

The Effect of Audit Tenure, Auditor Specialization, and KAP Reputation on Audit Quality (Empirical Study of Manufacturing Companies Listed on The Idx In 2017-2019)

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Abstract: This study aims to determine the effect of audit tenure, auditor specialization, and KAP reputation on audit quality. This research is a qualitative research. The population used in this study were all manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sample in this study are companies that go public and are still listed as issuers on the IDX. The sampling technique used purposive sampling technique. The data collection technique was carried out using the documentation method obtained through the website www.idx.co.id. The data analysis technique used is logistic regression. The results showed that the audit tenure variable and auditor specialization had no effect on audit quality, while the KAP reputation variable had an effect on audit quality.

Keywords: Audit Tenure, Auditor Specialization, KAP Reputation, Audit Quality.

I. INTRODUCTION

The auditor, as one of the accounting professions, conducts audits and ensures that information from financial statements does not contain errors so that later it can be used as a guide in making decisions. Various kinds of quantitative financial information are presented in financial reports to be used as a basis for decision-making by interested parties, namely internal and external parties. The information requirements in a financial report must be reliable and relevant (Singih and Bawono, 2010).

The demands of the business and its management to win the public's trust are taken into account during an audit of financial accounts. In terms of the caliber of the audit process, it is crucial to make sure that financial reports can be relied upon by the public and other third parties as a basis for decision-making. Independent auditors are frequently involved in financial statement fraud cases, which casts doubt on the accuracy of the audit findings.

Audit quality is the probability of an auditor finding and disclosing a violation in the client's accounting system (DeAngelo, 1981). An auditor is said to be qualified if he is able to detect and dare to disclose elements of error in the financial statements. Edosa et al. (2013) stated that the quality of the auditor can be seen if there are misstatements in the company's financial statements. Audit quality is related to several factors, such as audit tenure, auditor specialization, and KAP reputation.

Audit tenure, which can be interpreted as the audit engagement period, can affect audit quality. The audit engagement period has become a public debate. Al-Thuneibat et al. (2011) revealed that a long engagement period affects the objectivity of an auditor at work. If done in a short time, it makes the auditor less optimal in obtaining information and understanding the client's corporate environment. According to Hamid (2013), a short engagement period can cause an auditor to lack time in understanding the client's business environment, making him less able to assess information properly. This triggers an increased risk of audit failure in financial statements.

Specialist auditors with prior audit experience within the same organization are more knowledgeable about the state of the company. Auditors that have experience performing audits within the same organization are considered to be specialized. Customers that hire specialized auditors are thought to be quicker and more accurate at spotting and locating flaws in the audited financial statements.

The reputation of a KAP (public accounting firm) that has a good reputation will produce auditors who are experienced, have good skills, and are definitely trusted. Large public accounting firms, or "Big 4 KAPs," are considered to have better experience, knowledge, and reputation than non-Big 4 or small KAPs, so that "Big 4 KAPs" are considered

to be able to produce better audit quality than non-Big 4 KAPs (Kurniasih and Rohman, 2014). An auditor requires special knowledge, such as accounting knowledge, auditing knowledge, and the client's industry, to be able to carry out his duties in conducting audits. There are three auditing standards that can be used as guidelines for auditing a financial report, namely general standards, field work standards, and reporting standards (IAPI, 2011). These auditing standards are closely related to several important aspects such as supervision, planning, fraud detection, increasing credibility, determining risk, and providing client satisfaction, all of which are closely related to auditing standards (Abdelrahman, 2014). The existence of applicable auditing standards will make an auditor more responsible. Thus, the client's confidence in the auditor can increase.

Based on the statement above, the author is interested in conducting research on "The Effect of Tenure Audit, Auditor Specialization, and KAP Reputation on Audit Quality (An Empirical Study of Manufacturing Companies Listed on the IDX in 2017-2019)".

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is defined as a theoretical basis that has been used to underlie corporate business practices. Jensen and Meckling (1976) state that agency theory is a cooperative relationship between agents and principals represented by shareholders or owners who demand accountability from agents through financial reports represented by managers. The party that has the authority to make decisions is the agent, while the party that evaluates is the principal.

Audit Quality

Audit quality refers to an auditor's capacity to recognize significant errors and their disclosure. Auditor obligations include adhering to applicable provisions of the public accountants' relevant code of ethics and auditing standards. The ability to analyze the business risk of the auditee, which strives to limit litigation risk, the ability to maintain damage to the auditor's reputation, and the ability to decrease client discontent are all examples of audit quality as defined by Boynton et al. (2002, p. 329).

