

International Conference on Accounting Studies 2014, ICAS 2014, 18-19 August 2014, Kuala Lumpur, Malaysia

## Influence of auditor independence, audit tenure, and audit fee on audit quality of members of capital market accountant forum in Indonesia

Listya Yuniastuti Rahmina, Sukrisno Agoes\*

*Tarumanagara University, Tanjung Duren Utara, Jakarta 11470, Indonesia*

---

### Abstract

The purpose of this research is to determine the effect of auditor independence, audit tenure, and audit fee both partially and simultaneously on the audit quality. This research uses primary data collected through the distribution of questionnaires in audit firm listed in Capital Market Accountant Forum – FAPM in Indonesia. The population of research are senior auditor, supervisors, managers, and partners positions and worked on the audit firm member of FAPM. The results of this research show that in general auditor independence, audit tenure, and audit fee have a positive influence on audit quality. The test Coefficient of Determination result of 21.4% indicates that the audit quality can be explained by variations in auditor independence, audit tenure, and audit fee, while the remaining 78.6% is explained by other variables that are not used in this research, such as auditor's size, auditor's industry specialization, and audit risk. To improve the audit quality, Indonesian Institute of Public Accountants (IAPI) should set up an Independent Audit Review Boards and the recent mandatory rotation of audit partners and public accountant firm should follow the IFAC Code of Ethics for Professional Accountants revised in July 2009, which requires audit partner rotation every seven years for public interest entities.

© 2014 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/3.0/>).

Peer-review under responsibility of the School of Accountancy, College of Business, Universiti Utara Malaysia.

**Keywords:** Auditor independence; audit tenure; audit fee; audit quality

---

---

\* Corresponding author. Tel.: +081-680-8690; fax: +62-021-565-7531.

E-mail address: [sukrisno.a@gmail.com](mailto:sukrisno.a@gmail.com)

## 1. Introduction

Company's financial statements need to be examined by independent and objective professional (i.e., public accountant) to provide reasonable assurance that the financial statements have been free from material misstatement. Users of the audit report expects that financial statements audited by a public accountant are credible to serve as the basis for decision making and are in accordance with accounting standards. Many company cases which are "falling" because of business failures that are attributed to auditor failure, for example, accounting infringement that occurred in the world at large corporations such as Enron and Worldcom. The accounting infringement carried out by the management by involving public accountant.

De Angelo (1981) defines audit quality as the joint probability in which an auditor will discover and report the infringements that exist in the accounting system of its clients. The possibility where the auditor will find misstatement depends on the quality of the auditor's understanding (competence) mean while reporting misstatements action depends on auditor independence.

In Indonesia, in carrying out its duties, auditor is guided by the auditing standards that have been set by the Indonesian Institute of Public Accountants (IAPI) to maintain audit quality. Auditing standards consist of general standards, field work standards, and reporting standards. In addition, public accountant must also comply with Ethics Code established by IAPI. The basic principles of professional ethics consist of independence, integrity, and objectivity.

According to the auditing standards and Ethics code of Public Accountant Profession, public accountant needs to maintain his independency. Auditor who is independent in carrying out his duties should be neutral and not take sides on any party to avoid conflicts of interest. A public accountant should maintain his independence in mind and appearance (Arens, Elder & Beasley, 2012; IAPI, 2011).

This study refers to previous research, Djamil (2000), who concluded that there are seven factors that affect audit quality. These factors are audit tenure, number of clients, the client's financial health, the presence of a third party to review the audit report, auditor independence, level of audit fee, and level of audit planning.

Audit tenure is the length of time the auditor has conducted an examination of a company. According to Djamil (2000), the longer the auditor has audited, the lower the audit quality produced would be. In addition, the auditor may fail to maintain a professional attitude. This is contrary to the opinion of Jackson et al. (2007) which states that audit quality will be improving with the relationship between auditor and client.

According to Yuniarti (2011), the amount of audit fee depends on the risk of assignment, the complexity of services provided, expertise, and other professional considerations. This study shows that the higher audit fee will provide a higher quality audit as well. However, this opinion is contrary to the opinion of Supriyono (1988 in Wati and Subroto, 2003); the amount of audit fee can affect the independence of public accountants appearance because the big fee can make accounting firms become reluctant to oppose the will of the client, while small fee can limit the time and cost to perform complete audit procedures.

Based on the background, the research questions in this study are: (1) Is there an effect of auditor independence on audit quality?; (2) Is there an effect of audit tenure on audit quality?; (3) Is there an effect of audit fee on audit quality?; and (4) Is there any effect of auditor independence, audit tenure, and audit fee on audit quality simultaneously?

This research is expected to give theoretical and operational contributions. The theoretical contribution of this research is expected to contribute the literature on audit quality in Indonesia and can serve as a reference and encourage subsequent research on audit quality. Operational contribution for public accountants can provide a higher quality audit services and provide added value to the company and the public as users of financial statements.

