

THE EFFECT OF AUDIT FEE, AUDIT TENURE, AND AUDIT COMPANY SIZE OF  
AUDIT QUALITY IN GOODS CONSUMER COMPANIES LISTED IN INDONESIA  
STOCK EXCHANGE (BEI) IN 2016-2019

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**Abstract** – This study uses logistic regression analysis. The results of this study are expected to show that: (1) Audit fee has a significantly positive effect on audit quality, (2) Audit tenure has a significant effect on audit quality, (3) KAP size does not have a significantly positive effect on audit quality. This research aims to find out and analyze the effect of audit fees, audit tenure, and audit firm size (KAP) on audit quality. The population in this study is consumer goods companies (consumer goods sector) which are listed on the Indonesia Stock Exchange (BEI) for the period of 2016-2019. The sampling technique in this study uses purposive sampling. Based on predetermined criteria, a sample of 22 companies was obtained.

**Keywords:** audit quality, audit fee, audit tenure, audit firm size (KAP)

## I. Introduction

### 1.1 Background

The financial statements need to be audited by an independent third party, in this case the external auditor, for several reasons, namely: (1) differences in interests between the company's management and outside parties cause the need for a trusted third party. (2) because financial statements may contain errors, both intentional and unintentional. (3) audited financial statements that have received unqualified opinions, it is expected that users of financial statements can be sure that the financial statements are free from material misstatements and are presented in accordance with generally accepted accounting principles (Fridati, 2005). Financial statements are very important for companies in providing corporate financial information to external parties. Therefore, the company's financial statements need to be audited by a third party to assess the reasonableness of the financial statements reported by management (Sumarwoto, 2006).

Rapina, et al (2010) define audit quality as a joint probability where an auditor will find and report violations in his client's accounting system, where in carrying out his duties the auditor is guided by auditing standards and the relevant public accountant code of ethics. In assessing an audit quality involves many considerations, the better the audit quality of an auditor, the financial statements produced will be more trusted as a basis for decision making and can support performance and even be able to boost the company's image in the eyes of the public (Badjuri, 2011).

Until now, cases of audit quality still occur, as happened to PT Inovisi Infracom Tbk (INVS), which was sanctioned with a suspension (suspension) of share trading by PT Indonesia Stock Exchange (IDX). This sanction was given because there were many errors found in the company's third quarter 2014 financial performance report. Financial statements that were previously audited by KAP Jamaludin, Ardi, Sukimto, and colleagues in the 2013 audit of financial statements, the IDX found eight errors in the nine months of 2014 financial statements, so that trading in Inovisi shares was still suspended since Friday, February 13, 2015. Therefore, PT Inovisi Infracom Tbk (INVS) replaced the new public accounting firm (KAP) by appointing Kreston International (Hendrawinata, Eddy Siddharta, Tanzil,

Next is the case of RS. A Sane source who wants the investigation stopped by the KPK. The termination of this case was due to allegations that BPK auditors used incompetent data, which caused the quality of BPK audits to be doubted. Some facts that occur reveal that the BPK has abandoned its professionalism by ruling out the audit standards that should be a guideline and footing for anyone who calls himself a BPK auditor when conducting

audits. These facts include: (1) BPK deliberately still uses the provisions of Article 121 Presidential Regulation Number 71 of 2012 (2) BPK covers up or ignores the provisions of Article 121 Perpres Number 40 of 2014,

The number of studies that discuss the factors that affect audit quality, including: research conducted by Hanjani (2014) entitled "The Effect of Auditor Ethics, Auditor Experience, Audit Fees, and Auditor Motivation on Audit Quality" which shows that auditor ethics, auditor experience, fees audit and auditor motivation have a significant and positive effect on audit quality. Research conducted by Nugrahanti (2014) entitled "The Effect of Audit Tenure, Specialization of Public Accounting Firms and Company Size on Audit Quality" has shown that audit tenure and specialization of Public Accountant Firms have a positive and significant effect on quality audit, while the size of the client company has no effect on audit quality. Research conducted by Sulthon (2015) entitled "The Effect of Audit Tenure, Rotation of Public Accounting Firm, KAP size, and the Audit Committee on Audit Quality" have shown that audit tenure, KAP rotation, KAP size and audit committee have a positive and significant effect on audit quality.

The purpose of this research is to prove empirically about:

1. To analyze and determine the effect of audit fees on audit quality.
2. To analyze and determine the effect of tenure audits on audit quality.
3. To analyze and determine the effect of audit firm size (KAP) on audit quality..

