular PAF has the largest market share in each industry, or if a certain PAF has the highest number of clients in certain industries.

The Effect of Audit Quality on Cost of Equity

The first hypothesis verifies audit quality affects the cost of equity. The agency theory explains the agency relationship which occurs in a contract between one party and another party, namely the company owner (principal) and the auditor or the public accounting firm (agent) which is authorized by the company to make decisions in the interests of the principal. Company owners will tend to appoint an agent who is a reputable public accounting firm to obtain the desired audit quality to reduce the cost of equity. From the auditors' point of view, the size of the public accounting firm affects audit quality. In emerging markets with concentrated ownership structures, the big four auditors play a corporate governance role. Big four auditors are better at limiting the cost of equity than non-big four auditors (Coffie, Bedi, & Amidu, 2018). As (Coffie et al., 2018), (Le et al., 2021) confirm a positive relationship between audit quality and cost of equity. They indicate that large auditors tend to provide high-quality audit services to specific clients than small auditors because the dependence of auditors' economic problems on these clients is negligible for large auditors, and large auditors have large losses (loss will lose its reputation) in the case of audit failure, compared to small auditors. The results are similar to (Houqe et al., 2017) who find that high audit quality lowers the cost of equity.

H1: Audit quality affect cost of equity negatively.

The Effect of Auditor tenure on Cost of Equity

In agency theory, the term information asymmetry is known, which means a situation in which the information received by one party is different from the information received by another party. Some get more information or those who got less information don't even get information at all (Jensen & Meckling, 1976). A long tenure

audit reduces the cost of equity because it can lead to compromise of auditor independence but can also a long tenure audit allows the auditor to acquire specific knowledge and expertise regarding company operations, company accounting systems, and company internal controls to detect material misstatements and thus able to provide lower cost of equity. So since tenure and audit changes have a positive or negative effect on corporate governance, (Azizkhani et al., 2013) confirmed that auditor tenure is significantly related to the cost of equity. Consistent with (Azizkhani et al., 2013), (Khanmohammadi et al., 2017) finds a significant negative to the cost of equity.

H2: Auditor tenure influence cost of equity negatively.

The Effect of Auditor Industry Specialization on Cost of Equity

The hypothesis test whether auditor industry specialization has a significant effect on the cost of equity. In agency theory, the principal chooses an action based on the principle of sharing risk and information and determines the rewards that will be received by agents following the achievements received by the principal. Thus, the agents will be accurate in making decisions because whatever happens, the agent will also bear the consequences. However, in practice, it is not uncommon for conflicts to occur between the interests of the principal and the interests of the agent. PAF with an audit specialty invests time and financial resources in developing industry-specific personnel and technology to reduce the cost of equity. Previous research (Fernando et al., 2010); state a negative effect of auditor industry specialization on the cost of equity. It is supported by (Krishnan et al., 2013) who find that the company audited by the expert has a lower cost of equity.

H3: The effect of auditor industry specialization on cost of equity capital is negative.

The Effect of Audit Committee Audit quality and Cost of Equity Relationship

Following POJK no 55 /POJK.04/ 2015, in carrying out its duties the board of commissioners can form committees, one is the audit committee. The audit committee is in charge of assisting the board of commissioners in carrying out their duties. The audit committee is an important

component in corporate governance because it supports accountability and transparency through financial reports. Financial reports are used by investors as a means of decision-making and management supervision in preparing financial reports by applicable accounting standards so that the audit committee is expected to play a maximum role in the presentation of financial statements. (Habib, Bhuiyan, & Wu, 2021) confirm that the audit committee positively influenced the cost of equity. A higher audit committee reduces the firm's cost of equity.

An audit committee with industry expertise may propose to the board of commissioners a suitable public accounting firm to audit the company to improve audit quality (Alhababsah & Yekini, 2021). In another word, audit committees significantly affect audit quality. Based on these previous studies, we argue that audit committees strengthen the effect of audit quality on the cost of equity.

H4: Audit committee affect positively cost of equity capital.