Audit Tenure

Audit tenure is defined as the engagement period (term) between the auditor and the client regarding the agreed-upon audit services. Fierdha et al. (2014) once said that when the audit tenure is too short or too long, the tenure will become a matter of debate. (Mgbame et al. 2012) state that the tenure between the auditor and the same client has become a topic of discussion. One of them is the dilemma experienced by a company when it decides to change the auditor or KAP after several periods or maintain a long-term relationship with the same auditor or KAP, knowing that a long tenure will trigger contentious findings.

Auditor Specialization

Auditor specialization is the experience of an auditor in conducting audits at the same company. Auditor specialists better understand the conditions of the same client company because they have previous experience. Fitriany (2011) stated that auditor services, if carried out by a specialist auditor, are considered faster and better at finding and detecting errors in audited financial statements. Conversely, if the auditor's services are carried out by a non-specialist auditor, the audit process will be considered less fast and less good. In a specialized company, the auditor ensures that the auditor has sufficient experience and knowledge of the company's condition. Specialist auditors are believed to produce good-quality reports and can detect information precisely and accurately (Romanus, 2008).

KAP Reputation

Large KAPs give greater audit quality when compared to smaller KAPs, according to Wibowo & Hilda's (2009) assertion that large KAPs have better auditing skills than tiny KAPs. A substantial KAP in this study is one that is associated with the big four KAPs and where the auditor conducts the audit in a competent and impartial manner. A KAP with a solid reputation does not depend on its customers and does not solicit their feedback. The main four KAPs are reputable, well-known KAPs with a lot of business; these KAPs don't ask their customers to sacrifice audit quality.

Hypothesis Development

(Panjaitan, 2014) states that audit tenure can be interpreted as the length of time or audit engagement period between the client and the KAP for the services provided by the KAP that have been previously agreed upon. In using the services of a public accountant, an industry is required to comply with provisions originating from the Regulation of the Minister of Finance of the Republic of Indonesia No. 17/PMK.01/2008 regarding public accounting services. The change that occurred was the provision of general audit services for six consecutive financial years by the KAP and three consecutive years by the auditor for the same client.

The longer the audit tenure between the auditor and the client, the more thorough and skilled the auditor is in examining the client's company's financial statements, because the auditor has mastered the client's industry reports. Audit tenure has an effect on audit quality because the longer the audit tenure, the better the resulting audit quality. Conversely, if the audit tenure is short, it indicates low audit quality. (Aldona and Trisnawati, 2018).

(Destian, 2019) showed in his research that audit tenure affects audit quality. The following hypothesis can be drawn from the findings of this study:

H₁: Audit tenure has an effect on audit quality

Many manufacturing companies have a need for specialized auditors. Specialist auditors are considered more capable of detecting errors and irregularities than non-specialist auditors.

Auditors who understand and are knowledgeable about the company's internal controls, business risks, and audit risks. Auditor specialization in certain companies provides the auditor with greater ability and knowledge than auditors who do not specialize (Ishak, 2015). Based on the opinion above, the second hypothesis is formed, namely:

H₂: Auditor specialization has a significant effect on audit quality

A large KAP is identical to a KAP with a high reputation. KAP's reputation shows the auditor's expertise in being independent and carrying out audits in a professional manner because KAP is less economically dependent on clients. The client is also less able to influence the auditor's opinion (Giri, 2010).

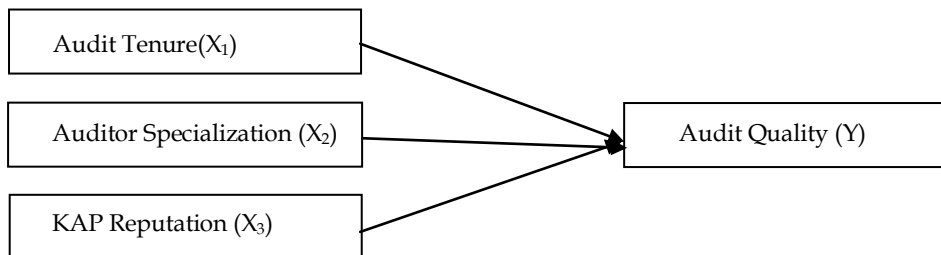
Large and well-known KAPs have better capabilities and have extensive knowledge as well as a lot of experience. Big and well-known KAPs also almost never commit fraud; if fraud is reported by the auditor, the KAP's reputation will be threatened. KAPs in which there are auditors who are reported to have committed fraud are no longer trusted by clients.

