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Audit Tenure, Audit Fee, and Audit Rotation on The Audit Quality : A Case Study of Plantation & Food Crops Industry Sub-Sector Companies

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Abstract—**This study investigates how audit tenure, audit fees, and audit rotation impact audit quality. Audit quality variables are measured using a dummy variable, with purposive sampling employed as the sampling technique. The study uses fifty-four data samples. Logistic regression is the analytical method employed. The results indicate that audit tenure and rotation do not have a significant impact on audit quality, however audit fees have a positive impact on audit quality. The amount of samples used in this study is limited, which means that it will have limitations. In subsequent research, it is advised to use different research objects to provide a sufficient number of sample sizes.**

Keywords—Audit Tenure; Audit Fee; Audit Rotation; Audit Quality

I. INTRODUCTION

The plantation and food crop industry sub-sector are part of the agricultural sector which is one of the most important sectors in contributing to the economic growth of a country in meeting food needs. Companies utilize land to be used as agricultural fields that can provide benefits in meeting the requirements of the community. However, this industry also creates a lot of job possibilities by hiring people from the non-formal sector with minimal human resource qualifications to work in the company's factories. The objective of this research is to ascertain how audit tenure, fees, and rotation affect audit quality in firms from the industry subsector of Plantation & Food Crops that are listed on the Indonesia Stock Exchange. Purposive sampling was used in the investigation, yielding a sample size of fifty-four data points. Logistic Regression was used as the analytical method. Audit quality is a measure that reflects how well the audit process is carried out, focusing on the auditor's capacity to identify and disclose significant errors in the client's financial statement. In [1] Audit quality is the auditors' ability to spot material misstatements and properly disclose them in compliance with auditing standards and the public accountants' code of ethics. Audit quality is a personal view, which cannot be measured accurately, but there are indicators used in assessing this concept. Indirect indicators are used in measuring changes or results where direct measurement is not possible to obtain these indicators [2]. The factor that affects audit quality is audit tenure, where audit tenure is explained that the length of attachment of an auditor to work with clients in a certain period. According to [2], limiting the auditor's engagement with clients (audit tenure) is an attempt to prevent auditor behavior from interacting too closely with clients in order to maintain the auditor's independence while examining the client's financial statements. Another influencing factor that affects audit quality is audit fees. According to [3] audit fees are costs incurred by clients for payment of services for external auditors when examining financial statements. Providing a high audit fee can make an auditor work harder in auditing and produce a good audit opinion. The audit fee states that a higher fee generally allows the auditor to spend more time conducting the examination, which can increase the depth and breadth of the audit scope, and vice versa. Audit rotation is also become another factor which aims to reduce or prevent clients from having close relationships with auditors, independence and increased objectivity are important in this section.

Research on audit tenure, fees, and rotation with respect to audit quality generally yields inconsistent results. According to research on audit tenure conducted by [4], The relationship between the auditor and the client does not jeopardize the auditor's independence or degrade the quality of the audit, which is why audit tenure has no bearing on audit quality. Conversely, however, studies carried out by [5] claims that the length of the audit has a beneficial effect on the quality of the audit since the auditor will have strong expertise managing the audit process based on the length of the audit. According to the results of one study on audit fees [6], fees are difficult to use to determine audit quality variables. Therefore, fees do not significantly affect audit quality. An audit's quality is not dictated by a small number of important clients who cover the cost of the audit; rather, it is defined by the independence of the auditor. However, the results of this study differ from those of other studies conducted by [6], [7] which state that audit fees have a positive impact on audit quality because high audit fees enable auditors to increase their productivity in a timely manner and produce high-quality work products. Research on audit rotation that is conducted [6], [8] indicates that the general public's perception of the auditor's persuasion is not significantly affected by the audit rotation. On the other hand, research conducted by [6], [7] states that audit rotation has a positive impact on audit quality because the auditor's observation improves the quality of the audit record and can be used to increase public trust in the audit function.

Research related to this is derived from [6]. The authors analyze the impact of audit fees, tenure, and rotation on audit quality using a sample of 38 financial companies listed on the Indonesian Stock Exchange from 2015 to 2017 that was selected using purposive sampling. The dataset includes 114 observations in total, and the audit quality was assessed using the public bank account's size as a guide. A significance threshold of 5% is used for regression analysis in statistics. The results of the study show that audit fees impact audit quality positively, but audit tenure and audit rotation have no discernible effect.