H5: Audit committee has a significant role in the audit quality and cost of equity relation.

RESEARCH METHOD

Sample and Data

This research employs 588 non-financial companies for the 2015-2020 periods as a sample. The company has data related to this research, such as the name of the PAF used by the company and other data needed to detect its association with the cost of equity.

Variable Operationalization

The dependent variable used in this research is the cost of equity. Audit quality, audit committee, auditor tenure, and auditor industry specialization are the independent variables. Cost of equity (CoE) is measured using the CAPM calculation method (Sari et al., 2019). Audit Quality (AQ) is measured using the dummy variable = 1 if the company is audited by the Audit Organization (The Big 4) and = 0 if not (Alhababsah & Yekini, 2021). The audit committee (AC) in this study is measured by the number of audit committee members in the company (Alhababsah & Yekini, 2021). According to (Mufidah & Laily, 2019),

Auditor tenure (AT) is calculated by adding up the engagement years starting 2015 and continuing to be traced in the following year until 2020. The first year of engagement starts with the number 1 and is added by one for the following years. If there is a change in the Public Accounting Firm, the calculation starts from number 1 for the first year of engagement. Auditor industry specialization (AIS) refers to the specific industry knowledge and expertise an auditor has gained from extensive auditing in any industry (Fernando et al., 2010). In this research, market share is used as an index for industry auditors' specialization, a PAF is defined as an industry specialist auditor if it controls 20% of the market share (Hajiha & Sobhani, 2012).

Analysis Method and Hypotheses Testing

This study employs t-test to determine whether the independent and dependent variables partially indicate the direction of the relationship. The analytical tool used in this study is multivariate analysis. The regression equation can be formulated as follows:

$$AQ_{it} = \alpha_0 + \alpha_1 AIS_{it} + \alpha_2 AT_{it} + \alpha_3 AC_{it} + \epsilon_i \dots (1)$$

$$CoE_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 AC_{it} + \beta_3 AT_{it} + \beta_4 AIS_{it} + \beta_5 AQ_{it} * AC_{it} + \epsilon_i \dots (2)$$

Where:

CoE_{it} is the cost of equity; AQ_{it} is audit quality measured using dummy variable = 1 if the company is audited by the big 4 audit organization and = 0 if it is not audited by The Big 4 Audit Organization; AC_{it} is audit committee measured using the number of audit committee members in the company; AT_{it} is auditor tenure measured using the number of years the company survived with the same auditor in the 2015-2020 periods; AIS_{it} is auditor industry specialization measured using the percentage of auditor specialization in each industry; AC*_{it}AQ is the interaction between audit quality and audit committee.

RESULTS AND DISCUSSION

Descriptive Statistic

The descriptive statistic of all variables tested – the value of mean, maximum, minimum, and standards deviation is shown in Table 1.

Table 1 Statistic Descriptive

Variables	Mean	Max	Min	Std. Dev.
CoE	0.048	0.097	0.005	0.013
AIS	0.402	1.090	0.040	0.326
AQ	0.442	1.000	0.000	0.497
AC	3.044	5.000	1.000	0.365
AT	2.893	6.000	1.000	1.648

Notes: CoE is the cost of equity. AIS is an auditor industry specialization. AQ is audit quality. AC is the audit committee. AT is audit tenure.

The mean value of CoE 0,048 shows that the demand for cost of equity by the investor is 4.8% which is spread between 9.7% and 0.5%. The average auditor industry specialization is 0,402 meant that the companies used auditor with industry specialization 40.2%, otherwise, the companies without auditor industry specialization are 59.8%. From the average value of audit quality (0.442), we know that auditor non-big four is dominant to audit the companies listed on the Indonesian Stock Exchange. The audit committee (AC) in this study is measured by the number of audit committee members in a company (Alhababsah & Yekini, 2021). The result shows that the number of audit committees in a company ranges between 1 (minimum number) and 5 (maximum number). AS (Mufidah & Laily, 2019), Auditor tenure (AT) is calculated by adding up the engagement years starting 2015 and continuing to be traced in the following year until 2020. The first year of engagement starts with the number 1 and is added by one for the following years. The mean of audit tenure of 2.893 meant that an auditor company (PAF) have audited one same company for 2.893 years.

