The Influence Of Firm Size, Audit Fee, Audit Tenure, and Financial Distress On Audit Quality In Banking Subsector Companies On The Indonesian Stock Exchange

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Abstract— **Financial reports are very influential in the development of a company, if the reported financial accounts do not accurately reflect the company's current position, the audit quality provided will not be optimal. This research attempts to evaluate the impact of firm size, audit fee, audit tenure and financial distress on audit quality. The populace is 57 financial organizations on the Indonesian Stock Exchange. Up to 38 banks provided secondary data sources for the sample technique during the period 2020 to 2022 and used purposive sampling method with associative research form. The results showed that firm size estimated by the total assets natural logarithm, and audit tenure seen by the period of engagement of the Public Accounting Firm with the bank meaningfully affected on audit quality, while audit fee were obtained from the natural logarithm of total fee given to auditors and financial distress utilizing the calculation for the debt to equity ratio, especially the ratio of total debt to total capital, had a result on audit quality. It is believed that by extending the independent variables once more, researchers in the future will be able to obtain better findings.**

Keywords—Firm Size; Audit Fee; Audit Tenure; Financial Distress

I. INTRODUCTION (*HEADING 1*)

At present, there are many companies that develop in their respective fields, but there are also companies that do not develop and even experience bankruptcy. Accountants are required to report financial reports in a relevant, reliable, easy to understand and complete manner so that auditors can understand them, so that auditors can easily provide an opinion to assess the performance of an organization, but if the statements of finances presented are not as per the real state of the organization, it will hinder the auditor in providing an opinion, and the quality of the audit provided will not be maximized. Any opinion received and followed by a company will positively goodly affect the advancement of the organization by improving the quality of performance of managers and employees. In order to make the most profit possible that year, the business must also comprehend what needs to be preserved, increased, and improved, but if the audit results provided by the auditor are not followed by the organization, the organization will not create and will always make wrong decisions.

This encourages the author to explore the impact of firm size, audit fee, audit tenure, and financial distress on audit quality in banking firms based on previous research that discusses audit quality. There are several companies in the banking subsector in Indonesia that do not have complete financial reports. The following factors affect audit quality, namely firm size, audit fee, audit tenure, and financial distress.

The firm's size is generally determined by the amount of assets and sources of funds owned by the company, this variable can be calculated by the amount of total assets and total sales. This can show the condition of a company, which can show how the organization is doing. Large companies typically aim to report consistent earnings each year. [13] and have large professional auditor services to produce good audit quality, while small companies may not have better auditor services than large companies.

Audit fee are fee received by auditors who have performed their duties. These findings are supported by the researches of [6]; [4]; [10] that the audit quality is positively impacted by the audit fee, because it has been proven that giving a lot of fee to auditors makes them more diligent in improving their performance so that they can provide the best audit quality. Therefore, the way it is determined must be agreed upon by both parties, namely the client (company) and the auditor, so that there are no misunderstandings that could harm the validity of the public accountant. Higher audit fee allow audit firms to allocate more resources, such as more experienced auditors and the use of advanced technology, therefore improving the audit process efficacy and efficiency. Experienced auditors tend to complete audits more quickly and may reduce the possibility of delays in the issuance of audit reports. Conversely, low audit fee may result in the allocation of limited resources, this increases the time required to complete the audit and reduces the quality of the audit.

The duration of a public accounting firm's engagement or relationship with a client (business) with respect to the agreed-upon audit services is known as the audit tenure, which can be estimated by the number of years the auditor is also considered could have an impact on the audit's quality, the connection between the external auditor and the company will creates an emotional closeness that may compromise the external auditor's independence [9] However, the relationship between the client and the auditor will have a positive impact regarding the revenue of the external auditor [7]. The longer the engagement period, the potential for a decrease in audit quality may occur [2]. The relationship or agreement that occurs for a long time between the auditor and the company allows the auditor to easily obtain supporting documents without any limitations on the audit's scope from the business, the purpose of the audit tenure is to keep up with the independence of the auditor and avoid fraud in the conduct of the audit process.

One way to gauge financial distress is through the debt to equity ratio as indicated by [5], where DER shows the organization's capacity to pay utilizing its equity, and companies with a DER ratio above 80% indicate bad conditions. Objective supervisors won't pick excellent evaluators and pay high charges if the company is in poor condition [8] in [6]. Financial distress is the financial ability of the company to operate its business, which is an important factor in obtaining good audit quality. Companies that experience difficult financial conditions usually also face uncertainty in the business being operated, even companies can also experience bankruptcy, hence it may be concluded that audit quality will be impacted by financial distress.

On the basis of the framework presented above, it is possible to formulate the following hypothesis:
H_1: The quality of audit is unaffected by firm size.
H_2: The quality of audit has a beneficial impacted by audit fee.
H_3: Audit tenure has no bearing on the quality of the audit.
H_4: The quality of audit is negatively impacted by financial distress.

