The Influence of Audit Fee, Audit Tenure, Auditor Rotation, and Company Size on Audit Quality of Banking Companies Listed on the Indonesia Stock Exchange for the 2021–2023 Period

Yosefa Pebe Karina Solin[1], Wina Marliana Banurea[2], Sauh Hwee Teng[3], Jhon Piter[4]

[1,2,3] Department of PUI Finance, Universitas Prima Indonesia, Indonesia

[4] STIE Pangeran Antasari, Indonesia

A R T I C L E I N F O

Correspondence:
Sauh Hwee Teng
tengsauhhwee@unpri,mdn.ac.id

ABSTRACT

The purpose of this study is to examine and evaluate the impact of audit fees, audit tenure, audit rotation, and corporate consistency on audit credibility within the banking corporations listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The sampling method used in this study is purposive sampling, utilizing financial summary data from banking industry corporations listed on the IDX during the specified period. The regression data interpretation indicates that audit fees, audit rotation, and audit credibility significantly influence perceptions of audit credibility. However, the engagement between auditor and client does not significantly affect perceptions of audit credibility. Accordingly, large companies with high audit fees and regular audit rotation tend to influence the quality of audits, either positively or negatively.

Introduction

A company is a place where production processes occur and where all functions converge in the creation of goods and services. Every company is required to present well-managed financial statements. One of the key approaches to ensuring the reliability of these financial statements is through the process of auditing, which assesses whether the statements fairly reflect the company's financial position in accordance with accounting standards (Taufiqah et al., 2022). According to Ardianingsih (2018), the audit of financial statements is a process conducted by either internal or external auditors with the objective of assessing and ensuring that the financial reports are presented fairly.

As businesses in Indonesia continue to grow, the demand for high-quality audit reports has increased, driven by the intensifying competition in the business and service sectors, including the public accounting profession. To earn public trust and remain competitive, public accountants must demonstrate independence, exceptional expertise, and sufficient experience. Therefore, auditors are expected to continuously improve the quality of their audits.

Several factors influence audit quality, including audit fees, auditor tenure, auditor rotation, and the consistency of the client corporation. This is supported by prior research (Eryc, 2020). Audit fee refers to the remuneration received by auditors as compensation for audit services provided to client firms. An increase in audit fees is generally associated with better audit quality, as it often reflects the allocation of greater resources and more intensive audit procedures. Additionally, higher audit fees in a given year may signal an increased commitment to audit quality.

The length of the relationship between the auditor and client, known as audit tenure, also affects audit quality. A longer tenure allows auditors to develop a deeper understanding of the client's operations, which may enhance audit effectiveness. However, prolonged relationships can also lead to emotional closeness, potentially compromising the auditor's independence and thus the quality of the audit (David Lee, 2017).

Audit rotation, or the periodic change of audit firms or partners, is an effective measure to mitigate the risk of fraud in financial reporting. This policy aims to maintain auditor independence and safeguard the integrity of the audit process. Furthermore, firm size is another important determinant of audit quality. Larger firms, often measured by total assets, sales revenue, or market capitalization, typically have more investments and greater public visibility, which in turn can lead to higher expectations for transparency and accountability.

However, despite these principles, there have been instances of inconsistency in practice. A notable case involves Bank Mayapada, which came under public scrutiny following allegations of credit irregularities amounting to IDR 1.3 trillion. According to reports from *Inilah.com*, the bank's financial statements for 2021 and 2022 revealed a consistent decline in promotional expenses at the end of each quarter, resulting in reduced general and administrative costs. Concerns intensified as the Public Accounting Firm (KAP) responsible for auditing Bank Mayapada's financial reports was found to have a problematic track record. The same individuals implicated in the falsification of financial reports at PT Asuransi Jiwa Adisarana Wanaartha (Wanaartha Life) were also linked to the Jiwasraya insurance scandal, which is under investigation by the Attorney General's Office.

