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THE EFFECT OF AUDIT TENURE, AUDIT ROTATION, AND AUDIT FEES ON AUDIT QUALITY

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Abstract. This research aims to evaluate the influence of audit tenure, audit rotation, and audit fees on audit quality. The objects of the study include companies that are part of the LQ45 index and listed on the Indonesia Stock Exchange during the period 2020-2022. Using purposive sampling, 25 companies were successfully collected as samples. Data analysis was performed using multiple regression analysis methods with the help of SPSS software. The results of the analysis indicate that the variables of audit tenure, audit rotation, and audit fees simultaneously have an impact on audit quality. Furthermore, each independent variable also partially affects the dependent variable.

Keywords: audit tenure, audit rotation, audit fees, audit quality.

I. INTRODUCTION

Audit quality has become a major concern amid the rise of audit failures. This study aims to identify the factors influencing audit quality, particularly in companies listed on the Indonesia Stock Exchange.

The widespread audit failures in Indonesia, such as the Sunprima Nusantara Pembinaan case, have shaken public confidence in audit quality. These scandals not only harm investors but also damage the reputation of the accounting industry. Therefore, this study is relevant to identify the factors influencing audit quality and provide recommendations for its improvement.

Although previous studies have extensively discussed the influence of audit tenure, audit rotation, and audit fees on audit quality, there are still gaps in the research. These studies often use different samples, different research periods, or different proxies for audit quality. Additionally, few studies have specifically analyzed the influence of these three variables on LQ45 companies in Indonesia using discretionary accruals as a proxy for audit quality.

The results of this study are expected to contribute both theoretically and practically. Theoretically, this study is expected to enrich the accounting literature, particularly regarding the factors influencing audit quality. Practically, the results of this study can serve as a consideration for regulators, public accountants, and companies in their efforts to improve audit quality and good corporate governance.

This study aims to examine the influence of audit tenure, audit rotation, and audit fees on audit quality in LQ45 companies listed on the Indonesia Stock Exchange during the period 2020-2022. Audit quality in this study is measured using discretionary accruals.

II. LITERATURE REVIEW

A. Agency Theory

According to Jensen & Meckling (1976), agency theory addresses the idea of agency relationships in a contract where one or more persons (principals) request another person (agent) to perform something on behalf of the principal, often involving granting the agent authority to make decisions.

B. Audit Quality

According to Mathius (2016:80), audit quality is the likelihood that a competent auditor will detect and report misstatements in a client's or company's accounting system. Additionally, audit results are communicated to interested parties. High-quality financial statements facilitate decision-making.

C. Audit Tenure

Audit Tenure refers to the length of the relationship between the CPA firm and the client. A long audit tenure can enhance audit competence as the auditing partner can base their audit knowledge on the extensive knowledge of the client that has developed over time; however, a longer process may compromise audit independence (Junaidi, 2016:40).

D. Audit Rotation

According to Government Regulation No. 20 of 2015, Article 11, which stipulates that a CPA firm or a public accountant must provide audit services for a company's financial statements for a maximum of five consecutive fiscal years, and after two fiscal years without providing general audit services for the client's financial statements, the auditor may resume the audit assignment for that client.

E. Audit Fee

According to Mulyadi (2016:63), audit fees are payments received by public accountants after completing audit tasks, either in the form of money or compensation. Therefore, the higher the remuneration provided for audit services, the higher the quality of the audit provided.

F. Audit Tenure and Audit Quality

Audit tenure is the length of the relationship between the CPA firm and the client. A long audit tenure can enhance audit competence because the auditing partner can base their audit knowledge on the client's extensive knowledge that has developed over time; however, a longer process can compromise audit independence (Junaidi, 2016:40). Research conducted by Akbar (2017) and Ardani (2017) found that audit tenure has a positive effect on audit quality. Based on the above discussion, the hypothesis can be formulated as follows.

