

The effect of audit fee, audit tenure, and KAP size on audit quality

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Abstract

Purpose: This study aims to provide empirical evidence on the effect of audit fee, audit tenure, and KAP size on audit quality in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) 2016-2019 period.

Methods: This study applies an associative causal analysis research strategy with logistic regression using SPSS 26, focusing on manufacturing companies in the consumer goods sector listed on the IDX between 2016 and 2019. The sample was taken purposively, consisting of 15 companies, with data collected through documentation from the IDX website, company websites, and registered public accountant data.

Findings: The study shows that higher audit fees improve audit quality in consumer goods manufacturing companies listed on the Indonesia Stock Exchange (2016-2019). Meanwhile, audit tenure and KAP size do not have a significant effect, so only audit fees contribute to improving audit quality.

Practical Implications: Research shows that companies need to increase their budget for audit fees to improve audit quality and credibility of financial statements. In addition, the absence of influence from the duration of the auditor's assignment or the size of the accounting firm provides flexibility in selecting auditors, with an emphasis on audit quality. This strategy can help companies produce more accurate and reliable financial statements.

Keywords: Audit Fee, Audit Tenure, KAP Size, Audit Quality

Paper type: Research paper

ARTICLE INFO:

Received 7/9/2024

Revised 12/20/2024

Accepted 1/1/2025

Online First 2/25/2025

Asian Journal of Corporate
Governance and Financial
Performance
Vol 1, No.1, 2025, 19-28
pISSN XXXX-XXXX

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Abstrak

Tujuan: Penelitian ini bertujuan untuk memberikan bukti empiris mengenai pengaruh fee audit, audit tenure, dan ukuran KAP terhadap kualitas audit pada perusahaan manufaktur sektor industri barang konsumsi yang terdaftar di Bursa Efek Indonesia (BEI) periode 2016-2019.

Metode: Penelitian ini menggunakan strategi penelitian analisis kausal asosiatif dengan regresi logistik menggunakan SPSS 26, dengan fokus pada perusahaan manufaktur sektor barang konsumsi yang terdaftar di BEI pada tahun 2016 hingga 2019. Sampel diambil secara purposive yang terdiri dari 15 perusahaan, dengan data yang dikumpulkan melalui dokumentasi dari website BEI, website perusahaan, dan data akuntan publik yang terdaftar.

Temuan: Hasil penelitian menunjukkan bahwa fee audit yang lebih tinggi meningkatkan kualitas audit pada perusahaan manufaktur barang konsumsi yang terdaftar di Bursa Efek Indonesia (2016-2019). Sedangkan audit tenure dan ukuran KAP tidak memiliki pengaruh yang signifikan, sehingga hanya fee audit yang berkontribusi dalam meningkatkan kualitas audit.

Implikasi Praktis: Penelitian menunjukkan bahwa perusahaan perlu meningkatkan anggaran mereka untuk biaya audit untuk meningkatkan kualitas audit dan kredibilitas laporan keuangan. Selain itu, tidak adanya pengaruh dari durasi penugasan auditor atau ukuran KAP memberikan fleksibilitas dalam memilih auditor, dengan penekanan pada kualitas audit. Strategi ini dapat membantu perusahaan menghasilkan laporan keuangan yang lebih akurat dan dapat diandalkan.

Kata Kunci: Fee Audit, Audit Tenure, Ukuran KAP, Kualitas Audit

1. Introduction

Competition in the public accounting services business is getting tighter in the era of globalization, along with the rapid development of public companies in Indonesia. This increases the demand for quality financial report audits, so public accountants must have a professional, independent attitude and extensive experience to survive in business competition (Agustini et al., 2020). Public trust in the public accounting profession is a significant factor, where the more often a public accounting firm is trusted to audit a company's financial statements, the higher its reputation in the community (Putra, 2013: 765).

Maintaining audit quality is an obligation for public accountants so that the audited financial statements can be accounted for and increase the integrity of financial information. Good audit quality can minimize the risk of presenting non-credible information, thereby increasing public trust in the validity of financial statements (Novrilia et al., 2019:256). According to DeAngelo (1981:186), audit quality is the probability of auditors finding and reporting violations in their clients' accounting systems. Meanwhile, (Kurniasih et al., 2014; Rohman et al., 2014) stated that good audit quality can increase the credibility of financial reports and reduce the risk of unreliable financial information.