## **1.2 Research Urgency**

This research is expected to provide additional information and the development of related theories. Can be used as a scientific reference material on the Effect of Audit Fees, Audit Tenure and Audit Firm Size (KAP) on Audit Quality. It also relates to behavioral accounting, ethical theory, and auditing.

This research is expected to help the Public Accounting Firm in making decisions problem solving regarding the Effect of Audit Fees, Audit Tenure, and Audit Firm Size (KAP) on Audit Quality and for the Auditor, it is expected that with this research, the auditor can help and improve his quality in making audit decisions, and can improve his ability to provide opinions.

## **II. LITERATURE REVIEW**

### **2.1. Audit Quality**

Hartadi (2012) states that quality is work professionalism which must be truly maintained by professional public accountants. Independence is very important for an auditor in maintaining audit quality where the public accountant must prioritize the interests of the public over the interests of management or the interests of the auditors themselves in making audited reports. Quality audit results can affect the image of the Public Accounting Firm itself, where the audit quality contains clarity of information from the results of audits conducted by auditors on audited financial statements in accordance with auditing standards. In Indonesia, in carrying out its duties, auditors are guided by the auditing standards set by the Indonesian Institute of Accountants (IAI) to maintain audit quality. Where the general standard is a reflection of the personal qualities that must be owned by an auditor that requires the auditor to have sufficient technical expertise and training in carrying out audit procedures. While the field work standards and reporting standards regulate the auditor in terms of data collection and other activities carried out during the audit and require the auditor to prepare a report on the audited financial statements as a whole. The standard is an audit guide on historical financial statements. In addition, public accountants are also required to be able to comply with the Code of Ethics established by IAPI which regulates the behavior of public accountants in carrying out professional practices both with fellow members and with the general public.

The purpose of audit quality is to improve the results of the audit performance of financial reporting clients that can be used by users of audited financial statements with the auditor's independence in carrying out their duties to examine material misstatements contained in financial statements and report transparently along with the evidence obtained. Because on one hand the management of the company wants high quality audits so that investors and

users of financial statements have confidence in the reliability of accounting numbers in the financial statements.

Rossietta and Wibowo (2009) said that one way to measure the quality of the work of auditors is through the quality of decisions taken. To measure the quality of the work of the auditor, it is necessary to evaluate the quality of the decisions taken. The quality of the work of the auditor comes on the quality of the audit, because the auditor's work is obtained through the process of audit activities. There are two approaches that can be used to evaluate decisions in general according to Bedard and Michelene (1993) in Rossietta and Wibowo (2009), namely: process oriented and outcome oriented.

## 2.2. Fee Audit

Gammal (2012) defines audit fees as the amount of costs (wages) charged by the auditor for the audit process to the company (auditee). Determination of audit fees is usually based on the contract between the auditor and his client in accordance with the time the audit process, services, and the number of staff needed for the audit process. Audit fees are usually determined before starting the audit process.

Yuniarti (2011) states that the amount of the audit fee depends on the risk of the task, the complexity of the services provided, expertise, and other professional considerations. Therefore, a higher fee will improve audit quality, because audit fees obtained in one year and estimated operational costs needed to carry out the audit process can improve audit quality. While a small fee can limit the time and cost of conducting audit procedures. This shows that the amount of audit fees can affect the independence of public accountants (Wati and Subroto, 2003).

Suharli and Nurlaela (2008) define audit fees as fees charged by public accountants to clients for financial audit services. This is consistent with the opinion of the SEC regarding the Final Rule that audit fees are fees paid for annual audits and reviews of financial statements for the latest fiscal year (Yuniarti, 2011).

Based on the Decree of the Chairperson of the Indonesian Institute of Certified Public Accountants Number: KEP.024 / IAPI / VII / 2008 explaining that a Member of a Public Accountant's Office is not allowed to get clients by offering costs that can damage the professional profile. A KAP Member must be able to show their professionalism in working and meet the quality specified in accordance with established requirements.

In the Code of Professional Ethics in the 2008 Public Accountant Section 240 mentioned in negotiating the professional services provided, practitioners can propose the amount of compensation for professional services deemed appropriate. Some facts reveal, professional accountants can offer lower fees than others, it is not a violation of the professional code of ethics. However, threats to adherence to the basic principles of professional ethics can occur from the proposed high fees for professional services.