## 2. Literature review, hypothesis and framework

There are four hypotheses in this research.

*H<sub>1</sub>: There is a significant influence of auditor independence on audit quality*

According to Agoes (2012), there are three types of independence, namely: (a) independent in appearance, which is the outside view of the auditor himself in relation to the audit implementation, (b) independent in fact, which is a situation that the auditor has high honesty and conducts audits objectively, and (c) independent in mind, that is before carrying out the audit, the auditor must free his mind from the desire to do something bad in the examination even they should not expect to get any kind of gift from client.

According to IAPI (2011), each auditor should be independent in mind and appearance. Independence in mind is a mental attitude that allows the auditor thought was not influenced by things that can interfere the professional judgment that has integrity and act objectively, and applies professional scepticism. Independence in appearance is the attitude held by auditors to avoid any action or situation which may cause a third party to doubt the integrity, objectivity, or professional scepticism of auditors.

*H<sub>2</sub>: There is a significant influence of audit tenure on audit quality*

Audit tenure is the period of engagement time that exists between the KAP with the same auditee (Hartadi, 2009; Nuratama, 2011). The issue of audit tenure is usually associated with its effect on auditor independence. Research conducted by Ghosh and Moon (2003 in Kusharyanti, 2003) resulted in findings that audit quality increases with the length of audit tenure. This is contrary to the results of a research conducted by Indah (2010) which states that the longer the auditor relationship with clients, could decrease the level of audit quality, because the longer the auditor relating to client lead the auditor to be bias and impaired the independency.

*H<sub>3</sub>: There is a significant influence of audit fee on audit quality*

Iskak (1999 in Suharli and Nurlaelah, 2008) defines audit fee as the fee charged by a public accountant to the client for the financial audit services. This is in accordance with the opinion of The Securities and Exchange Commission, Final Rule (in Yuniarti, 2011) that the audit fee is the fees paid for annual audits and reviews of financial statements for the most recent fiscal year.

The amount of audit fee can vary depending on the assignment risk, the services complexity, the level of expertise required, the cost structure of Public Accountants Firm, and other professional considerations. Public Accountant Firm members are not allowed to get clients by offering fee that could damage the image of the profession. Members must be able to show the work done professionally and meet the specified quality requirements and meet the needs of the client (the Decree of the IAPI Chairman, Number: KEP.024/IAPI/VII/2008).

All members of IAPI have to consider several things in audit fee setting (the Decree of the IAPI Chairman, Number: KEP.024/IAPI/VII/2008). These considerations are intended to provide certainty to public accountants and clients that audit fee reflects the level of responsibility and risk of public accountants. Policy determination of audit fee by public accountant firm becomes one of the aspects in terms of the quality reviews done on the public accountant firm.

*H<sub>4</sub>: There is a significant influence of auditor independence, audit tenure, and audit fee on audit quality*

It is not easy to describe and measure service quality objectively with multiple indicators because service quality is an elusive and vague concept, thus, there is often an error in determining the nature and quality (Parasuraman et al., 1985). This is proved from a number of studies using the dimensions of service quality in different ways. However, Cheney (1993 in Nurchasanah and Rahmanti, 2003) states that the research on service quality remains important given the increasing consumer demand for service quality which they buy as one of the company competing forces.

According to AAA Financial Accounting Standard Committee (2000), audit quality is determined by the competence and independence.

*“Good quality audit requires both competence (expertise) and independence. These qualities have direct effects on actual audit quality, as well as potential interactive effects. In addition, financial statement user’s perception of quality is a function of their perception of both auditor independence and expertise.”*

Widiastuty and Febrianto (2010) stated that audit quality is an audit conducted by an independent and competent person. IAPI (2011) states that the audit should meet the auditing standards and quality control standards.

There are nine (9) elements of quality control that must be implemented by the public accountant firm standard: (a) Independence, (b) Assignment of personnel, (c) Consultation, (d) Supervision, (e) Employment (Hiring), (f) Professional development, (g) Promotion (advancement), (h) Acceptance and sustainability clients, and (i) Inspection. Based on the above hypothesis formulation, the framework of this study is as follows:

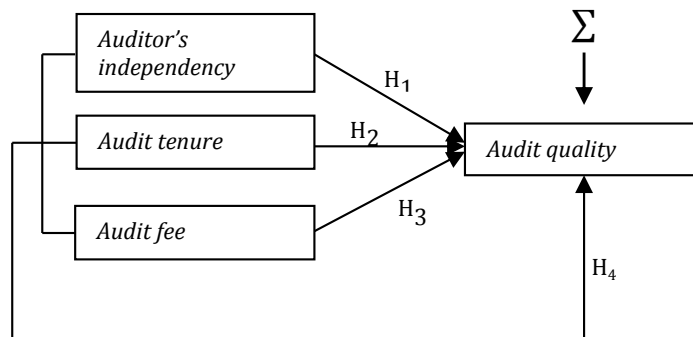


Fig. 1 Framework Research Method

### 3. Research model

The model used to test the hypothesis is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Description:

Y = Audit Quality

X1 = Auditor Independence

X2 = Audit Tenure

X3 = Audit Fees

e = Error

### 4. Definition of operational variables

The variables are operationally defined in Table 1.