As a consequence, the Financial Services Authority (OJK) officially revoked the registration of the involved KAP on February 24, 2022. Additionally, the Ministry of Finance, through Decree No. 61/KM.1/2023 dated January 31, 2023, imposed a temporary suspension on external accounting practices by Nunu Nurdiyaman from February 28, 2023, to May 30, 2024. Considering the KAP's previous involvement in auditing Bank Mayapada's financial statements, it is reasonable for stakeholders to question the reliability of the bank's financial disclosures.

This phenomenon of audit inconsistency serves as the background for this study, which aims to investigate the impact of audit fees, auditor-client relationships, auditor rotation, and corporate consistency on audit quality.

Literatur Review

Impression of Audit Fee on Audit Credibility

According to the Indonesian Institute of Public Accountants (IAPI) guidelines (2016) regarding indicators of audit quality within Public Accounting Firms (KAP), the audit fee is a significant factor that can influence and contribute to high-quality audits. This implies that auditors with superior capabilities tend to charge higher audit fees, as increased fees often correspond to more comprehensive and thorough audit procedures. Consequently, higher audit fees are associated with improved audit outcomes and greater audit credibility.

Impression of Audit Tenure on Audit Credibility

The quality of an audit as reflected in financial statements is influenced by audit tenure. Audit quality depends on the auditor's proficiency in identifying significant misstatements and the level of independence they maintain in disclosing such issues. While a longer audit tenure can enhance the auditor's understanding of the client's operations, it must be balanced with the need to maintain objectivity and independence.

Impression of Audit Rotation on Audit Credibility

In accordance with the regulations issued by the Ministry of Finance concerning accounting services, both Public Accounting Firms (KAP) and individual Public Accountants (AP) are subject to limited terms when auditing a client's financial statements. Audit rotation is implemented to prevent personal attachments between auditors and clients, thereby preserving auditor independence and ensuring professionalism throughout the audit process.

Impression of Firm Size on Audit Credibility

Corporate consistency is often measured through a company's assets, sales, and market value. An increase in assets typically corresponds with greater capital, while higher sales enhance cash flow and market value, contributing to stronger public reputation. Larger firms tend to face higher agency costs, which drives them to engage reputable independent auditors to ensure the delivery of high-quality audits that can maintain stakeholder confidence.

Research Hypotheses:

H1: Audit Fee has an effect on Audit Credibility.
H2: Audit Tenure has an effect on Audit Credibility.
H3: Audit Rotation has an effect on Audit Credibility.
H4: Firm Size has an effect on Audit Credibility.
H5: Audit Fee, Audit Tenure, Audit Rotation, and Firm Size collectively have an effect on Audit Credibility.

Method

This research applies a quantitative method, utilizing statistical analysis to identify causal relationships among variables. The study population comprises all banking sector companies listed between 2021 and 2023, with purposive sampling employed to select the sample. Data were collected from the financial summaries published on the official IDX website, using secondary data such as company profiles, organizational structures, and annual financial reports.

Variables in this study include Audit Fee, Audit Tenure, Audit Rotation, and Firm Size as independent variables, while Audit Quality serves as the dependent variable. Audit Fee is measured using the natural logarithm of total fees, Audit Tenure is calculated by the number of engagement years, Audit Rotation is represented as a dummy variable (1 for auditor change, 0 otherwise), and Firm Size is measured using the natural logarithm of total assets. Audit Quality is also a dummy variable, where 1 indicates an auditor from a Big Four firm and 0 otherwise.

Before regression analysis, classical assumption tests are conducted, including normality, multicollinearity, autocorrelation, and heteroscedasticity tests. The analysis model used is multiple linear regression to assess the influence of the independent variables on audit quality. The model includes a constant and error term to account for variations not explained by the predictors. Model fit is assessed using the coefficient of determination (R^2), indicating how well the independent variables explain variations in audit quality.

Hypothesis testing is conducted using both F-test and t-test. The F-test evaluates the collective significance of all predictors, while the t-test assesses the significance of each predictor individually. Decisions are made based on the comparison between calculated test values and critical table values at a 5% significance level. This structured approach ensures the reliability of the conclusions regarding the impact of audit fee, audit tenure, audit rotation, and firm size on audit credibility in Indonesia's banking sector.