Based on the Decree of the Chairperson of the Indonesian Institute of Certified Public Accountants Number: KEP.024 / IAPI / VII / 2008 concerning the policy of determining audit fees, namely in determining audit fees (fees), Public Accountants must consider the following matters: client needs; duties and responsibilities according to law (statutory duties); independence; the level of expertise and the responsibilities inherent in the work performed, and the level of complexity of the work; much time is needed and is effectively used by the Public Accountant and his staff to complete the work; and agreed fee basis. This consideration is intended to provide certainty to public accountants and clients that audit fees reflect the level of responsibility and risk of public accountants.

## 2.3. Tenure Audit

Hamid (2013) states that a short tenure can result in the acquisition of information in the form of data and evidence to be limited so that if there is wrong data or data that is deliberately omitted by the manager it is difficult to find. Conversely tenure in the long term can also cause emotional relationships between auditors and clients. Because of the hope of restoring public trust, a short tenure is considered to be more likely to increase the competence of public accountants to produce reliable audit quality.

Audit tenure is the length of time the auditor audits the client's financial statements. Djamil (2000) states that the longer the auditor audits the client, the resulting audit quality becomes lower. In addition, there is a possibility that the auditor fails to maintain a professional attitude. This is contrary to the opinion of Jackson et al. (2007) which states that audit quality can improve with the relationship between the auditor and the client.

Nugrahanti (2014) in her research emphasized that audit tenure is one of the things that can affect audit quality. The length of the cooperative relationship between the auditor and the client can make the auditor more aware of the condition of the company so that it can facilitate the examination and can easily detect and report on the independent auditor's report.

The length of the relationship between the auditor and the client or the company will make the quality of the audit increase because the auditor has known the company's performance and vice versa will make the quality of the audit decrease because of the closeness between the auditor and the client or the company hindering the independence of the auditor because of excessive family feeling reduced objectivity in auditor behavior .

There are two practical problems that are often considered to be able to interfere with the actual ability of an auditor to maintain an attitude of independence while carrying out audit tasks, namely: (1) the auditor must heed the recommendations of the company's management to continue the audit task from year to year, and (2) personally , the sustainability of audit tasks causes KAP members to become closer to management, the closer the relationship results in the auditor identifying himself more with management interests rather than the public interest (Giri, 2012).

Therefore, the limitation of the engagement period (audit tenure) is an effort to prevent the auditor's behavior from interacting closely with the client so that it does not interfere with the auditor's independence in carrying out his duties of examining the client's financial statements. Therefore, government regulations regarding rotation and audit tenure are implemented to reduce public responses about the existence of an emotional connection between the auditor and the client and can restore public trust.

In Indonesia, the existence of regulations governing audit tenure due to the independence of an auditor is very important in terms of providing audit services by public accountants. Therefore, the government as regulator is expected to facilitate the interests of all parties, both from the accountant, the company and external parties. This form of government interference can maintain the auditor's independence attitude, namely the issuance of government regulations regarding auditor rotation and audit tenure (Divianto, 2011).

Based on the Public Accountant Law Number 5 of 2011 which was ratified, it states that the regulation on limiting the provision of audit services is determined in Regulation of the Minister of Finance No.17 of 2008 article 3 concerning "Public Accountant Services". The regulation stipulates that the granting of general audit services on the financial statements of an entity shall be carried out by the KAP for a maximum of 6 (six) consecutive fiscal years and by a Public Accountant for a maximum of 3 (three) consecutive financial years. (Regulation of the Minister of Finance of the Republic of Indonesia, 2008).

#### 2.4. KAP size

Permana and Pamuji (2011) say that KAP size is considered to play a role in determining the quality of financial reports reported by their clients. Large KAPs, such as Bigfour, are often considered to provide better audit quality than smaller KAPs, such as Non-Bigfour. Large KAPs have the responsibility to conduct audits more accurately because they have more specific relationships with clients that will be lost if they provide inaccurate reports (Panjaitan, 2014).

Arens et al. (2014) defines audit firm size as the size of a KAP company, where differences in audit firm size are determined based on: total revenue, number of partners, number of professional staff, and number of offices. Then, Arens et al. (2012) categorize four size classifications used to describe public accounting firms in the United States, namely: Bigfour international companies, national companies, regional and large local companies, and small local companies.