II. RESEARCH METHODS

The authors of this paper examined the effects of firm size, audit fee, audit tenure, and financial distress on audit quality using an associative research design. According to [11]: in research that is used as a problem formulation to question and determine the connection between variable x and variable y. Then this study uses the form of a causal relationship. Then this study uses a form of causal relationship. According to [11]: this causal relationship is a relationship that has the nature of cause and effect.

This research method utilizes quantitative methods. According to [1], quantitative methods often involve the use of numbers and statistics to analyze data: Creswell describes quantitative methods as "an approach to research in which researchers develop theories or test existing theories using data collected in a systematic way and measured with precise instruments."

The kind of information utilized is quantitative. The data collection techniques are documentary study method and secondary data research. The documentary study method is a method of collecting data by collecting information from books, journals, scientific papers and various other sources that have a relationship with the problem to be studied. The author additionally takes and gathers optional information, the author also collects secondary information, namely as financial statements that are listed on the Indonesian Stock Exchange from 2020 to 2022. The website www.idx.co.id provided the financial reports.

According to [11] a population is described as a generalization area made up of items and research subjects with certain attributes chosen by researchers to be examined and conclusions drawn from. In this review, the populace taken is banking organizations recorded on the Stock Exchange of Indonesian (IDX).

According to [11] a percentage of the population's size and makeup are reflected in the sample. In order to select a sample that takes specific factors into account, the author employs the purposive sampling method in the study.

The Indonesian Stock Exchange's banking industry is used in this study, because the banking sector is one of the sectors that affects the economy in Indonesia, banking companies are also rarely used in research, in addition to knowing the results of financial statements that have been prepared and to find out how the audit quality in banking companies. The number of banking companies in Indonesia is 57 banks, the author eliminates several companies because they do not have complete financial statements and independent auditor reports, so that 38 banks are obtained and multiplied by the number of research periods that have been determined, namely for 3 years from 2020 to 2022, then the total sample is 114 data. The information investigation methods utilized are descriptive statistics, classical assumption tests and logistic analysis. Due to the dummy formula used for the dependent variable, the author employs logistic analysis.

This study's focus is on audit quality as determined by the organization's chosen audit company, taking into account the firm size, audit fee, audit tenure, and financial distress as influencing factors.

The dependent variable in the study is audit quality, which measures how well an audit is performed by an independent auditor. This includes assessing the audit's compliance with applicable auditing standards, identifying errors, and providing relevant opinions to clients or companies. Large accounting firms are considered to have better knowledge, experience, and standing compared to tiny accounting firms, so Big 4 KAP are considered to be able to produce better audit quality than non-Big 4 KAP [6]. The study's audit quality metric is based on the research of [3]. If the company is audited by Big 4 KAP, it receives a score of 1. In the interim, in case the company isn't evaluated by Big 4 KAP, It is assigned a number of 0.
The following are the Big 4 accounting firms:
1. Suherman, Surja, and KAP Purwantono are connected to Ernst & Young.
2. Deloitte Touche Tohmatsu has a connection to KAP Satrio Osman Bing.
3. Klynveld KPMG, or Peat Mavrick Goerdeler, is connected to KAP Sidharta and Widjaja.
4. Price KAP Tanudireja, Wibisana and Partners is connected to Waterhouse Coopers.

[1]: Sugiyono defines independent variables as those that influence, bring about, or result in the formation of dependent variables (bound). The study's independent variables are firm size, audit fee, audit tenure, and financial distress. Firm size is taken from the financial statements using total assets, then recalculated by finding the results of the natural logarithm of total assets, which will be an assessment of firm size.

Firm Size = Ln (Total Asset)

The measurement of the audit fee variable follows [6] utilizing the audit fee's natural logarithm, it corresponds to the external auditor's fee disclosed in the financial statements of the business.

Audit Fee = Ln (Audit Fee)

The measurement of audit tenure follows [7], which utilizes a stretch scale for the length of the commitment time frame between the external auditor and the organization. The number 1 is given for the principal year of the commitment time frame, after which 1 is added for ensuing years.

The ratio of debt to equity (DER) is used to calculate the degree of financial distress variable according to [5], which shows the organization's capacity to pay with its value, in the event that the aftereffects of the proportion are above 80%, it shows the unfortunate state of the organization.

$$\textbf{Debt to equity ratio (DER)} = \frac{Total\ debt}{Total\ capital}$$

There are results obtained after the authors conduct tests using the SPSS application, that is to say, audit quality is unaffected by company size or audit tenure. Auditors who work for the Big Four accounting companies will have a solid reputation, so they will provide good audit quality. Financial distress is measured by looking at the organization's capacity to fund itself, companies that are in distress will find it difficult to obtain independent auditor services, so the audit quality provided will be less than optimal, presumably, audit fee have a beneficial impact on audit quality, while financial distress has a negative impact.