(Malinda, 2019) showed in his research that KAP's reputation affects audit quality. Based on the opinions and research above, the third hypothesis is formed, namely:

H₃: KAP Reputation affects audit quality

Conceptual Framework

To make it easier to understand the factors that influence audit quality, a conceptual framework and a series of hypotheses are made as follows:



III. RESEARCH METHOD

Population and Sample

The population for this study was all manufacturing companies listed on the Indonesia Stock Exchange (IDX). This study chose the companies that were sampled using a purposive sampling technique. The criteria for determining the sample are as follows:

- a. The manufacturing companies that were sampled were companies that went public and were still listed as issuers on the IDX.
- b. The company's financial statement data and data for variable calculations are available in full for the reporting year of 2017-2019.
- c. The company publishes financial statements with a financial year ending on December 31.
- d. The company's financial statements are published in rupiah currency.

IV. Operational Definition and Variable Measurement

Dependent Variable

The dependent variable in this study is audit quality. Quality is proxied by the earnings surprise benchmark because the earnings surprise benchmark has a strong relationship with audit quality, and the profit rate is data that is relatively easy to obtain from financial reports. Several steps were taken by Wibowo (2009) to obtain the benchmark:

- a. Using one of the two measurement models used by Carey and Simnett (2006), namely Earnings / Total Assets, or better known as ROA, as a measure.
- b. Using the benchmark $\mu + s$, where μ is the average earnings/ Δ earnings and s is the deviation. This benchmark is different from Carey and Simnett (2006), which use two of the total assets, because the data is more suitable for capital market conditions in Australia, while it is not certain that it is valid for capital market conditions in Indonesia. $\mu + s$ is calculated from the population of issuers in the 2017-2019 period.
- c. Using different assumptions from Menon and Williams (2004) and Carey and Simnett (2006), namely that managers will perform moral hazard (opportunistic motives) by using window dressing, namely management actions to make

reported financial reports "good" by increasing profits. So that managers get bonuses in the present and take a bath, namely, when management makes financial reports that are reported to be "bad" by increasing losses, with the hope that managers will get bonuses in the future. Opportunistic motives related to bonuses that will be obtained by management. The assumption about bad audit quality is that: First, if profit is greater than the earnings benchmark, that is, when the earning value is $> \mu+s$, it means that the auditor is giving the company an opportunity to do "window dressing". Second, if the loss is greater than the earnings benchmark, that is, when the earning value is $< \mu+s$, it means that the auditor is giving the manager the opportunity to take a bath.

- d. Based on the MEET_BE dependent variable model, a score of 1 will be given for high audit quality, with criteria ($\mu-s < ROA < \mu+s$) and a score of 0 will be given for low audit quality, namely when the manager performs "window dressing" ($ROA > \mu+s$) or "taking a bath".

Independent Variable

Independent variables are variables that explain or influence other variables. This study uses the variable competence of human resources, the application of the Regional Financial Accounting System (SAKD), utilization of information technology, and internal control systems.

a. Audit Tenure

Audit tenure is defined as the number of engagement periods between a company and a public accountant. The measurement of audit tenure in this study was measured by calculating the number of engagements from the same KAP that audited the company. The first year, when the engagement begins with the number one, then add 1 (one) for each subsequent year during the engagement period.

b. Auditor Specialization

This variable refers to the formula developed by Setiawan and Fitriany (2011), where the categorization of specialist and non-specialist auditors is based on data on the percentage of clients of go public companies audited by a KAP in a particular industry, which is then weighted based on the company's total assets with the following formula:

$$SPEC = \frac{\text{Number of KAP clients in the industry}}{\text{Number of issuers in the industry}} \times \frac{\text{The average KAP client asset in the industry}}{\text{Average assets of all issuers in the industry}}$$

The value of a specialist auditor is calculated using a dummy variable, namely, the number 1 will be given to a specialist auditor and the number 0 will be given to an auditor who is not a specialist (non-specialist).

c. KAP Reputation

This measurement uses a dummy variable, that is, it will be given a value of 1 for KAPs that are members of the "big four," and a value of 0 will be given for KAPs that are not members of the "big four." So by using audit services at KAPs affiliated with the big four KAPs, audit quality is expected to be better than at KAPs that are not affiliated with the big four KAPs.

Analysis Technique

The data analysis used in this study is a logistic regression analysis with the following model:

$$Pr (MEET_BE=1 \text{ atau } 0) = \beta_0 + \beta_1TEN + \beta_2SPES + \beta_3REP + e$$

Description:

MEET_BE :Audit quality is proxied by the Earning Surprise Benchmark.