H1: Audit tenure has a positive effect on audit quality

G. Audit Rotation and Audit Quality

Audit rotation is a practice in which a company replaces the public accounting firm or public accountant that audits its financial statements after a certain period of time. In studies conducted by Akbar (2017), Permatasari & Astuti (2019), and Mauliana & Laksito (2021), it was found that audit rotation has a positive impact on audit quality. Based on the above discussion, the hypothesis can be formulated as follows.

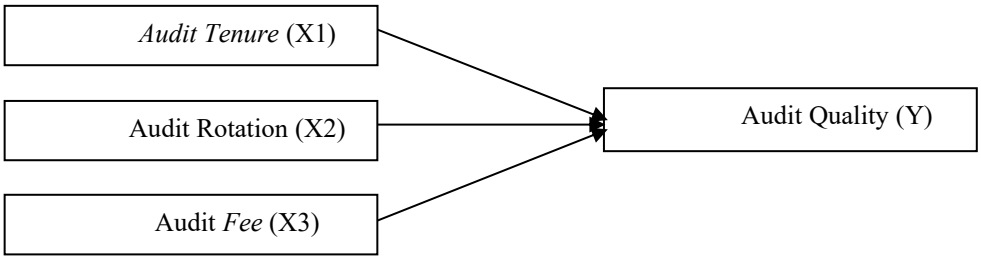
H2: Audit rotation has a positive effect on audit quality

H. Audit Fees and Audit Quality

Companies pay audit fees to public accounting firms to audit their financial statements. In agency theory, shareholders act as owners of the company and managers act as agents who run the company on behalf of the shareholders. In relation to agency theory, audit fees can have several benefits. One of the benefits is that reasonable and proportional audit fees can help reduce conflicts of interest between managers and shareholders. Research conducted by Andriani & Nursiam (2018), Permatasari & Astuti (2019), Mauliana & Laksito (2021) and Wardani et al., (2022) states that audit fees have a significant positive effect on audit quality. Based on this description, the hypothesis can be formulated as follows.
H3: Audit fees have a positive effect on audit quality

Conceptual Framework

Figure 1. Conceptual Framework



III. RESEARCH METHOD

This study is a quantitative research with a descriptive and verifiable approach. The secondary data used in this study were obtained from the financial reports of LQ45 companies listed on the Indonesia Stock Exchange for the period 2020-2022. Data analysis was performed using multiple linear regression analysis to test the proposed hypotheses. Since some samples had criteria that differed from those set by the author, purposive sampling was used to select the samples. The sample criteria used were as follows: (1) LQ45 companies on the Indonesia Stock Exchange that were consecutively included in the LQ45 stocks from 2020 to 2022, (2) Data related to the research variables were available in the company's audited financial statements. Based on these criteria, a sample of 25 samples was obtained. In this study, descriptive statistical tests, classical assumption tests, multiple linear regression analysis tests, and hypothesis tests in the form of the coefficient of determination, significance of ANOVA (F-statistic test), and significance of individual parameters (t-statistic test) were conducted.

1. Audit Quality

   The calculation of discretionary accruals was conducted through the following steps:

$$TAC_{it} = NI_{it} - CFO_{it}$$

The total accrual value (TAC) will be estimated using a multiple regression model as described below:

$$TAC_{it}/A_{it-1} = \alpha1(1/A_{it-1}) + \alpha2(\Delta REV_{it}/A_{it-1}) + \alpha3(PPE_{it}/A_{it-1}) + e$$

Next, to estimate the value of non-discretionary accruals, the following formula is used:

$$NDA_{it} = \alpha1(1/A_{it-1}) + \alpha2((\Delta REV_{it} - \Delta REC_{it})/A_{it-1}) + \alpha3(PPE_{it}/A_{it-1})$$

After that, discretionary accruals can be calculated as follows:

$$DA_{it} = (TAC_{it}/A_{it-1}) - NDA_{it}$$

2. Audit Tenure

   Calculate the number of years of the agreement, with the first year of the agreement starting with 1, and subsequent years increasing by 1.

3. Audit Rotation

   A dummy variable indicates that the company performs audit rotation with code 1 and does not perform it with code 0.