Classical Assumption Test

The classical assumption is applied to generate unbiased and efficient research results. The test consists of normality, multicollinearity, and autocorrelation tests. The results are shown in Table 2.

Table 2. Classical Assumption Test

	Kolmogorov-Smirnov (KS)	VIF	Tolerance	Durbin Wattson
Normality	0.191			
Multicollinearity				
AIS		1.747	0.572	
AQ		1.740	0.575	

AC	1.023	0.977
AT	1.035	0.966
Non-Auto Correlation	2.005	

As shown in Table 2, the results of the classical assumption test show that the data is normally distributed ($KS > 5\%$), the regression model is free from multicollinearity ($VIF < 10$). The value of Durbin-Watson (DW) is 2,005, the value of the DW table with $n = 538$ and k (number of independent variables) = 4 is $dU = 1.86$. Because $d(2.005) > dU(1.86)$ and $4-d(2.14) > d(2.005)$, there is no positive and negative autocorrelation. The non-autocorrelation assumption is fulfilled. Specifically for heteroscedasticity assumption, the research employs $sresid$ by $zpred$ scatterplot graph to determine whether the variance of the residual is constant or not. From the $*sresid$ by $zpred$ scatterplot graph, the assumption of heteroscedasticity is fulfilled if the residuals spread randomly and do not form a pattern. From the scatterplot graph, it can be seen that the plots spread randomly and do not form a pattern, so it can be concluded that there is no heteroscedasticity (the data does not have heterogeneous or homoscedasticity variants).

Hypothesis Testing

Hypothesis testing is accomplished by using multivariate analysis as shown in Equations (1) and (2). Equation (1) is completed by employing logistic regression because the dependent variable (audit quality) is a dummy variable. Before finding the Wald value, we test the goodness of fit. All results are shown in Table 3.

Goodness of Fit

Table 3 present the results of the goodness of fit. Based on the Chi-Square value of Omnibus Test, 2-Log Likelihood, Cox& Snell R Square, Nagelkerke R Square, and Hosmer and Lemeshow test, it indicates that the equation the model is feasible to use. Next is the chi-square values of the Omnibus test (403.914) and the Hosmer and Lemeshow test (43.527) are significant at the 1% level. These results show that the model used is correct and can be used for further analysis. Based on the results, it can be seen that among the variables auditor industrial specialization (AIS), audit committee (AC), and

auditor tenure (AT), there is at least one that affects audit quality (AQ).

Tabel 3. The Results of Logistic Regression

Wald Coefficient					
Variables	B	S.E.	Wald	Sig.	Chi-Square
AIS	10.057	.985	104.281***	.000	
AC	1.209	.342	12.527***	.000	
AT	.001	.074	.000	.993	
Constant	-7.393	1.163	40.382***	.000	
Goodness of Fit					
Omnibus Test					403.914***
2-Log Likelihood					403.803***
Cox & Snell R Square					0.497***
Nagelkerke R Square					0.665***
Hosmer and Lemeshow Test					43.527***

Notes: *** denote for significant at 1% level.

Table 3 represents also the influence of AIS, AC, and AT on audit quality (AQ). Based on the partial test results using the Wald statistic, it is concluded that auditor industry specialization and audit committee significantly affect audit quality (AQ) at a 1% level. The sign of the relationship is positive for both relationships. It shows that higher audit industry specialization and more audit committees significantly increase audit quality. Unfortunately, the effect of auditor tenure on audit quality is not significant. The results are consistent with (Sari et al., 2019) and (Suwarno et al., 2020).

Multivariate Analysis

The result of multivariate analysis regarding the effect of audit attributes – auditor industrial specialization, audit committee, auditor tenure – on the cost of equity as shown in equation (2) is revealed in Table 4.

