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THE EFFECT OF AUDIT FEE, AUDIT DELAY, AUDIT TENURE, AND AUDIT ROTATION ON AUDIT QUALITY (Case Study of Non-Cyclical Consumer Companies Listed on the Indonesia Stock Exchange 2021-2023)

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Abstract

Audit quality is an essential dimension of financial reporting credibility, particularly for public companies listed on the Indonesia Stock Exchange (IDX). The credibility of financial statements is reinforced by reliable external audits that assure stakeholders of the accuracy and fairness of reported information. This study explores the impact of audit fee, audit delay, audit tenure, and audit rotation on audit quality within Consumer Non-Cyclicals sector companies over the period 2021–2023. The study applies a quantitative approach using secondary data from 41 IDX-listed companies with 123 firm-year observations. Audit quality is measured through the use of Big Four auditors, while explanatory variables include audit fees, audit delays, audit tenure, and audit rotation. Logistic regression is employed to test both individual and joint effects of the variables. Findings suggest that audit fees and audit delay significantly affect audit quality, while tenure and rotation show no significant influence. Collectively, all four variables jointly influence audit quality. These results provide theoretical contributions to agency theory and practical implications for regulators, auditors, and firms.

Keywords: Audit quality, audit fee, audit delay, audit tenure, audit rotation, logistic regression, IDX

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INTRODUCTION

Financial transparency is a pillar of modern capital markets, enabling investors to make informed decisions. In Indonesia, the obligation to disclose audited annual financial statements ensures that listed firms remain accountable to the public. The Financial Services Authority (OJK) enforces compliance with regulations, while independent auditors play a critical role in verifying financial integrity.

Audit quality indicates how well the auditor can identify and report material misstatements. Audit quality is defined by DeAngelo (1981) as the total probability of finding and reporting errors. Scandals such as Enron and WorldCom demonstrated the devastating consequences of low audit quality and led to reforms like the Sarbanes-Oxley Act.Indonesia also introduced reforms, including mandatory auditor rotation, to strengthen independence.

Despite extensive literature, the determinants of audit quality remain debated. Some studies show that higher audit fees are associated with higher audit quality, while others argue excessive fees create economic dependence that reduces independence. Similarly, audit delay may signal inefficiencies, but in some cases, longer audits reflect greater diligence. Audit tenure and mandatory rotation also spark debate. This research focuses on Consumer Non-Cyclicals companies, a relatively stable sector, to clarify these issues.