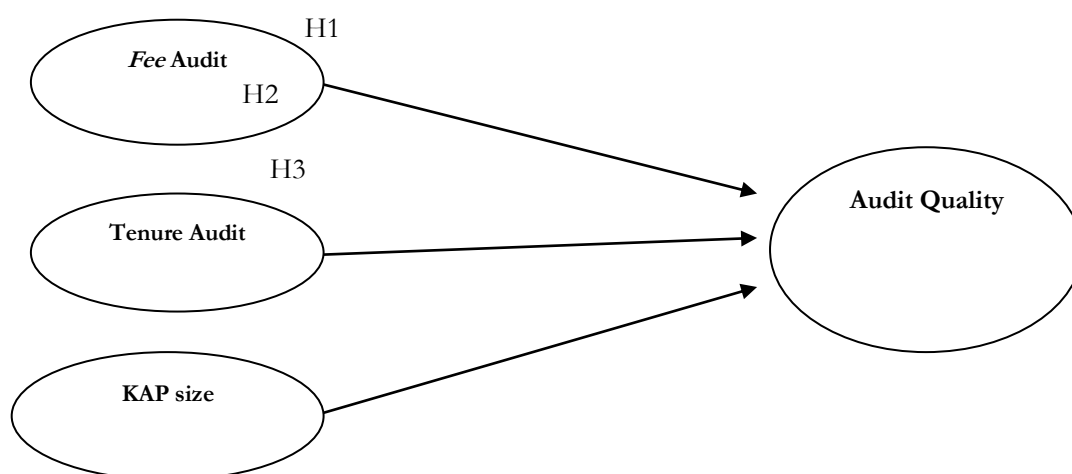
Large KAP size, such as Big Four, explains that the auditor's ability to be independent and professional towards

clients is because they are less dependent on the client. Large KAP (Big four KAP) has a large wealth or assets so that reducing economic dependence on clients can also be trusted to be one of the factors that can make the quality of the audit produced better than small KAP (Non Big four).

## 2.5. Framework for Thinking and Preliminary Study

The multiple thoughts in this study are to describe the influence of the dependent variables with the dependent variables as follows:

Figure 2.1 Conceptual Research Framework



Some preliminary studies include Research conducted by Al-Thune bat et al. (2011) entitled "Do Audit Tenure and Firm Size Contribute to Audit Quality?" Took the object at companies listed on the Amman Stock Exchange in the 2002-2006 period. They analyze the relationship between the length of the auditor engagement (auditor-client relationship) with audit quality and the effect of audit firm size on the relationship. Their results indicate that audit tenure negatively affects audit quality and KAP size does not have a significant impact on audit quality. Research conducted by Siregar, et al (2012). Audit tenure, auditor rotation, and audit quality: the case of Indonesia examines the effect of audit tenure, and audit rotation on audit quality. The results of this study indicate that the long audit period is negatively related to audit quality for the period after mandatory auditor rotation, but conversely for the period before mandatory rotation, the long audit period is positively related to audit quality. Other results for auditor voluntary rotation have a positive effect on audit quality, while mandatory rotation does not show a positive relationship on audit quality. Research conducted by Hartadi (2012) regarding the effect of audit fees, rotation of public accounting firms (KAP), and reputation of public accounting firms (KAP) on audit quality on the IDX. The results of this study indicate that audit fees have a significant effect on audit quality, while the rotation and reputation of public accounting firms (KAP) does not significantly influence audit quality. Research conducted by Permana (2012) entitled "The Effect of Audit Engagement Period and KAP Size on Audit Quality", by taking samples from publicly listed companies listed on the Stock Exchange in 2010 except service and financial companies, using logistic analysis methods. The results obtained from this study are audit tenure and KAP sizes have no effect on audit quality. Research conducted by Kurniasih and Rohman (2014) took the object of manufacturing companies listed on the Stock Exchange in 2008-2012, the method used was logistic regression.