Although auditors are required to provide quality audits, the reality is that there are still many financial scandals involving auditors, so public trust in this profession has decreased (Fauziyyah et al., 2020). One of the cases in the spotlight is the involvement of PA Kasner Sirumapea in the audit of the financial statements of PT Garuda Indonesia (Persero) Tbk in 2018, where several violations of audit standards such as AS 315, AS 500, and AS 560 were found (CNN Indonesia). To prevent similar cases from recurring, the Indonesian Institute of Accountants (IAI) has established a policy for changing Public Accounting Firms (KAP) in accordance with the Regulation of the Minister of Finance No. 17/PMK.01/2008 which was later updated by Government Regulation No. 20 of 2015 (jdih.kemenkeu.go.id). This regulation sets the time limit for the provision of audit services by public accountants for a maximum of five consecutive years, although there is no limit for KAP.

Audit quality is influenced by internal and external factors, including audit fees, tenure, and KAP size. Several previous studies have shown mixed results regarding the influence of these three factors on audit quality. Therefore, this study focused on manufacturing companies in the consumer goods sector with significant market capitalization and sustainable growth. Using data from the 2016-2019 period, this study aims to analyze the influence of audit fees, tenure, and KAP size on audit quality in the sector.

2. Theoretical background and Hypothesis

Theoretical background

Agency theory

according to Scott (2015:358), describes the complex interaction between principals (shareholders) and agents (company management), which often gives rise to conflicts of interest due to information asymmetry. This problem highlights the potential for management's interests to conflict with the company's owners. Independent auditors are needed to reduce this problem. Research shows that a greater allocation of audit fees can improve audit quality and the credibility of financial statements. Although the duration of the assignment and the size of the firm are not significant to audit quality, the importance of independent auditors in ensuring the transparency and accuracy of financial statements remains emphasized.

Audit defined

The audit is defined as a critical and systematic examination of financial statements by an independent party to provide an opinion on the fairness of the financial statements, as explained by (Agoes et al., 2017). (Arens et al., 2015) added that audit involves collecting and evaluating evidence to determine the conformity of information to established criteria. Meanwhile, (Mulyadi et al., 2016) stated that an audit is a systematic process of obtaining and evaluating evidence objectively related to statements about economic activities and events. Thus, from the perspective of the public accounting profession, an audit is an objective examination of financial statements to assess whether the statements present the financial position and results of operations relatively in all material respects.

Audit quality

Audit quality is the auditor's ability to find and disclose violations in the client's accounting system (DeAngelo, 1981). Auditors must comply with relevant auditing standards and codes of ethics to carry out their duties properly. Based on the Public Accountant Professional Standards (SPAP), an audit is considered quality if it meets standards such as independence and professional quality.

Audit quality includes the characteristics of audit practices and their results, which are measures in carrying out the auditor's responsibilities. A good audit can reveal the true condition of the financial statements and avoid material errors (Novrilia et al., 2019:257). The auditor's professional criteria include independence, integrity, and objectivity. The aim is to improve the quality of financial statements to provide confidence to users, including investors.

Audit fee

According to Agoes (2017:47), audit fees are compensation from auditors in the form of money or goods to get a job. Mulyadi (2016:63) added that the risk of the assignment influences the amount of audit fees, the complexity of the service, the level of expertise required, and the KAP fee structure. (Primasari et al, 2013 ; Sudarno et al., 2013) also emphasized that audit fees are compensation for auditors after completing audit services.

Agoes (2017: 46) noted that the variability of audit fees is influenced by the risk of the assignment and the expertise required. IAPI Regulation Number 2 of 2016 warns that too low fees can lead to violations of the code of ethics due to potential personal interests. Therefore, auditors must set adequate fees to ensure that audit procedures are carried out according to standards, fairness for auditors, and integrity and quality of audit services.

Audit tenure

According to (Hasanah et al.,2018 ; Putri et al., 2018), audit tenure refers to the duration of engagement between the auditor and the client measured in years. This involves two main aspects: economic incentives that can reduce auditor independence and the expertise acquired by the auditor during the period, which helps in understanding the client's business processes and reducing risk.

In Indonesia, regulations related to audit tenure are stated in Law No. 5 of 2011 and Government Regulation No. 20 of 2015. These regulations limit general audit services by KAP to a maximum of 5 consecutive years, with regulations allowing the same service to the same entity after 2 years. Financial Services Authority Regulation No. 13/POJK.03/2017 further updated the regulation, limiting auditors to providing general audit services for only three consecutive years. This update aims to prevent potential fraud caused by the closeness between auditors and clients, emphasizing the importance of strict regulation to maintain audit integrity and quality.