LITERATURE REVIEW

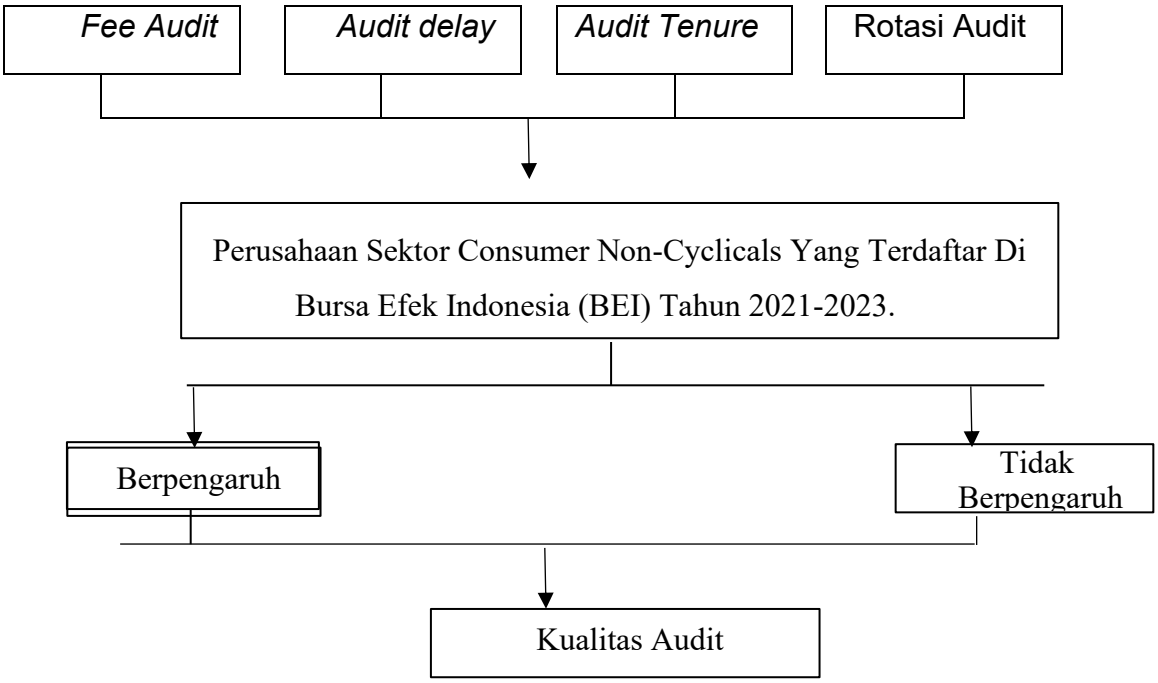
1. Agency Theory: Jensen and Meckling (1976) introduced agency theory, which highlights conflicts of interest between managers (agents) and shareholders (principals). External audits reduce information asymmetry by ensuring managers' reports are credible.
2. Audit Quality: According to DeAngelo (1981), audit quality depends on auditor competence and independence. Francis (2004) further emphasized that audit quality is multi-dimensional, involving technical execution and ethical judgment.
3. Audit Fee: Higher fees are linked to resource allocation, enabling auditors to conduct thorough examinations (Carcello et al., 2002). However, excessive dependence on client fees may undermine independence.
4. Audit Delay: Owusu-Ansah (2000) and Ashton et al. (1987) suggest that timely reporting improves information relevance. Delays may arise from audit complexity or disputes with management, potentially harming investor trust.

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5. Audit Tenure: Myers et al. (2003) argue that longer tenure improves auditor knowledge of clients, but Johnson et al. (2002) note the risk of declining independence over time.
6. Audit Rotation: Regulators mandate rotation to mitigate familiarity threats. However, Ewelt-Knauer et al. (2012) found mixed evidence on whether rotation improves audit quality, as new auditors may lack client-specific knowledge.

Empirical studies in Indonesia provide conflicting evidence, reflecting industry-specific dynamics and regulatory contexts.

FRAMEWORK OF THOUGHT & RESEARCH HYPOTHESIS

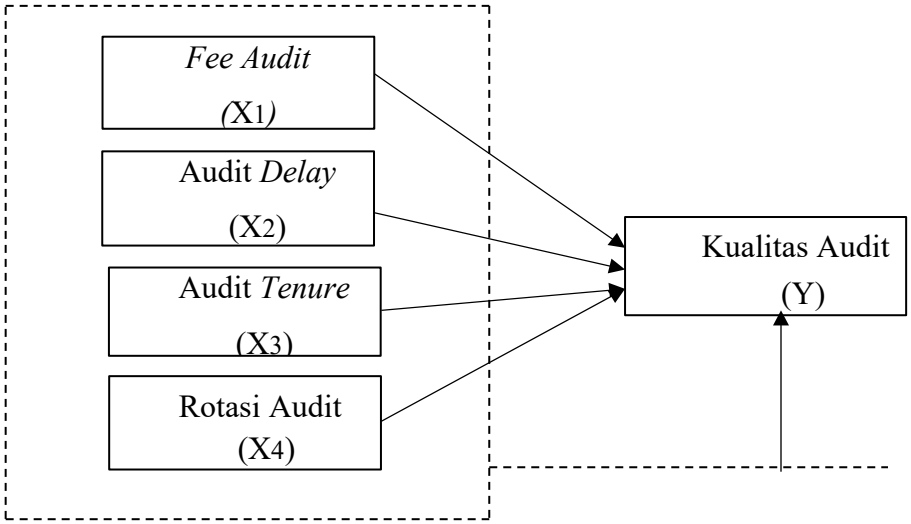


Sumber: Data olahan, 2024

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Hypothesis:

H1: Audit fees affect audit quality.
H2: Audit delay affects audit quality.
H3: Audit tenure affects audit quality.
H4: Audit rotation affects audit quality.
H5: Audit fees, audit delay, audit tenure, and audit rotation affect audit quality.