## 2.6. Hypothesis

### 2.6.1. Effect of Audit Fee on Audit Quality

Arisinta (2013) proves that audit fees have a significant effect on audit quality. Fee Higher audits will plan higher audit quality compared to lower audit fees. There is an incentive for the auditor to do anything to keep his client from replacing the auditor because losing a client means losing audit fees in the future. Gammal (2012) proves that

multinational companies and banks in Lebanon prefer to pay large audit fees with the reason that they are more looking for auditors in public accounting firms that can produce quality audit reports and can increase the credibility of annual financial statements that can compete all over the world Based on the description, the research hypothesis is as follows:

H1: *Fee* Audit Influences Audit Quality

### 2.6.2. The Effect of Audit Tenure on Audit Quality

Mgbame et al. (2012) in a study conducted in Nigeria empirically proved that there was a negative relationship between the audit tenure and audit quality. So, for the audit engagement period associated with quality audit results is still being debated as a finding that can show its effect on audit quality. Research conducted by Giri (2010) proves that audit tenure variables have a negative and significant effect on audit quality variables. Siregar, et al (2012) found evidence that a long audit tenure can affect the low quality of the audit before the mandatory auditor rotation is implemented, whereas after the mandatory auditor rotation is implemented, a long audit tenure can improve audit quality.. Based on the description, the research hypothesis is as follows:

H2: Audit Tenure Affects Audit Quality

### 2.6.3. Effect of KAP Size on Audit Quality

Choi et al. (2010) has two perspectives related to how the Public Accountant Firm Size factor can affect Audit Quality. The first perspective is called the economic dependence perspective (economic dependence perspective). Small audit offices are considered more concerned about the economic interests of their clients compared to the risk of audit failure, small audit offices tend to compromise on audit quality because of economic dependence on certain clients. Loss of reputation due to audit failure has a greater influence on large audit offices than smaller audit offices, large audit offices do not depend on specific clients because the level of economic dependence is smaller than smaller audit offices. Based on the description, the research hypothesis is as follows:

H3: KAP size influences Audit Quality

## III. RESEARCH METHODS

### 3.1 Research methods

This study uses a causal research method that aims to test the effect, between a variable (Independent /  $X_n$ ) with other variables (Dependent Variable /  $Y_n$ ). In this case consists of:  $X_1$  = Audit Fee,  $X_2$  = Audit Tenure and  $X_3$  = KAP Size as Independent variable and  $Y$  = Audit Quality as Dependent variable. This research requires testing hypotheses with statistical tests.

### 3.2. Variable Definition and Operations

Variable is everything that will be the object of observation in the form of a research concept that has a variety of values. In this research, the independent variables and dependent variables will be revealed, the independent variables are:

- a) *Fee* Audit ( $X_1$ ) as an Independent variable
- b) Tenure Audit ( $X_2$ ) as an Independent variable
- c) KAP Size ( $X_3$ ) as an Independent variable
- d) Audit Quality ( $Y$ ) as Dependent variable

Definition variable operation is a definition given to a variable by means of giving meaning, as well as providing an operation needed to measure the variable. The Operational Definition of the variables used by the author in conducting the preparation of research are:

### 3.2.1. Audit Quality

Audit quality is the work of qualified auditors. Where an auditor is able to reveal and report errors contained in financial statements. Audit quality measurement in this study is proxied by the earnings surprise benchmark approach. Rossieta and Wibowo (2009) who conditioned the earnings surprise benchmark model Carey and Simnett (2006) with conditions in Indonesia. Audit quality is measured related to earnings management by the company, whether the auditor is able to reveal and report the existence of earnings management or not. One of the earnings management that can be done is to avoid reporting losses. In accordance with Carey and Simnett (2006), the formula that can be used to avoid reporting losses is earnings / total assets. Therefore, earnings / total assets or more commonly known as ROA (Return on Assets) is chosen as a benchmark determining audit quality.

Audit quality is stated with dummy variable 1 for good audit quality and 0 for audit quality is not good. The determinant is ROA (Return on Assets) or earnings / total assets of each company, whether or not there are benchmarks. The benchmark is  $\mu - \sigma < \text{ROA} < \mu + \sigma$ .  $\mu$  is the average ROA of all sample firms and  $\sigma$  is the deviation. ROA included in the benchmark indicates good audit quality (1).

### 3.2.2. Fee Audit

Fee audit is a fee received by the auditor derived from fee payments by management (Hartadi, 2012). This study refers to the research conducted by Rizqiasih (2010), namely the audit audit data that proxied into a professional fees account contained in the financial statements of the consumer goods companies (consumer goods sector) listed on the Indonesia Stock Exchange (IDX), from which the audit fee variable is measured by using natural logarithms from data on professional fees accounts. The basis of this decision making is the unavailability of data about audit because data disclosure about audit in Indonesia is still in the form of voluntary disclosure, so that not many companies have included the data in the annual report.