A :Constant

β_1 :Audit Tenure (The first year is graded with a 1, and the following year is graded with a 1)

β_2 :Auditor Specialization (1 point for specialist auditors and 0 points for non-specialist auditors)

β_3 :KAP Reputation (1 point for KAP big four and 0 point for KAP non-big four)

e:Error Coefficient

V. RESEARCH RESULT

This study uses secondary data in the form of financial statements from manufacturing companies. This study's population consists of all manufacturing companies listed on the IDX from 2017 to 2019. Based on the purposive sampling method, the number of samples used in this study was 104 manufacturing companies.

Table 1 Research Sample Data

Number	Description	Total
1	The manufacturing companies that were sampled were companies that <i>go public</i> and were still listed as issuers on the IDX.	146
2	The company's financial statement data and data for variable calculations are available in full for the reporting year of 2017-2019.	(11)
3	The company publishes financial statements with a financial year ending on December 31.	(2)
4	The company's financial statements are published in rupiah currency.	(29)
Number of Sample Companies		104
Number of Samples (104 x 3 years)		312
Processed Data		312

Regression Model Feasibility Test

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test. If the statistical value of the Hosmer and Lemeshow Goodness of fit is greater than 0.05, it can be concluded that the model is able to predict the observed value, or it can be said that the model is acceptable because it is in accordance with the observation data (Ghozali, 2005). The test results in Table 2 show that the significance value is 0.981, which is greater than 0.05. These results indicate that the model is acceptable because it fits the observational data.

Table 2 Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	1,118	6	,981

Overall Model Fit Test

Table 3 Overall Model Fit

	-2 log likelihood
-2 log likelihood (block number 0)	153,610
-2 log likelihood (block number 1)	133,261

The initial value of -2 log likelihood (block number = 0) is 153.610. After entering the three independent variables, it will get a value of -2 log likelihood (block number = 1) of 133.261. The decrease in the -2 log likelihood value that occurs indicates that the regression model is better, or, in other words, that the hypothesized model fits the data.

Nagelkerke R Square

In the Model Summary table below, it can be seen that the value of Nagelker's R square is 0.163 and Cox & Snell's R square is 0.064, which shows that the ability of the independent variable to explain the dependent variable is 0.163 or 16.30% and that there are 100% - 16.30% = 83.70% other factors outside the model that explain the dependent variable.

Table 4 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	133,261 ^a	0,064	0,163

Classification Matrix

Table 5 Classification Table^a

Observed				Predicted		
				KA		Percentage Correct
				Kualitas Audit Rendah	Kualitas Audit Tinggi	
Step 0	KA	Kualitas Audit Rendah	0	21	0,0	
		Kualitas Audit Tinggi	0	289	100,0	
Overall Percentage						93,2

Based on the classification table above, it shows that using the regression model used, there are 289 (100%) companies that are predicted to have high audit quality out of a total of 312 samples of manufacturing companies in 2017–2019. The predictive power of manufacturing companies that have low audit quality is 21 (0.00%), which means that with the regression model used, there are as many as 21 (100%) data points on companies out of a total of 312 data points on manufacturing companies that have low audit quality. The table below gives an overall percentage value of $(289 + 0)/312 = 93.29\%$, which means that the accuracy of this research model is 93.28%. It can be concluded that the power to predict the regression model is 93.28%.

Regression Test Model Results (Hypothesis)

Table 6 Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	TA	-0,325	0,240	1,832	1	0,176	0,723
	SA	19,943	5250,378	0,000	1	0,997	458162220,011
	REP	-1,466	0,474	9,581	1	0,002	0,231
	Constant	3,675	0,710	26,761	1	0,000	39,444

Based on Table 6 above, the logistic regression equation is obtained as follows:

$$KA = 3,675 - 0,325 TA + 19,943 SA - 1,466 REP + e$$

This equation shows a constant value of 3.675. This value means that if there are no elements of audit tenure, auditor specialization, or KAP reputation, then the company has the tendency to have high audit quality, assuming other factors are constant. The logistic regression coefficient equation for tenure audit is -0.325, which means that if there is an increase in tenure audit tendencies, audit quality will decrease, assuming other factors are constant. The logistic regression coefficient equation for auditor specialization is +19.943, which means that if there is an increase in the tendency for auditor specialization, audit quality will increase, assuming other factors are constant. Finally, the logistic regression coefficient equation of the auditor's reputation is -1.466, which means that if the KAP's reputation is good, then the quality of the audit provided will tend to be low, assuming other factors are constant.