Tabel 4. The Regression Results

	B	t-stat.	Signf.
Constant	.060***	8.069	.000
AIS	.004	1.499	.134
AQ	.005	.481	.630
AC	.000	-.145	.885
AT	-.004***	-11.346	.000
AQ*AC	-.002	-.584	.559
Adj-R Square	0.1788		
F-stat.	26.042***		

Notes: *** denote for significant at 1% level.

The results of the multivariate analysis show that the constant value is 0,060 means that if audit quality, audit committee, auditor tenure, and auditor industry specialization is assumed to be constant, thus the cost of equity will increase by 6%. The regression coefficient of audit quality is 0.005 means that for every one-unit increase in the audit quality, the cost of equity will increase by 0,01% by assuming audit committee, auditor tenure, and auditor industrial specialization are constant. The regression coefficient of auditor tenure is -0,004 means that for every one-unit increase in auditor tenure, the cost of equity will decrease by 0,4% assuming audit quality, audit committee, and auditor industrial specialization are constant.

Coefficient Determination. The adj.-R squared value is 0.178 meaning that the cost of equity is influenced by audit quality and auditor tenure by 17.8% so that 82.2% is influenced by other factors outside the model. The correlation coefficient value is $R = 0.375$. This means that there is a fairly close relationship between the cost of equity and audit quality and auditor tenure. The correlation that occurs is positive because the R-value is positive. The value of F-statistic, 26.024, is significant at the 1% level.

The Effect of Audit Quality on Cost of Equity

The statistical test shows that audit quality has no affects on to cost of equity. It is proven by the significance level resulting from the T Statistical Test which is 0,630. The amount is higher than the significance level which is 0.05. In the other words, it means that the audit quality using the big four better than another PAF does not affect the cost of equity of companies. This result doesn't support agency theory that company owners will tend to appoint an agent who is a reputable public accounting firm to obtain the desired audit quality to reduce the cost of equity.

The discussion above proves that the first hypothesis (H1) is not supported. It doesn't support (Khanh et al., 2018), (Houqe et al., 2017), (Coffie et al., 2018), and (Le et al., 2021). Previous researches confirmed a positive relationship between audit quality and cost of equity. They indicate that large auditors tend to provide high-quality audit services to specific clients than small auditors because the dependence of auditors' economic problems on these clients is negligible for large auditors, and

large auditors have large losses (loss will lose its reputation) in the case of audit failure, compared to small auditors.

The Effect of Audit Committee on Cost of Equity

Statistical tests show that the audit committee has no affects on to cost of equity. The audit committee doesn't support the cost of equity. While the audit committee is in charge of assisting the board of commissioners in carrying out their duties. The audit committee must be an important component in corporate governance because it supports accountability and transparency through financial reports. Financial reports are used by investors as a means of decision-making and management supervision in preparing financial reports by applicable accounting standards so that the audit committee is expected to play a maximum role in the presentation of financial statements.

Based on the discussion above, it can be concluded that the second hypothesis (H2) of this research is not supported. It is not in line with the research findings of (Habib et al., 2021) who confirmed that the audit committee positively influenced the cost of equity. However, (Sari et al., 2019) found a negative significant effect on the cost of equity.

The Effect of Auditor Tenure on Cost of Equity

Statistical tests show that auditor tenure has a significant negative effect on the cost of equity. The longer the audit tenure, the lower the company's cost of equity. Empirically, the third hypothesis is accepted. This proves that the longer audit tenure that exists between the company and the PAF can reduce audit quality because it leads to compromise so that auditor independence is questioned. That way the auditor can improve the quality of the audit so that the resulting information is more qualified and reliable. So that audit tenure has a significant negative effect on the cost of equity.

Based on the discussion above, it can be concluded that the third hypothesis (H3) of this research is supported. It supports the research findings of (Khanmohammadi et al., 2017) finds there is a significant negative to the cost of equity. However, some theories suggest things that are different from that. Long tenure audit can reduce audit quality because it influences auditor independence (Azizkhani et al., 2013).