Contribute. According to this study, audit quality is significantly and favorably impacted by the audit fee variable. Therefore, by using natural logarithm as a correction tool, this new study can shed light on the effects of audit tenure, audit fee, and audit rotation on audit quality in the Plantation & Food Crops industry sub-sector companies listed in the Indonesia Stock Exchange for the 2020–2022 period. This study can serve as a fundamental reference and study guide for future research on the impacts of audit tenure, audit fees, and audit rotation on audit quality.

II. RESEARCH METHODS

According to this study, the population that was sampled consisted of companies, particularly those in the Plantation & Food Crops industry sub-sector of the Indonesian Stock Exchange from 2020 to 2022. Purposive sampling, the method of sample preparation employed, produced 54 data samples, of which logistic regression was the analytic method. This research uses a quantitative approach.
According to [9], the method of quantitative research is used to examine a certain population or sample. This method involves gathering data using a research instrument and using a quantitative statistical analysis to test the hypotheses that have been established. The limitations of this study include the use of purposive sampling, where specific criteria were applied to restrict the scope of research. This included selecting financial data solely from the Indonesia Stock Exchange within the Plantation & Food Crops sub-industry, resulting in a sample of 25 companies. Further limitations involved excluding companies that did not IPO before 2020 or were suspended, resulting in a reduced dataset of 18 financial statements. The dependent variable that is used as the object of research is the audit quality of the financial statements referring to [10]. Using a dummy variable indicator, the variable "Audit Quality" is investigated in this study. A corporation will score one if it is audited by the KAP Big Four; if it is audited by the KAP non-Big Four, it will score zero.

Audit tenure, audit fees, and audit rotation are the independent variables taken into account in this research. In this study, audit tenure refers to research [11], namely the sum of the same public accounting firms engagement periods for client companies during consecutive financial years, where the first year of commitment starts with the number 1 and is increased by 1 for the following year.

Audit fees are estimated on the basis of the costs reported in the annual reports. These fees are then measured using natural logarithms. Audit rotation refers to research conducted by [12] which is measured using dummy variables by giving code 1 for companies that perform audit rotation and code 0 for companies that do not carry out audit rotation.

Measurement variables

1. **Audit Quality** is determined by employing a dummy variable indicator, where each company receives a value of 1 for KAP Big Four audits and 0 for KAP non-Big Four audits. The scale that is used is nominal.
2. **The Audit Tenure** variable uses a nominal scale, with 1 representing the first year of the audit and plus 1 for the following years, this variable use a nominal scale.
3. **Audit Fee** can be calculated using the natural logarithm, and the ratio scale is then employed to find professional fees in the company's financial accounts.
4. **Audit Rotation** is determined by means of a dummy variable that is assigned a code number 1 when the company rotates its auditors and a code number 0 when it does not.

III. RESULT AND DISCUSSION

In order to analyze the result, the authors used SPSS V26 software, which can assist in testing the results of this study. The analysis method used is logistic regression.

Table 1. F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.084	3	1.361	7.228	.000b
	Residual	9.416	50	.188		
	Total	13.500	53			

a. Audit Quality

b. Audit Fee, Audit Tenure, Audit Rotation

Source: SPSS V25 (2024)

Based on the table above, the result of the F-test shows a level of significance of 0.000, which is less than 0.05. Therefore, this research, comprising independent variables such as audit tenure, audit fees, and audit rotation, is suitable for analyzing their effects on the dependent variable, audit quality.

Tabel 2. T Test Results

		Unstandardized Coefficients		Standardized Coefficients		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	-2.554	.702		-3.638	.001
	Audit Tenure	.027	.073	.044	.374	.710
	Audit Fee	.137	.032	.514	4.227	.000
	Audit Rotation	.106	.122	.106	.869	.389

a. Dependent Variable: Audit Quality

The audit tenure variable's significance value is known to be 0.710 larger than 0.05. For the audit fee variable, the t test result is 0.000 less than 0.05. The audit rotation's t test score of 0.389 is therefore greater than 0.05. The variable that has the greatest influence on audit quality is the audit fee; audit tenure and audit rotation have no effect at all.