KAP size

The size of a Public Accounting Firm is used to determine the scale of a KAP, which is defined by Agoes (2017: 44) as a public accounting organization that provides professional services and has a license according to regulations. According to Andriani et al. (2020: 119), KAP is divided into three categories: large KAP (affiliated with the Big Four), medium KAP (non-Big Four associated with KAPA or OAA), and small KAP (non-Big Four without affiliation).

In Indonesia, regulations regarding public accountants are stated in Law No. 5 of 2011 and PMK No. 17/PMK.01/2008. KAP can be an individual or a partnership, showing diversity in accounting and audit practices. Understanding the definition and size of KAP is key to evaluating its capacity to provide quality audit services.

Hypothesis

The Effect of Audit Fees on Audit Quality

Research by (Fauziyyah et al., 2020 ; Yuniarti et al., 2011) states that providing high audit fees to auditors is proportional to their quality, namely, auditors who have a high reputation so that they can produce quality audit information. Kurniasih & Rohman (2014) found the same result: audit fees had a positive effect on audit quality.

H1 = Audit fee has a positive effect on audit quality

The Effect of Audit Tenure on Audit Quality

Panjaitan's research (2014) states that the closeness that arises between the auditor and the client, which is quite long, will affect the integrity and independence of the auditor. So that it can make the quality of the resulting audit decrease. The research of (Novrilia et al., 2019) and (Nadya et al., 2019) also has the same opinion that tenure negatively affects audit quality. The longer the audit engagement period will not affect the auditor's quality in reporting and exposing his financial statements to interested parties. This is because the audit engagement period should not be used as a reference for the audit results to be of high quality.

H2 = Audit tenure hurts audit quality.

The Effect of KAP Size on Audit Quality

Putri's research (2012) states that large KAPs have the power to produce quality audits because higher-quality human resources strengthen them compared to small KAPs. Research by (Hamid et al., 2013) and (Octavia et al., 2019) also agree that the larger the KAP, the better the audit quality.

H3 = KAAP size has a positive effect on audit quality

3. Methods

3.1. Sample and procedures

The strategy used in this study is to use an associative quantitative strategy. According to Sugiyono (2013:37), an associative quantitative strategy is a research strategy that is carried out to determine the relationship between two or more variables. This study uses a causal associative strategy to test the hypothesis that tests the effect of two or more variables. The variables contained in this study are independent (influencing variables) and consist of audit fees, audit tenure, and KAP size. The dependent variable (influenced variable) is Audit Quality.

This study involved a population of 53 manufacturing companies in the consumer goods industry sector listed on the IDX during the 2016-2019 period. The sample was taken using a purposive sampling method, with specific criteria so that the selected companies meet certain requirements, such as providing complete audited financial statements and using the rupiah currency. The data used are secondary data, which include annual financial statements and information on audit service fees obtained from the official IDX website and company websites, as well as data on Public Accountant registration. Data collection is carried out through documentation to ensure the accuracy and completeness of the information.

3.2. Data analysis techniques

This study uses descriptive statistical analysis and hypothesis testing with logistic regression to assess the overall model, the coefficient of determination (Nagelkerke R Square), and the feasibility of the regression model. The data is processed using SPSS

software version 26 to produce calculations that show the effect of independent variables on the dependent variable. The Hosmer and Lemeshow test is used to assess the model's suitability. In contrast, the t-test measures the significance of the independent variables on the dependent variable with a significance level of 5%.

4. Result and Discussion

4.1. Descriptive Statistics

Tabel 1. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Audit_Quality	60	0,00	1,00	0,4000	0,49403
Audit_Fee	60	19,05	22,50	20,6679	0,91476
Audit_Tenure	60	1,00	4,00	2,2000	1,08612
KAP_Size	60	1,00	3,00	2,6500	0,68458
Valid N (listwise)	60				

Source: Processing results with SPSS 26 in 2021

Tabel 1 shows. The analysis shows that audit quality varies significantly, with a minimum value of 0.00, a maximum of 1.00, a mean of 0.4000, and a standard deviation of 0.49403, where half of the sample is below the mean. Audit fees range from 19.05 to 22.50, with a mean of 20.6679 and a standard deviation of 0.91476, reflecting high homogeneity. Audit tenure has a mean of 2.2000 (min 1.00, max 4.00), indicating that most firms have audit experience between one and two years. Audit firm size ranges from 1.00 to 3.00, with a mean of 2.6500, suggesting that most of the audit firms in the sample are large, which is associated with better audit service quality.