4. Audit Fee

   Natural logarithm (ln) of the audit fee.

IV. RESULTS AND DISCUSSION

A. Description of Research Object

The research object is LQ45 companies listed on the Indonesia Stock Exchange from 2020 to 2022. This study aims to determine whether audit tenure, audit rotation, and audit fees have a positive impact on audit quality. The year 2020 was selected as the study year because the market was still in the recovery phase following the COVID-19 pandemic. Based on the sample selection criteria outlined in Chapter 3, this study collected data from 25 companies with a total of 75 annual reports for the period 2020 to 2022. The data was obtained from the website www.idx.co.id.

B. Descriptive Statistics

According to Ghozali (2018:19), in descriptive statistics, the mean, standard deviation, variance, maximum, minimum, total, range, kurtosis, and skewness are used to provide an overview or description of data. The descriptive statistical tests are presented in Table 1 below:

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Tenure	75	1	4	1.83	0.828
LnFee	75	20.13	24.98	22.5740	1.02231
KA	75	-0.08	0.01	-0.0421	0.0194
Valid N (listwise)	75				

Source: Processed secondary data, (2024).

Audit rotation in this study uses dummy measurements. Since dummy variables are dichotomous variables, the descriptive statistics used are frequency distributions that describe frequency and percentage. Audit rotation is given a value of 1 if the company conducts audit rotation and 0 if the company does not conduct audit rotation.

Table 2. Frequency Statistics of Audit Rotation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No audit rotation	42	56	56	56
	Conducting audit rotation	33	44	44	100
	Total	75	100	100.0	

Source: Secondary data processed, (2024).

Before conducting hypothesis testing, the researcher performed classical assumption tests on the research data. The first test was a normality test using the One-Sample Kolmogrov Smirnov method. The test results showed a significance value of 0.200, indicating that the data was normally distributed because the significance value was greater than 0.05.

Table 3. Results of the Normality Test

	Asymp. Sig. (2-tailed)
Regression Model	0.20

Source: Secondary data processed, (2024).

Next, the researcher tested the classical assumption of multicollinearity. Based on VIF values less than 10 and tolerance values greater than 0.10 for each independent variable, it can be concluded that there is no multicollinearity problem in this regression model.

Table 4. Multicollinearity Test Results

Independent Variables	Collinearity Statistics	
	Tolerance	VIF
Tenure	0.319	3.139
Rotation	0.316	3.164
LnFee	0.977	1.023

Source: Secondary data processed, (2024).

The heteroscedasticity test using the Glejser method indicates that there is no variance inequality in the residuals. This can be seen from the significance value of each independent variable, which is greater than 0.05.

Table 5. Results of the Heteroscedasticity Test

Variable	Sig
Tenure	0.63
Rotation	0.564
LnFee	0.300

Source: Secondary data processed, (2024).

The autocorrelation test using the run test method shows that there is no serial correlation in the residuals. This can be seen from the significance value of 0.795, which is greater than the significance level of 0.05.

Table 6. Results of the Autocorrelation Test

Model	Durbin-Watson
	1.906

Source: Secondary data processed, (2024).

Hypothesis Testing

Multiple linear regression analysis was conducted to test the relationship between the research variables. The complete results of this analysis can be seen in the following table:

Table 7. Results of Multiple Linear Regression Test

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	0.028	0.045		0.615	0.541
Tenure	0.018	0.004	0.767	4.233	0.000
Rotation	0.027	0.007	0.702	3,861	0.000
LnFee	0.005	0.002	0.268	2,590	0.012

Source: Secondary data processed, (2024).

Based on the regression analysis results, the relationship between the dependent variable and the independent variables *of audit tenure*, audit rotation, and audit *fee* can be expressed in the following equation:

$$KA = 0.028 + 0.018 + 0.028 + 0.005 + e$$

The interpretation of the regression equation is as follows:

The regression coefficient value of 0.028 indicates that, without the influence of *audit tenure*, audit rotation, and audit *fee*, the value of the dependent variable (KA) will increase by 0.028. In other words, if the independent variables such as *audit tenure*, audit rotation, and audit *fee* have a value of zero, then the value of the dependent variable (KA) will increase by 0.028.