Table 3. Logistic Regression Analysis

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B) Lower	Upper
Step 1[a]	Audit Tenure	.162	.400	.165	1	.685	1.176	.537	2.574
	Audit Fee	.700	.207	11.414	1	.001	2.014	1.342	3.023
	Audit Rotation	.593	.664	.799	1	.371	1.810	.493	6.649
	Constant	-15.690	4.587	11.700	1	.001	.000		

a. Variable Audit Fee, Audit Tenure, Audit Rotation.

Source: SPSS V25 (2024)

Table 3 displays the results of the audit tenure hypothesis test. It is clear that the value is more than 0.05 with a regression coefficient of 0.162 and a significance level of 0.685. H1 is thus rejected, indicating that the audit tenure has no bearing on the audit quality variable. With a significance level of 0.001, which is less than 0.005, and a coefficient value of -0.700, the audit cost variable exhibits a negative correlation. As a result, H2 can be approved, showing that audit cost influences audit quality favorably. The audit rotation variable is more than 0.05 with a significance level of 0.375 and a negative regression coefficient of -0.583. H3 is therefore not acceptable. We come to the conclusion that audit quality is not significantly impacted by audit rotation.

The analysis that was done leads to the conclusion that audit costs positively affect audit quality. Selecting larger public accounting firms and paying more for the audit results in financial statement audits with higher quality. [13]. The study's findings are consistent with studies conducted by [6], [14]. But research [15], [16] and [17] do not support it.

The study's test results show that audit tenure has no appreciable effect on audit quality. This is because the duration of the engagement with the public accountant is insufficient to provide a meaningful comparison or gauge of audit quality. This is due to the fact that a long-term relationship with the auditor cannot undermine their independence and hence lower the caliber of the audit.

According to the test results of this study, audit quality is not significantly impacted by audit rotation. The market's indifference to the auditors' track record of rotation when providing views on annual financial statements explains this. The study's conclusions align with research carried out by [6] and [15], [16]. But it contradicts studies [18] and [14].

IV. CONCLUSION

The test results and discussion of the effects of audit fees, audit tenure, audit rotation, and company size on audit quality in companies in the plantation and food crops industry subsector listed on the Indonesia Stock Exchange from 2020 to 2022 formed the basis for the study's conclusions, which are as follows:

1. The audit quality is not significantly impacted by audit tenure. This indicates that audit quality is unaffected by the duration of a public accounting firm's or auditor's relationship with a client company.

2. The quality of the audit is positively and significantly impacted by the audit price. This implies that the quality of the audit may suffer if the audit charge is set too low.

3. The quality of audits is unaffected by audit rotation. This indicates that when an auditor in a public accounting business changes, the audit's quality remains unaffected.

Using SPSS Version 26 software, this study looked at the impact of audit tenure, audit fees, and audit rotation on audit quality within the Indonesian Plantation and Food Crops industrial sub-sector. The test results corroborate the notion that lower audit fees could compromise audit quality and that audit fees have a positive impact on it. The fact that audit tenure does not significantly affect audit quality suggests that the duration of the audit engagement between the company and the audit firm does not appear to have any bearing on the quality of the audit. It was also discovered that audit rotation had no discernible effect on audit quality, indicating that audit quality is unaffected by switching public accounting firms. Therefore, this study's findings suggest that the influence of these variables, as indicated by previous studies, may not universally hold true and are contingent upon factors such as the specific research period and secondary data utilized. This research has important implications for investors, government agencies, and companies as follows:

Investors can use this study as a basis for decision-making. Improvements in audit quality can provide confidence that financial reports are free from material misstatement and are an accurate reflection of the financial position and operating performance of the company. For the government, it can use this research to be able to provide an overview in ensuring high audit quality in all sectors, through proper regulation and strict supervision by designing policies that support transparency and accountability.

By using this study, businesses can make sure that their audits are of the highest caliber, which will help to boost investor confidence and the accuracy of their financial statements.

The study's drawbacks include its small sample size and the R square test results, which indicate that only 38.5% of the variation in audit quality can be attributed to factors beyond the scope of the investigation (61.5%). Owing to these drawbacks, it is advised that future studies employ several study objects to supply an adequate number of samples.

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VI. REFERENCES

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