The Effect of Auditor Industry Specialization (AIS_{it}) on Cost of Equity (CoE_{it})

Statistical tests show that the auditor industry specialization has no effects on to cost of equity. This result doesn't support the agency theory. It is not uncommon for conflicts to occur between the interests of the principal and the interests of the agent. PAF with an audit specialty invests time and financial resources in developing industry-specific personnel and technology to reduce the cost of equity.

Based on the discussion above, it can be concluded that the last hypothesis (H4) of this research is not supported. It doesn't support the research findings of (Fernando et al., 2010) and (Krishnan et al., 2013) who stated there are negative effects on the cost of equity.

The Role of Audit Committee on the Relationship between Audit Quality and Cost of Equity

The audit committee is in charge of assisting the board of commissioners in carrying out their duties. The audit committee is an important component in corporate governance because it supports accountability and transparency through financial reports. Financial reports are used by investors as a means of decision-making and management supervision in preparing financial reports by applicable accounting standards so that the audit committee is expected to play a maximum role in the presentation of financial statements. (Habib et al., 2021) confirm that the audit committee positively influenced the cost of equity. A higher audit committee reduces the firm's cost of equity.

An audit committee with industry expertise may propose to the board of commissioners a suitable public accounting firm to audit the company to improve audit quality (Alhababsah & Yekini, 2021). In other words, audit committees significantly affect audit quality and the cost of capital. Based on these previous studies, we argue that audit committees strengthen the effect of audit quality on the cost of equity. The result of this study shows an insignificant role of the audit committee on the relationship between audit quality and cost of equity. The result does not support hypothesis 5 and previous studies by (Habib et al., 2021) and (Alhababsah & Yekini, 2021).

CONCLUSIONS

This study aims to examine the relationship among audit attributes, namely auditor industrial specialization, audit committee, auditor tenure, and audit quality. Moreover, this study investigates the role of the audit committee on the relationship between audit quality and cost of equity. The sample is manufacturing companies listed on the Indonesian Stock Exchange from the 2015 to 2020 period. Based on the hypothesis testing, the result confirms the first hypothesis which indicates that audit quality has no significant effects on to cost of equity. The second hypothesis aims to explore whether the audit committee has a negative effect on the cost of equity capital. Based on the hypothesis testing, the result confirms the second hypothesis which indicates that the audit committee has no significant effect on the cost of equity. The third hypothesis aims to explore whether auditor tenure has a negative effect on the cost of equity capital. Based on the hypothesis testing, the result confirms the third hypothesis which indicates that auditor tenure negatively significant affects the cost of equity. The fourth hypothesis aims to explore whether auditor industry specialization has a negative effect on the cost of equity capital. Based on the hypothesis testing, the result confirms the fourth hypothesis which indicates that auditor industry specialization has no significant effects on to cost of equity. The results fail to support the fifth hypothesis regarding the role of the audit committee on the relationship between audit quality and cost of equity.

We suggest for future research to examine the role of the audit committee on the relationship between audit quality and cost of capital in other countries. We do not succeed to support our hypothesis that the audit committee has a significant role in the relationship between audit quality and cost of capital for companies listed in the Indonesian Stock Exchange. However, for literature development purposes, we suggest future research to reexamine the role in other countries context. We realize a big role of the audit committee in the relationship based on the audit committee's task. The audit committee is, among others, provides recommendations to the board of commissioners regarding the appointment of an external accountant based on independence,

the scope of the assignment, and remuneration for services. The audit committee is also tasked with reviewing the implementation of the audit by the internal auditor and supervising the follow-up by the board of directors on the findings of the internal auditor. Based on the audit committee's task, we argue that the audit committee has the power to evaluate internal audit and external audit of a firm so the existence of an audit committee provide good

signals to capital providers and lenders regarding the credibility of an effective monitoring process and therefore affects the cost of equity capital (Appuhami, 2018). Besides, the audit committee has a unique relationship with audit quality (Alhababsah & Yekini, 2021). Therefore, we argue that the audit committee has an important role in the effect of audit quality on the cost of equity.

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