The regression coefficient value for *audit tenure* (Tenure) is 0.018, indicating a relationship between the *audit tenure* variable and audit quality (KA). Based on this coefficient , we can

calculate that, assuming all other variables in the regression model remain constant, each one-unit increase in the *audit tenure* variable will result in a 0.018 increase in audit quality (KA).

The regression coefficient value for audit rotation (Rotation) is 0.027, indicating a relationship between the audit rotation variable and audit quality (KA). Assuming that other variables in the regression model remain constant, we can calculate that each one-unit increase in the audit rotation variable will result in an increase in audit quality of 0.027.

The regression coefficient value for audit *fees* (*LnFee*) is 0.005, indicating a relationship between audit *fees* and audit quality (KA). Assuming that other variables in the regression model remain constant, it can be concluded that a one-unit increase in audit *fees* will result in a 0.005 increase in audit quality (KA).

Furthermore, according to Ghozali (2018:97), the coefficient of determination is used to measure the model's ability to explain data variation. The test results are as follows:

Table 8. Results of the Coefficient of Determination Test

Model	R	*R Square*	*Adjusted R Square*
1	0.808	0.558	0.527

Source: Secondary data processed, (2024).

The adjusted$^{R^2}$ (coefficient of determination) is 0.527, as shown by the analysis found in Table 8. This means that the independent variables, consisting of *audit tenure* (*Tenure*), audit rotation (Rotation), and audit *fee* (*LnFee*), will affect 52.7% of the audit quality (KA) variable. Other variables not discussed in this study will influence 47.3% of the audit quality variable.

Referring to Ghozali (2018:98), the F-test is used to test whether the regression model as a whole is significant. In other words, this test aims to determine whether all independent variables together contribute significantly to explaining the variation in the dependent variable.

Table 9. F-Test Results

	F	Sig
Regression Model	8.226	,000[b]

Source: Secondary data processed, (2024).

The Sig. F value (0.000) is less than $\alpha = 0.05$, indicating that the regression analysis model is significant, as shown in Table 9. Among the independent variables consisting of *audit tenure*, audit rotation, and audit *fee*, it can be concluded that the dependent variable, , i.e., audit quality, can be significantly influenced by the independent variables. The regression model can be used to make good predictions.

Referring to Ghozali (2018:98), the t-test is used to test the significance of the partial influence of each independent variable. In other words, this test aims to determine whether each independent variable individually contributes significantly to explaining the variation in the dependent variable. The t-table value is obtained from the formula t-table = (α/2 ; df residual). The residual df value in this study is 71. The test conducted is a two-tailed test with a significance level of 5%. The t-table value obtained is 1.667.

Table 10. Results of the t-test

Variable	t	Sig
(Constant)	0.615	0.541
Tenure	4.233	0.000
Rotation	3,861	0
LnFee	2,590	0.012

Source: Secondary data processed, (2024).

Based on the t-test analysis in Table 10, the following conclusions can be drawn:

The *audit tenure* variable has a calculated t-value greater than the table t-value, i.e., 4.233 is greater than 1.667, and the t-significance value (0.000) is less than α = 0.05. As a result, the influence of *audit tenure* on audit quality is recognized as significant.

The audit rotation variable has a t-calculated value greater than the t-table value, i.e., 3.861 is greater than 1.667, and the t-significance value (0.000) is less than α = 0.05. Therefore, the influence of audit rotation on audit quality is recognized as significant.

The t-calculated value for the audit *fee* variable is greater than the t-table value, i.e., 2.590 is greater than 1.667, and the t significance value (0.012) is less than α = 0.05. Consequently, the influence of audit *fees* on audit quality is recognized as significant.