Results and Discussion

Normality Test of Data

Based on the displayed histogram graph, an unusual pattern is shown, as the line shifts to the left and right. To obtain a normal histogram graph, data transformation by handling outliers is required.
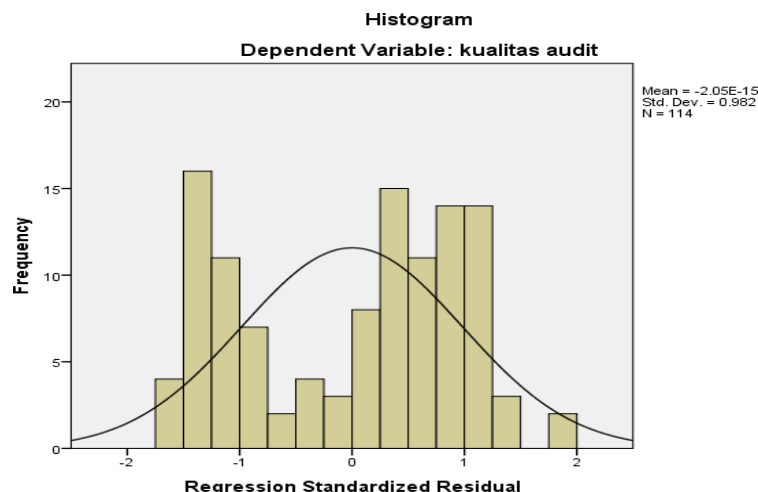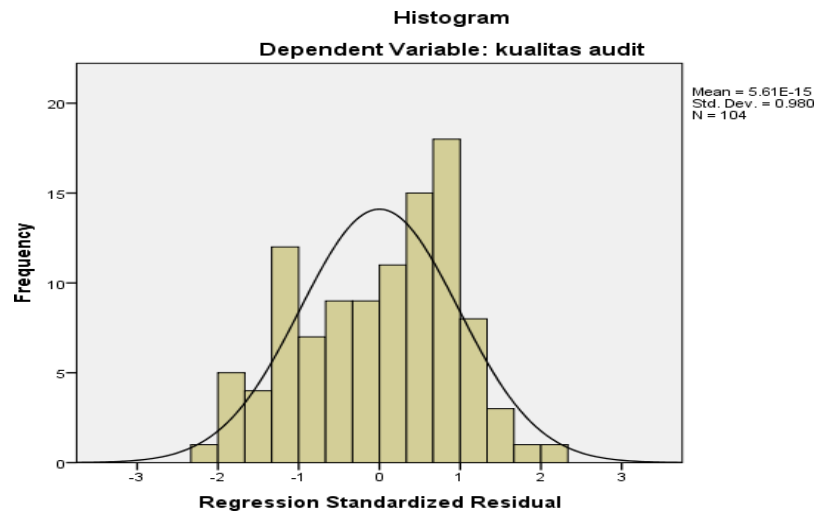

Histogram
Dependent Variable: kualitas audit

Mean = -2.05E-15
Std. Dev. = 0.982
N = 114

Figure 1: Normality Test Histogram

The histogram graph shows a distribution pattern where the line does not deviate to the left or right and is bell-shaped. This indicates that the data is normally distributed.

Histogram

Dependent Variable: kualitas audit

Mean = 5.61E-15
Std. Dev. = 0.980
N = 104

Figure 2: Normality Test Probability Plot

The P-P Plot shows that the data is normally distributed as the points follow the diagonal line.

Table 1: Kolmogorov-Smirnov Normality Test

	Unstandardized Residual
N	114
Normal Parameters	
Mean	0E-7
Std. Deviation	.43244032
Most Extreme Differences	
Absolute	.127
Positive	.126
Negative	-.127
Kolmogorov-Smirnov Z	1.359
Asymp. Sig. (2-tailed)	.050

In the Kolmogorov-Smirnov table, a significance value of 0.050 is displayed, which equals the minimum significant value of 0.05. This means that the test indicates the data is normally distributed, and no symptoms of abnormality are found.