VI. DISCUSSION

Effect of Audit Tenure on Audit Quality

For the period 2017-2019, audit tenure have no effect on audit quality in manufacturing companies listed on the Indonesia Stock Exchange (IDX).Based on the test results, tenure audits have a negative regression coefficient of -0.325 with a significance level of 0.176. The first hypothesis (H1) is rejected because the significance value is greater than $\alpha = 5\%$, indicating that audit tenure has no significant effect on audit quality.

This is because the longer the engagement period, the lower the quality of the audit; the longer the engagement, the closer the auditor's relationship with the client, so that the auditor's independence decreases. There is a

rejection of this hypothesis because the audit engagement period is not used as a benchmark to determine whether the audit results will be of quality. The length of the audit engagement period should be such that the public accounting firm understands the condition of the client company so that it understands if the client wants to manipulate financial statements, but because of the long engagement period, the public accounting firm feels trust in the client, so it does not develop a strategy for audit procedures used and reduces audit quality.

This research is in line with research conducted by Ardianingsih (2014) and Permana (2012), which found that audit tenure has no effect on audit quality.

Effect of Auditor Specialization on Audit Quality

For the period 2017–2019, auditor specialization has no effect on the audit quality of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Based on the test results for auditor specialization, it has a positive regression coefficient of +19.943 with a significance level of 0.997. The second hypothesis (H2) is rejected because the significance value is less than $\alpha = 5\%$, implying that auditor specialization has no significant effect on audit quality.

Auditor specialization is a dimension of audit quality because the experience and knowledge of the auditor about the industry is elements of the auditor's expertise (Safari, 2013). In this study, auditor specialization has no effect on audit quality. This is because each auditor carries out an audit on the company regardless of the type of company, so there is no difference in the quality of audits performed by specialist and non-specialist auditors.

This research is in line with research conducted by Suciati and Triani (2017), who found that auditor specialization has no effect on audit quality.

Effect of KAP Reputation on Audit Quality

For the period 2015–2017, KAP reputation has an impact on audit quality in manufacturing companies listed on the Indonesia Stock Exchange (IDX). Based on the results of the KAP reputation test, it has a negative regression coefficient of -1.466 with a significance level of 0.000. The third hypothesis (H3) is accepted because the significance value is less than $\alpha = 5\%$, implying that KAP's reputation has a significant effect on audit quality.

The influence of KAP's reputation on audit quality is allegedly due to the reputation of auditors who are members of the Big 4 firm's KAP having high skills and integrity. The auditee management will assume that auditors who are members of a reputable KAP are capable auditors who will easily find the auditee company in a bad state, so the auditee management will consider the costs and benefits when hiring audit services from a reputable KAP. If it is related to the integrity of an auditor, then the fees or rewards given by reputable KAPs to auditors who are members of them are suspected to be greater than those of auditors who are members of local KAPs.

This research is in line with research conducted by Wahono and Setyadi (2015), who found that auditor reputation influences audit quality.

VII. CONCLUSION, LIMITATION AND SUGGESTION

Conclusion

Based on the results of the tests and analyses that have been carried out in the previous chapter, it can be concluded that:

1. Tenure audits have no effect on audit quality in manufacturing companies listed on the Indonesia Stock Exchange in 2017–2019.
2. Auditor specialization has no effect on the audit quality in manufacturing companies listed on the Indonesia Stock Exchange in 2017–2019.
3. In the period 2017–2019, KAP's reputation has an impact on audit quality in manufacturing companies listed on the Indonesia Stock Exchange.

Research Limitation

In this research, the researcher realizes that there are several limitations and weaknesses that need to be considered by users of this study, including the following:

1. This study took a sample of manufacturing companies listed on the Indonesia Stock Exchange, therefore, there are other companies that are not included in this study.
2. The observation period in this study was limited to only three years, namely 2017–2019, therefore the sample used was small, namely 79 out of 146 manufacturing companies listed on the Indonesia Stock Exchange.
3. The independent variables used in this study are audit tenure, auditor specialization, and KAP reputation, therefore, there are still many other factors or variables that are not used in this study.

Suggestion

Based on the results of the conclusions and limitations that exist, the researcher proposes the following suggestions:

1. It is hoped that future researchers who wish to do further research can add to or expand the sample of companies so that they can represent them as a whole. Because the results of this study cannot be generalized to other companies,
2. It is hoped that further researchers can increase the observation period of the research even longer.
3. It is hoped that further researchers can add independent variables to the study, with the hope that the research will be better than this study.

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