1. The Effect of Audit Tenure on Audit Quality

Regression analysis indicates that there is a significant positive influence of audit tenure on audit quality. The regression coefficient is 0.018 with a t-value of 4.233 (greater than the t-table value of 1.667) and a significance level of 0.000 (less than 0.05), supporting the research hypothesis. These results are consistent with the findings of Akbar (2017) and Ardani (2017), who concluded that auditors with long-term relationships with clients tend to produce higher-quality audits. This can be explained because auditors who have worked with clients for a long time have a deeper understanding of the clients' businesses, enabling them to provide more accurate and comprehensive assessments. However, the audit tenure factor should be considered in evaluating auditor performance and in designing policies related to auditor rotation.

2. The Effect of Audit Rotation on Audit Quality

Regression analysis shows that there is a significant positive influence of audit rotation on audit quality. The regression coefficient is 0.027 with a t-value of 3.168 (greater than the t-table value of 1.667) and a significance value of 0.000 (less than 0.05), supporting the research hypothesis. These results are consistent with Akbar's (2017) findings, which demonstrate that audit rotation can enhance innovation in audit practices. Additionally, Permatasari & Astuti (2019) and Mauliana & Laksito (2021) also found that audit rotation can enhance independence, credibility, and trust in financial statements. Regular audit rotation can prevent conflicts of interest, maintain auditor independence, and update the opinions and assessments of new auditors.

3. The Effect of Audit Fees on Audit Quality

Regression analysis shows that there is a significant positive influence of audit fees on audit quality. The regression coefficient is 0.0005 with a t-value of 4.701 (greater than the t-table value of 1.667) and a significance level of 0.012 (less than 0.05), supporting the research

hypothesis. This result aligns with the findings of Andriani & Nursiam (2018), who showed that audit fees commensurate with business complexity and risk can enhance stakeholder trust. Additionally, Permatasari & Astuti (2019), Mauliana & Laksito (2021), and Wardani et al. (2022) also found that adequate audit fees can improve auditor performance quality, auditor motivation, and trust in financial statements.

Table 11. Research Hypothesis Results

Hypothesis	Description	Decision
H	*Audit tenure* has a positive effect on audit quality.	Accept
H2	Audit Rotation has a positive effect on Audit Quality	Accept
H3	Audit *fees* have a positive effect on audit quality	Accept

Source: Research Data (2024)

V. CONCLUSION

This study analyzes the relationship between audit tenure (measured by discretionary accruals), audit rotation (measured by a dummy variable), and audit fees (measured by the natural logarithm of audit service costs) with audit quality. The results indicate that all three variables have a significant positive impact on audit quality. These findings suggest that the longer the auditor tenure, the more frequent the auditor rotation, and the higher the audit fees paid, the better the audit quality produced.

Further research could enrich these findings by adding independent variables such as auditor size, client financial statement complexity, the existence of an audit committee, auditor specialization, and auditor independence level. Expanding the research population with a longer time period is also recommended to obtain more representative samples and data. As an alternative, audit quality proxies such as Return on Assets (ROA) and financial statement restatements can be used to measure audit quality more comprehensively.

The results of this study provide several important implications. First, this study can serve as a reference for further research that seeks to explore the influence of audit tenure, audit rotation, and audit fees on audit quality, particularly in the context of audit report lag. Second, for companies, these results can provide input for evaluating and improving audit practices, including auditor rotation, audit fee setting, and audit completion time management. Third, for auditors, this study emphasizes the importance of complying with auditor rotation regulations and maintaining independence in performing audit duties. Fourth, for regulators such as the OJK and IDX, the results of this study can be considered in formulating policies related to financial reporting, such as setting reporting deadlines and imposing sanctions for delays. Finally, for investors, this study provides useful information for evaluating the quality of a company's financial information before deciding to invest.

This study faced challenges in obtaining complete data from LQ45 companies. Although there were 54 LQ45 companies listed during the 2020-2022 period, only 31 companies consistently fell into the LQ45 category. After filtering the annual reports that were complete and contained the required information, the final sample size used in this study was 25 companies.

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