### 3.2.3. Audit Tenure

Audit tenure is the auditor engagement period that provides audit services with an agreed period of time to the client (auditee). Audit tenure in this study refers to research conducted by Sinaga (2012), namely by looking at the length of the relationship between auditors from KAP and the company. Tenure audits are measured by calculating the number of years a KAP audits a company's financial statements in sequence (Al-Thuneibat et al., 2011). Counting the number of tenure years backwards, starting from 2012 and continuing to be traced to the year the client moved to another auditor (Boone et al., 2008 in Al-Thuneibat et al., 2011).

### 3.2.4. Audit Company Size (KAP)

Arens et al. (2014) defines audit firm size as the size of a KAP company, where differences in audit firm size are determined based on: total revenue, number of partners, number of professional staff, and number of offices. The size of the KAP in this study is the size of the KAP distinguished in two groups, namely KAP affiliated with Bigfour and KAP not affiliated with Bigfour (Choiet al., 2010). KAP size variables are measured using dummy variables. If the company is audited by KAP Bigfour, it will be given a value of 1. Whereas if the company is audited by KAP Non Bigfour, then it is given a value of 0.

Based on sources from Wikipedia (2011), there are four large KAPs in Indonesia that are affiliated with Bigfour KAPs, including:

- a. KAP Purwantono, Suherman & Surja - affiliated with Ernst & Young.
- b. KAP Osman Bing Satrio - affiliated with Deloitte Touche Tohmatsu.
- c. KAP Siddharta and Widjaja - affiliated with KPMG.
- d. KAP Tanudiredja, Wibisana & Partners - affiliated with Pricewaterhouse Coopers (PwC)

### 3.3. Population and Research Samples

The population and sample in this study are consumer goods companies (consumer goods sector) which were listed on the Indonesia Stock Exchange (IDX) in the 2016-2019 period. The consumer goods sector was chosen because this industry has the greatest possibility to develop. This is indicated by the strengthening of the consumer goods sector by 2.22% in 2019, and leads the biggest gain. In addition, the consumer goods sector also contributed 50% more to the growth of the Composite Stock Price Index (CSPI) (<http://bisnis.liputan6.com/>, December 22, 2019).

Determination of the sample use positive sampling method, namely the determination of samples from existing populations based on criteria, the samples obtained in this study were 22 companies.

### 3.4. Data Analysis Method

The purpose of data analysis is to obtain relevant information contained in the data and use the results to solve problems (Ghozali, 2013). Hypothesis testing also uses logistic regression analysis (Logistic Regression). According to Ghozali (2013) logistic regression is actually similar to discriminant analysis, namely testing whether the probability of the dependent variable can be predicted with the independent variable. In logistic regression analysis (Logistic Regression) does not require the assumption of multivariate normal distribution because the independent variable is a mixture of continuous (metric) and categorical (non-metric) variables (Ghozali, 2013).

The stages of logistic regression analysis (Logistic Regression) include testing the feasibility of the regression model, assessing the feasibility of the regression model (Goodness of Fit Test), assessing the fit model (Overall Model Fit), the regression test. Data analysis method used to test the hypothesis in this study is descriptive statistics used to provide an overview of the variables in this study. The following is an explanation of the method of analysis in this study:

#### 3.4.1. Descriptive Statistics Data Analysis

Descriptive statistics provide a description or description of data that is seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (skewed distribution) (Ghozali, 2013). Data that has a high value standard is a picture that is increasingly spreading. Standard deviations, maximum values and minimum values describe the distribution of variables that are metric in nature, whereas non-metric variables are represented by variable frequency distributions.

#### 3.4.2. Hypothesis testing

The hypothesis in this study was tested using the Logistic Regression analysis method. Logistic regression is used because the dependent variable in this study is the dichotomous variable, the variable whose measurement consists of two categories.