Multicollinearity Test

Table 2: Multicollinearity Test

Model	Collinearity Statistics
	Tolerance
(Constant)	
Fee Audit	0.880
Audit Tenure	0.820
Audit Rotation	0.815
Firm Size	0.869

The test results show no multicollinearity, with tolerance > 0.1 and VIF < 10, indicating that all variables pass this test.

Auto-Correlation Test

Table 3: Social Dependence Test

Model	Collinearity Statistics
	Tolerance
(Constant)	
Fee Audit	0.880
Audit Tenure	0.820
Audit Rotation	0.815
Firm Size	0.869

Based on the table, the D-W value is 0.740. This indicates no autocorrelation, as it falls within the acceptable range of -2 to +2.

Heteroscedasticity Test

The scatterplot shows that the data is not normal; thus, a transformation using ABS_Res is conducted.
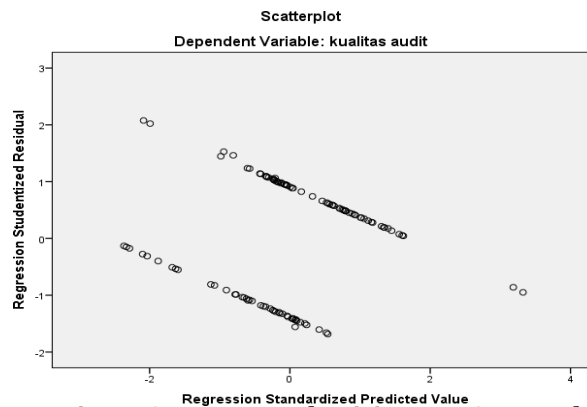
Figure 3: Heteroscedasticity Test Scatterplot

Through this test, the points in the image above form a pattern that spreads along the X and Y axes, indicating no signs of heteroscedasticity.

Table 4: Heteroscedasticity Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.634ª	.401	.377	.38580	.740

The results are derived from the transformation of data using ABS_Res as well. The variables x11 and x44 indicate that audit quality is replaced with x11 and company size with x44. Based on the heteroscedasticity test criteria, where a variable is considered normal if its Sig. value is above 0.050, the data above is considered normal.

Multiple Linear Regression Analysis

Table 5: Multivariate Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.530	.341		-7.428	.000
Fee audit	.083	.010	.525	8.477	.000
Audit tenure	.025	.023	.070	1.088	.279
Audit rotation	-.372	.055	-.432	-6.710	.000
Firm size	.042	.011	.241	3.869	.000

According to the table above, the regression equation is:

$$Y = -2.530 + 0.083(X1) + 0.025(X2) - 0.372(X3) + 0.042(X4) + e$$

Interpretation of the Consequences of Multiple Linear Relationship Estimation:

1. The audit fee value is 0.083. A positive coefficient indicates a relationship with audit quality. If the audit fee increases, audit quality also increases by 0.083.
2. The audit tenure value is 0.025. A positive coefficient indicates a relationship between audit tenure and audit quality. If audit tenure increases, audit quality increases by 0.025.
3. The audit rotation value is -0.372. A negative value means that audit rotation and audit quality are inversely related. A decrease in audit rotation corresponds to a 0.372 decrease in audit quality.
4. The company size value is 0.042. A positive coefficient implies a relationship with audit credibility. If corporate consistency increases, audit credibility also increases by 0.042.

Coefficient of Determination (R-square)

Table 6: Variability Explanation Level / R-square

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.634[a]	.401	.377	.38580

The coefficient of determination (R^2) is 0.401 or 40.1%, indicating that audit fee, audit tenure, audit rotation, and corporate consistency influence audit quality by 40.1%, while the remaining 59.9% is influenced by factors outside this model.