RESEARCH METHODOLOGY

This research used a quantitative explanatory design. Non-Cyclical Consumer Companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period were the subjects. Forty-one companies and 123 observations were generated through purposive sampling.

Variable Definitions:

- Audit Quality (Dependent Variable): Dummy variable (1 = Big Four auditor, 0 = Non-Big Four).
- Audit Fee: Natural logarithm of total assets.
- Audit Delay: Dummy variable (1 = delay > 90 days, 0 = otherwise).
- Audit Tenure: Number of consecutive years an auditor audits the same client.
- Audit Rotation: Dummy variable (1 = rotation occurred, 0 = otherwise).

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Analytical Method: Logistic regression was chosen as the dependent variable is binary. Tests included descriptive statistics, Hosmer–Lemeshow test, overall model fit, Nagelkerke R Square, Omnibus test, and Wald test for individual coefficients.

RESULTS AND DISCUSSION

Descriptive Statistics: Results indicate that 39% of firms used Big Four auditors. Mean audit fee was 22.36, with minimum 18.67 and maximum 26.50. Audit delays occurred in 24% of observations. Audit tenure averaged 1.77 years, while rotation occurred in only 11%.

Table 1 Results of Descriptive Statistical Tests

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Kualitas Audit	123	0	1	.39	.490
Fee Audit	123	18.67	26.50	22.36	1.617
Audit Delay	123	0	1	.24	.426
Audit Tenure	123	1	3	1.77	.798
Rotasi Audit	123	0	1	.11	.319
Valid N (listwise)	123				

Model Fit: Hosmer–Lemeshow test produced p = 0.989, indicating good fit. Omnibus test yielded Chi-square = 42.736 (p < 0.001), confirming overall significance. Nagelkerke R Square = 0.398 shows that independent variables explain 39.8% of variation in audit quality.

Table 2 Omnibus Tests of Model Coefficients

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	42.736	4	<.001
	Block	42.736	4	<.001
	Model	42.736	4	<.001

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Partial Tests: Audit fee significantly increased audit quality likelihood (Exp(B) = 2.359, p < 0.001). Audit delay reduced audit quality (Exp(B) = 0.261, p = 0.037). Audit tenure (p = 0.139) and rotation (p = 0.736) were insignificant.

Table 3 Variables in the Equation

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Fee Audit	.858	.175	24.171	1	<.001	2.359
	Audit Delay(1)	-1.343	.645	4.342	1	.037	.261
	Audit Tenure	-.513	.347	2.189	1	.139	.599
	Rotasi Audit(1)	-.252	.747	.114	1	.736	.777
	Constant	-18.529	3.925	22.287	1	<.001	.000

a. Variable(s) entered on step 1: Fee Audit, Audit Delay, Audit Tenure, Rotasi Audit.

Discussion: Findings align with prior studies (Hidayati & Djamil, 2024; Fauzi & Priono, 2024), confirming audit fees as critical determinants. Audit delays undermine credibility by reducing timeliness, while tenure and rotation showed no consistent impact, echoing results from Sihombing & Silaban (2023). Contextual factors, such as sector stability, may explain the lack of tenure/rotation effects.

CONCLUSION AND RECOMMENDATIONS

Conclusion: Audit fee and audit delay significantly influence audit quality, while audit tenure and rotation do not. All four variables collectively affect audit quality in IDX listed Consumer Non-Cyclicals firms (2021–2023). Recommendations: Firms should allocate adequate audit fees to secure high-quality audits. Regulators should reconsider the effectiveness of mandatory rotation and emphasize transparency. Future studies should include broader sectors, longer periods, and additional variables such as auditor specialization, governance mechanisms, and ownership concentration.

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