III. RESULT AND DISCUSSION

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Firm Size	114	28,410	35,228	31,59127	1,684527
Audit Fee	114	19,275	25,329	21,38955	1,226386
Audit Tenure	114	1	3	1,89	,817
Financial Distress	114	,479	16,079	5,46700	2,797074
Audit Quality	114	0	1	,53	,502
Valid N (listwise)	114				

Source: Processed Data, 2024

The following are the outcomes of the descriptive analysis, based on Table 1 above:

1. The values of the firm size variable (X1) are as follows: the minimum is 28.410, the maximum is 35.228, the average is 31.59127, and the standard deviation is 1.684527.
2. The audit fee variable (X2) has the following values: 19.275 is the minimum, 25.329 is the highest, 21.38955 is the average, and 1.226386 is the standard deviation.
3. The audit tenure variable (X3) has an average value of 1.89, a standard deviation of 0.817, a maximum value of 3, and a minimum value of 1.
4. The financial distress variable (X4) has a standard deviation of 2.797074, an average value of 5.46700, a maximum value of 16.079, and a minimum value of 0.479.
5. The audit quality variable (Y) has a standard deviation of 0.502, an average value of 0.53, a maximum value of 1, and a minimum value of 0.

Table 2. The Result of Multicollinearity Test

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-4,537	,737		-6,153	,000		
	Firm Size	-,018	,043	-,062	-,426	,671	,265	3,767
	Audit Fee	,279	,057	,682	4,925	,000	,293	3,412
	Audit Tenure	-,056	,047	-,091	-1,196	,234	,968	1,033
	Financial Distress	-,038	,015	-,213	-2,570	,012	,815	1,226

a. Dependent Variable: Audit Quality

Source: Processed Data, 2024

The tolerance values for variables firm size (X1), audit fee (X2), audite tenure (X3), and financial distress (X4) are 0.265, 0.293, 0.968, and 0.815, respectively, according to the findings of the multicolineartitas test. Furthermore, the VIF values of variable X1 are 3.767, X2 is 3.412, X3 is 1.033, and variable X4 is 1.226. Because the data has a tolerance value above 0.10 and a VIF value below 0.10, it may be concluded from these results that multicollinearity symptoms are absent from the data.

Table 3. The Result of Logistic Regression Analysis

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Firm Size	-,103	,299	,119	1	,730	,902
	Audit Fee	1,709	,430	15,818	1	,000	5,526
	Audit Tenure	-,309	,307	1,015	1	,314	,734
	Financial Distress	-,205	,096	4,587	1	,032	,815
	Constant	-31,345	6,591	22,615	1	,000	,000

a. Variable(s) entered on step 1: Firm Size, Audit Fee, Audit Tenure, Financial Distress.

Source: Processed Data, 2024

The output table above shows that the financial distress is 0.032, the audit tenure is 0.314, the audit fee is 0.000, and the significance value for firm size is 0.730. These results can be used to draw the following conclusions:

1. As the significance value, or 0.730, is above 0.05, the quality of an audit is independent of firm size.
2. The significance value is below 0.05, or 0.000, and the B value is positive, or 1.709, suggesting that the audit quality is positively impacted by the audit fee.
3. Audit tenure has no effect on audit quality because the significance value 0.314 is greater than 0.05.
4. Financial distress has a negative effect on audit quality because of its negative B value of -0.205 and significance value of 0.032, which is less than 0.05.

IV. CONCLUSION

It can be concluded from the research that:

a. Audit quality is not impacted by firm size.
This shows that the size of the organization has a significant impact on audit quality

b. Audit fees have a positive impact on audit quality
Audit quality will be impacted by audit fees, if auditors are paid in accordance with their work, the audit results provided will be better, contrasted with pay that doesn't reflect the auditor's performance. The more audit fee are spent to pay for specialized auditor services, hidden information can be revealed, so the audit quality given will yield positive results.

c. The audit quality is unaffected by the audit duration.
Audit tenure that occurs for a long time will make the auditor better understand the company itself, so the audit process performed will produce good audit quality, but if the audit tenure is long, it could undermine the auditor's objectivity, it might undermine the independence of the auditor. This proves that the longer the bond between the auditor and the client will influence the objectivity of the reviewer, and has the potential to reduce audit quality.

d. Financial distress negatively affects audit quality
Financial distress will lead to a change in external auditors, where there is a possibility that the quality of auditors will decrease, such as less knowledge and experience compared to previous external auditors. The average value of Debt Equity Ratio (DER) as a proxy for financial distress is greater than the default value set at 80% or the average research sample indicates that some banking companies are experiencing financial distress.

The consequences of this study can be utilized as a kind of perspective in deciding, particularly those connected with audit quality, so that companies can improve their performance and profits by looking for new innovations that will attract consumers to the business areas offered, by offering products or ways that make it easier for consumers. Audit quality is also determined by competent and independent auditors, because competent auditors are auditors who can find violations, while independent auditors are auditors who are willing to report these violations. When the company has received an audit opinion from an auditor, the most important attitude is to reorganize the plan to improve the performance standards in banking companies, with this the company will slowly improve both in performance and financial condition.

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