F-test

Table 7: F-test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.880	4	2.470	16.595	.000[b]
Residual	14.735	99	0.149		
Total	24.615	103			

From the output results, the F-value is 16.595 and is compared with the F-table value.

Df1 = number of components – 1
Df2 = number of observations – number of components
Df1 = (4 – 1) = 3
Df2 = (114 – 4) = 110

From the F-table at a 95% confidence level and α = 5%, the F-table value is 2.45. Since F-value > F-table (16.595 > 2.45), the results indicate H0 is rejected and Ha is accepted. This implies the predictors significantly influence the outcome variable.

T-test

Table 8: T-test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.530	.341		-7.428	.000
Fee audit	.083	.010	.525	8.477	.000
Audit tenure	.025	.023	.070	1.088	.279
Audit rotation	-.372	.055	-.432	-6.710	.000
Firm size	.042	.011	.241	3.869	.000

Based on the results from the table above:

1. The audit fee significantly affects audit quality, with a Sig. score of 0.000 < 0.05 and t-value of 8.477 > t-table of 1.984, proving a strong relationship.

2. Audit tenure does not significantly affect audit quality, as the Sig. value is 0.279 > 0.05 and t-value is 1.088 < t-table of 1.984, indicating no meaningful relationship.
3. Audit rotation significantly affects audit quality, shown by a Sig. value of 0.000 < 0.05 and t-value > t-table (-6.710 > 1.984), thus confirming a clear relationship.
4. The fourth variable, company size, has an influence on audit quality with a Sig. score of 0.000 < 0.05 and t-value of 3.869 > t-table of 1.984, confirming a strong structural relationship.

Discussion

Impression of Audit Fee on Audit Credibility

Scientific findings indicate a substantial correlation between audit fees and audit quality. This is consistent with Taufiqah Julia Wardani's (2022) research, which showed that audit fees significantly affect audit quality. One effect is that higher audit fees charged by firms correlate with increased audit credibility.

Impression of Audit Tenure on Audit Credibility

Scientific findings suggest that the engagement between auditor and client is not crucially or substantially related to audit credibility, as the t-value is 1.088, which is less than the t-table value of 1.984, and the critical level is 0.279, above 0.05. This aligns with previous research by Eryz Patria Ardhityanto (2020), who argued that a long-term relationship with a public accountant does not necessarily serve as a reliable measure of audit quality. Auditor independence is a key element, and a long-standing relationship does not always have an impact. Therefore, audit quality is not always correlated with the duration of the relationship between the company and the public accountant.

Impact of Audit Rotation on Audit Quality

These findings show that audit rotation does not have a negative impact on audit quality. The observed findings are consistent with previous research by Nur Isra Laili (2020). The impact is related to the company's need to comply with government regulations regarding the duration of audit service usage, especially when companies seek publicly listed audit firms.

Impression of Company Size on Audit Credibility

These findings indicate that corporate consistency affects audit credibility. This discovery is not aligned with previous research, including by Eryz Patria Ardhityanto (2020). Large companies, even when using reputable public accounting services, can present significant risk levels. This may explain why company size negatively affects the selection of audit firms, as auditors may be reluctant to bear the associated risks.

Conclusion

Based on our research analyzing the impact of audit fees, auditor-client relationships, auditor rotation, and corporate consistency on audit credibility within the banking industry listed on IDX during 2021–2023, several conclusions can be drawn. Audit fees have a substantial effect on audit credibility; higher verification costs enable more comprehensive and in-depth audit procedures. Audit tenure, however, does not have a significant influence, indicating that the length of the auditor-client relationship does not necessarily determine audit quality. Auditor rotation significantly affects audit quality, suggesting that frequent changes in auditors are associated with higher audit standards. Company size also plays a significant role, as larger firms require more complex audit procedures, impacting the overall quality.

Overall, audit fees, auditor rotation, and corporate consistency significantly influence audit credibility, while the auditor-client relationship does not. Larger companies, higher audit fees, and regular auditor rotation contribute positively to audit quality.