4.2. Hypotesis testing

Table 2 shows the results table. The coefficient value (B) indicates that Audit Fee (2.619) and KAP Size (2.099) are positively related to the dependent variable, while Audit Tenure (-0.124) shows a negative relationship.

Tabel 2. Test Statistical T Results

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1 ^a	Audit_Fee	2,619	0,793	10,897	1	0,001	13,720	2,898	64,959
	Audit_Tenur	-0,124	0,374	0,110	1	0,740	0,883	0,425	1,838
	KAP_Size	2,099	1,254	2,802	1	0,094	8,161	0,698	95,355
	Constant	-60,531	18,914	10,242	1	0,001	0,000		

Only the Audit Fee is significant at the 5% level with a Sig. Value of 0.001, while Audit Tenure (0.740) and KAP Size (0.094) are insignificant. The Exp(B) value shows the change in odds, where Audit Fee increases the odds by 13.720 times, while Audit Tenure has no

significant effect. Constant (-60.531) is also significant ($p = 0.001$), indicating a minimal probability of the dependent variable without the independent variable.

4.3. Discussion

This study explores the effect of audit fees, tenure, and KAP size on audit quality in manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange from 2016 to 2019. The study results show that audit fees have a coefficient of 2.619 with a significance level of 0.001, indicating a significant relationship between audit fees and audit quality. This means that the higher the audit fee the auditor receives, the better the quality produced. Thus, companies tend to pay more for auditors who can provide high-quality audit reports, increasing confidence in their annual reports.

Regarding audit tenure, the study's results show a coefficient of -0.124 with a significance level of 0.740, more significant than 0.05. This leads to the rejection of the second hypothesis, which states that the length of auditor involvement does not affect the quality of audit results. Interestingly, tenure that is too long can actually increase the risk of financial statement manipulation by clients, creating conditions that are not ideal for audit quality.

Furthermore, the size of the KAP was also analyzed, where the results showed a coefficient of 2.099 with a significance level of 0.094, indicating that its influence was insignificant (greater than 0.05). Thus, the third hypothesis was rejected. This study revealed that Big Four and Non-Big Four KAPs can produce high-quality audits, with no significant difference in audit quality between the two. This finding confirms that the choice of KAP is no longer a dominant factor in a company's decision to choose an auditor. Overall, this study confirms the importance of audit fees in improving audit quality. In contrast, audit tenure and KAP size have been shown to have no significant effect on this quality.

5. Conclusion

The study examined the impact of audit fees, tenure, and the size of Public Accounting Firms on the quality of audits conducted for manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange from 2016 to 2019. The findings confirmed that audit fees positively influence audit quality. Specifically, a coefficient value of 2.619 and a significance level of 0.001 were achieved, indicating that higher fees correlate with better audit outcomes. This suggests that companies are willing to invest more in audit services when seeking quality reports that uphold the integrity of their financial statements. Auditors associated with trustworthy KAPs, which are known for their thoroughness and transparency, tend to receive higher fees due to the comprehensive audit procedures they undertake. Customers prefer to hire these reputable firms, as they enhance credibility and ensure any financial irregularities are detected, demonstrating the auditors' adherence to professional standards.

Conversely, the second hypothesis tested the effect of audit tenure on audit quality. The analysis revealed that audit tenure has a coefficient of -0.124 and a significance level of 0.740, suggesting that it does not significantly affect audit quality. Instances were noted where companies either replaced their public accountants after one year or maintained the same firm for up to four years. The results imply that just because a firm has a longer auditing relationship does not guarantee a higher quality audit. Prolonged engagements may lead to complacency, where auditors might overlook manipulative practices by clients, ultimately diminishing the audit's integrity.

Lastly, the study sought to assess whether KAP size impacts audit quality. The results showed a coefficient of 2.099 with a significance level of 0.094, indicating that the size of the KAP—whether classified as large, medium, or small—does not significantly impact the quality of the audits conducted. This means that firms no longer solely rely on the stature of a KAP, whether it belongs to the Big Four or not, to determine quality. Instead, it highlights how more minor or non-Big Four KAPs have improved their services, demonstrating that high audit quality can be achieved irrespective of the size of the accounting firm involved. Consequently, factors beyond just the size of the KAP should be considered when assessing audit quality.

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<http://www.aksarapublic.com/index.php/home/article/view/270/268>

Declarations

Funding

The authors received no financial support for the research and publication of this article.

Conflicts of interest/ Competing interests:

The authors have no conflicts of interest to declare that are relevant to the content of this article.

Data, Materials and/or Code Availability:

Data sharing is not applicable to this article as no new data were created or analyzed in this study.