The dependent variable used in this study is audit quality which is proxied by the earnings surprise benchmark approach. The independent variables used in this study are audit fees, audit tenure, and audit firm size (KAP). The independent variable is a mixture of metric and non-metric variables so that Logistic Regression is used. The Logistic Regression Model in this study is as follows:

$$\text{Audit Quality} = a + \beta_1 \text{Fee} + \beta_2 \text{Tenure} + \beta_3 \text{KAP} + e$$

##### 3.4.2.1. Test the Feasibility of the Regression Model

Testing the feasibility of logistic regression models was assessed using Hosmer and Lemeshow's Goodness of Fit Test of Goodness measured by Chi-square values. *Hosmer and Lemeshow's Goodness of Fit Test* Goodnesstesting the null hypothesis that empirical data fits or fits the model (there is no difference between the model and the data so the model can be said to be fit). The results (Ghozali, 2013):



1. If the value of Hosmer and Lemeshow's Goodness of Fit test statistic is equal to or less than 0.05, then the null hypothesis is rejected, which means there is a significant difference between the model and its observation value so that the Goodness Fit model is not good because the model cannot predict the value of the observation.
2. If the value of Hosmer and Lemeshow's Goodness of Fit test statistic greater than 0.05, then the null hypothesis is accepted and means the model is able to predict the value of its observations or the model can be said to be acceptable because it matches the observational data.

### 3.4.2.2. Assessing the Overall Model (Overall Model Fit)

Test this used to assess models that have been hypothesized to be fit or not with data. The hypothesis for assessing model fit is:

- H0: The hypothesized model is fit with the data
- HA: The hypothesized model does not fit the data

From this hypothesis, for the model to fit the data H0 must be accepted. The statistics used are based on Likelihood. The likelihood of a model is the probability that the hypothesized model represents input data. The reduction in value between the initial value of -2LogL and the value of -2LogL in the next step shows the input data. The next step shows that the model hypothesized is fit with the data. The discovery of likelihood (-2LogL) shows a better regression model or in other words the model is hypothesized fit with data (Ghozali, 2013).

### 3.4.2.3. Coefficient of Determination (Nagelkerke R Square)

*Nagelkerke R Square* is a test conducted to find out how much the independent variable is able to explain and influence the variable dependent. Nagelkerke R Square is a modification of coefficient Cox and Snell to ensure that their values vary from 0 (zero) to 1 (one). This is done by dividing the value of Cox and Snell's R2 with the maximum value then interpreted as the value of R2 in multiple regression (Ghozali, 2013).

### 3.4.2.4 Test the Regression Coefficient

Regression coefficient testing is done to test how far all the independent variables entered in the model have an influence on the results of audit quality. The logistic regression coefficient can be determined using p-value (probability value). The level of significance ( $\alpha$ ) used was 10% (0.1). The criteria for accepting and rejecting alternative hypotheses are based on the significance of the p-value. If  $p\text{-value} > \alpha$ , then the alternative hypothesis is rejected. Conversely, if the  $p\text{-value} < \alpha$ , then the alternative hypothesis is accepted.

## I.V. ANALYSIS OF RESULTS AND DISCUSSION

Based on logistic regression testing (logistic regression) that has been done, the following explanation of the research hypothesis

**Table - Logistic Regression Test Results**

### Variables in the Equation

		B	SE	Wald	df	Sig.	Exp (B)
Step 1a	Audit Fee	,547	,303	4,725	1	,040	1,717
	AuditTenure	,288	,353	,631	1	,473	1,503
	KAP size	5,624	1,535	13,759	1	,000	94,371
	Constant	-10,328	4,973	4,545	1	,037	,000

a. Variable (s) entered on step 1: LN\_Fee, AuditTenure, KAP Size.

Source: Processed Data (SPSS)

Based on the results SPSS processing in table 4.6 that:

1. Audit fee variable shows a regression coefficient of 0.547 with a significance level of 0.040 smaller than  $\alpha = 0.1$ . Because the significance level is smaller than  $\alpha = 0.1$ , it can be concluded that audit fees affect audit quality.
2. The tenure audit variable shows a regression coefficient of 0.288 with a significance level of 0.473 greater than  $\alpha = 0.1$ . Because the level of significance is greater than  $\alpha = 0.1$ , it can be concluded that audit tenure has no effect on audit quality.
3. Audit firm size variable (KAP) shows a regression coefficient of 5,624 with a significance level of 0,000 smaller than  $\alpha = 0.1$ . Because the significance level is smaller than  $\alpha = 0.1$ , it can be concluded that the size of the audit firm (KAP) influences audit quality.