From the findings, several recommendations are proposed. Companies aiming to enhance audit quality should not only focus on audit fees but also ensure auditor independence, comply with rotation regulations, and consider firm size in determining appropriate audit strategies. Additionally, firms publishing financial statements are encouraged to include detailed information such as audit fees and the names of public accountants, as the absence of such data may limit the scope of research samples. Future studies are advised to broaden the coverage to include a more diverse range of sectors beyond banking and to extend the research period beyond three years to better assess the impact of audit tenure on audit quality.

References

Abdilah, M. R., & Nurhasanah. (2020). The Effect of Corporate Risk, Audit Quality, and Audit Committee on Tax Avoidance in Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2015–2018. DINAMIKA EKONOMI: Journal of Economics and Business, 13(1), 82–98.

BakhshBaluch, Q. (2017). The Effect of Firm Size, Audit Tenure, and Auditor Reputation on Audit Quality. 11(1), 92–105.

Andriani, N., & Nursiam, N. (2018). The Effect of Audit Fee, Audit Tenure, Auditor Rotation, and Auditor Reputation on Audit Quality (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange in 2013–2015). Indonesian Journal of Accounting and Finance Research, 3(1), 29–39. https://doi.org/10.23917/reaksi.v3i1.5559

Angela, A., Miharja, M., Wijantini, W., & Farhana, S. (2019). The Effect of Audit Tenure on Audit Quality in Public Companies in Indonesia. Journal of Accounting and Finance Studies Indonesia, 2(2), 224–250. https://doi.org/10.21632/saki.2.2.224-250

Ardhityanto, E. P. (2020). The Effect of Audit Fees, Audit Tenure, Auditor Rotation, Leverage, and Company Size on Audit Quality (Study on Companies in the Financial Sector Listed on the Indonesia Stock Exchange 2016–2019). 3rd Proceedings of Business and Economics Conference in Utilizing of Modern Technology 2020, 720–735. http://journal.uc.ac.id/index.php/conference/article/view/4723

Fauziyyah, Z. I., & Praptiningsih, P. (2020). The Effect of Audit Fee, Audit Tenure, and Auditor Rotation on Audit Quality. Monex Journal of Accounting Politeknik Tegal, 9(1), 1–17. https://doi.org/10.30591/monex.v9i1.1232

Indaryuni, D., Andriani, B. F., & Sucipto. (2021). The Effect of Audit Quality, Audit Committee, and Company Size on the Quality of Financial Reports. J-ISACC: Journal of Islamic Accounting Competency, 1(1), 45–58. https://ejournal.lp2m.uinjambi.ac.id/ojs/index.php/jisacc/article/view/924

Indriani, N., & Hilardi, B. (2021). The Effect of Audit Tenure and Audit Fee on Audit Quality with KAP Size as a Moderating Variable (Study on Banking Companies Listed on the Indonesia Stock Exchange for the 2016–2019 Period). Journal of Scientific Studies FEB Universitas Brawijaya, 9(2), 1–19.

Laili, N. I. (2021). The Effect of Audit Fee, Audit Tenure, and Auditor Rotation on Audit Quality with Audit Committee as Moderating Variable. Journal of Economics, Business, and Industry (EBI), 3(1), 32–37. http://journal.cic.ac.id/EBI

Mauliana, E., & Laksito, H. (2019). The Effect of Audit Fee, Audit Tenure, Auditor Rotation, and Auditor Reputation on Audit Quality (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange in 2017–2018). Diponegoro Journal of Accounting, 10(4), 1–15.

Nattala, N. A. (2023). The Effect of Audit Tenure, Audit Delay, and Company Size on Audit Quality in the Food and Beverage Sector Listed on the Indonesia Stock Exchange for the 2018–2022 Period. Journal of Accounting, 2(2), 1–17.

Purnomo, I. L., & Aulia, J. (2019). The Effect of Audit Fee, Audit Tenure, Auditor Rotation, and Auditor Reputation on Audit Quality. EkoPreneur, 1(1). https://doi.org/10.32493/ekop.v1i1.3668