## Hypothesis Testing and Discussion

Based on the logistic regression test (logistic regression) that has been done, the following explanation of the research hypothesis:

### 4.4.1. Effect of audit fees on audit quality (H1)

The results of this study provide empirical evidence that audit fees proxied by professional fees can be used as factors that can affect audit quality proxied by the earnings surprise benchmark approach. The results of the study show that audit fees affect audit quality in a positive direction, which means hypothesis one (H1) acceptable. Thus, this study is in line with those conducted by Yuniarti (2011), Bambang Hartadi (2012), and Margi Kurniasih, Abdul Rohman (2014) who found evidence that audit fees have a significant effect on audit quality. The results of this study provide evidence that costshigher will improve audit quality, because audit costs obtained in one year and estimated operational costs needed to carry out the audit process can improve audit quality. Large companies prefer to pay large audit fees with the reason that they are more looking for auditors in public accounting firms that can produce quality audit reports and can increase the credibility of annual financial reports that can compete around the world.

### 4.4.2. The effect of audit tenure on audit quality (H2)

The results of the study provide empirical evidence that audit tenure cannot be used as a factor that can affect audit quality which is proxied by the earnings surprise benchmark approach. The results of the study indicate that audit tenure has no effect on audit quality, which means hypothesis two (H2) cannot be supported or rejected. Thus, this research is in line with those conducted by Arie Wibowo, Hilda Rossieta (2009), Permana (2012), and Daud MTSinaga, Imam Ghozali (2012) which found evidence that audit tenure had no significant effect on audit quality. The results of this study provide empirical evidence that at this time, whether or not the relationship between the auditor and the client does not affect audit quality so that there is the tendency that arises is that the longer the engagement period, the less variation arises from the audit services performed, in other words the opinions given tend to be the same from year to year.

### 4.4.3. Influence KAP size on audit quality (H3)

The results of the study provide empirical evidence that the size of the KAP proxied by Bigfour and Non-Big four can be a factor that can affect the quality of the audit proxied by the earnings surprise benchmark approach. The results show that the KAP size influences audit quality in a positive direction, which means that the hypothesis three (H3) can be accepted. Thus, this study is in line with that conducted by Arie Wibowo, Hilda Rossieta (2009), Choi et al. (2010), and Daud MTSinaga, Imam Ghozali (2012) which found evidence that the size of the KAP had a significant effect on audit quality. The results of this study support the view that larger audit offices such as Bigfour provide higher quality audits compared to smaller audit offices such as Non Bigfour. Large audit offices have more relationships and meetings with different clients that make them have a collective experience. In addition, large audit offices have large assets or assets, thereby reducing economic dependence on clients. Therefore, a large

audit office is one factor that is able to provide higher quality audits.

## V. CONCLUSIONS AND SUGGESTIONS

### 5.1. Conclusion

This study examines the effect of audit fees, audit tenure, and audit firm size (KAP) on audit quality. The research variable used is the dependent variable, namely audit quality. While the independent variables used are audit fees, audit tenure, and audit firm size (KAP). Company sample data of 88 observations of consumer goods companies (consumer goods sector) which were listed on the Indonesia Stock Exchange (IDX) in 2013-2016. Based on the research results obtained through hypothesis testing and the discussion that has been described in the previous chapter, it can be concluded that:

1. Fee The audit has a significant positive effect on audit quality. These results indicate that the higher the fee received by the auditor from the client, the more the quality of the audit increases. This high audit fee allows the Public Accounting Firm to conduct audit procedures in more detail and in depth so that the quality of the resulting audit is also high. Thus, audit fee variables can be used as benchmarks for audit quality.
2. Audit tenure has no significant effect on audit quality. These results show that the length or short period of engagement between KAP and client cannot be used as a benchmark for audit quality.
3. KAP size has a significant positive effect on audit quality. These results indicate that KAP affiliated with Bigfour provides better audit quality compared to KAP affiliated with Non Big Four. Thus, KAP size can be used as a benchmark for audit quality.

### 5.2. Suggestion

Suggestions that can be delivered based on this research are as follows:

1. This research only uses consumer goods companies (consumer goods sector) which are listed on the Indonesia Stock Exchange, and for further research can use all manufacturing industries or other types of companies listed on the Indonesia Stock Exchange (IDX).
2. This study measures audit quality by proxying it on the earnings surprise benchmark approach. Future studies are suggested to consider using other proxies to measure audit quality such as the level of discretionary accruals (DA), as well as other measures.
3. Future studies can use other factors that might affect audit quality, such as auditor specialization.
4. Further research should also use a period of more than four years because a longer period is expected to be able to be used to measure the length of the audit tenure and fulfill the provisions of the regulation of the Minister of Finance of the Republic of Indonesia Number 17 / PMK.01 / 2008 concerning "Public Accountant Services" article 3.

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