Table 1 Definition of Operational Variables

No.	Variable	Definition	Source
1	Auditor Independence (X <sub>1</sub> )	relationships between auditors and their clients who have neutral nature so as the findings and report given by the auditor is only influenced by the evidence found and collected in accordance with the rules and principles of professional.	Antle (1984 in Indah, 2010)
2	Audit Tenure (X <sub>2</sub> )	the time of an auditor conducts the financial statements examination of a company.	Hartadi (2009)
3	Audit Fee (X <sub>3</sub> )	the fee charged by a public accountant to the auditee company for audit services conducted by public accountants on financial statements.	Iskak (1999 in Suharli and Nurlaelah, 2008)
4	Audit Quality (Y)	the joint probability in which an auditor finds and reports errors contained in the audited financial statements to comply with general auditing standards in performing their duties so that credibility is maintained.	De Angelo (1981 in Kusharyanti, 2003)

## 5. Population and sample

The population of this study is the auditor who worked on Public Accountant Firm members of Capital Market Accountant Forum in Indonesia, particularly in Jakarta. The number of auditors who were respondents of KAP is as much as 143 people working on 35 KAP in Jakarta, consists of 12 partners and 131 audit staff. The audit staffs consist of 21 managers, 28 supervisors, and the rest are senior auditor. The number of questionnaires distributed is 150 questionnaires. Of the 150 questionnaires distributed, 143 questionnaires were returned (95%).

Table 2 Details of Total Sample and Return

Activity	Number
The number of questionnaires distributed	150
The questionnaires that received responses	143
The questionnaires that are not returned ( no responses)	7
The rate of return $(143/150) \times 100\%$	95%
Incomplete questionnaires	0
The number of questionnaires that can be processed	143

Source: Research Findings, 2013 (Processed)

## 6. Research results

### 6.1 Validity and reliability testing

Testing instrument research in terms of both validity and reliability showed that the results of the research instruments used are valid, where the value of corrected item total correlation ( $r$  count) is greater than  $r$  table. The  $r$  table value is 0.301 and reliability coefficient (Cronbach's Alpha) is bigger 0.70 (Sekaran, 2006).

### 6.2 Multicollinearity test

According to Hair et al. (2010), a model is said to be free from the problem of multicollinearity if the *tolerance* value is  $> 0.10$  and VIF value is  $< 10$ . It can be concluded that for the variables (auditor independence, audit tenure, and audit fee) do not occur multicollinearity.

### 6.3 Heteroskedasticity test

Heteroscedasticity test is conducted in this study using the Scatter Plot and Glejser test. The use of Scatter Plot to test heteroscedasticity symptoms is conducted by seeing if the points spread with no clear pattern above and below the 0 on the Y axis, there is no problem of heteroscedasticity.

The testing of heteroskedasticity symptoms was also conducted using Glejser test in addition to using Scatter Plot. Glejser test is conducted by making hypotheses:

$H_0$ : There is no heteroscedasticity symptom in residual data

$H_a$ : There is heteroscedasticity symptom in residual data

If the significance value is greater than 0.05,  $H_0$  is accepted, whereas if the significance value is less than 0.05, then  $H_0$  is not accepted. The significance values of the three independent variables are greater than 0.05. It can be concluded that there is no problem of heteroscedasticity in the regression model.

### 6.4 Normality test

Normality test using P-P Plot Graph is conducted by looking at the distribution of data points. A regression model has met the normality assumptions when the data points are scattered around the diagonal line.

Testing normality symptoms was also conducted using Kolmogorov Smirnov test. The Kolmogorov Smirnov test is conducted by making hypotheses:

$H_0$ : The residuals data is normally distributed

$H_a$ : The residuals data is not normally distributed

If the significance value is greater than 0.05,  $H_0$  is accepted, while if the significance value is less than 0.05, then  $H_0$  is not accepted. Kolmogorov Smirnov test results demonstrate that significance value is greater than 0.05 equals to 0.116, thus concluded confounding variable or residual is normally distributed in regression model.

### 6.5 Data analysis and interpretation

In data processing use linear regression, it is performed several steps to find the relationship between independent variables and dependent variables, namely through t test and F test. Table 3 shows significant and positive effect on auditor independence variables ( $X_1$ ) and audit tenure ( $X_2$ ), while for the *audit fee* variable ( $X_3$ ) showed no significant effect.

Table 3 Multiple Regression Result

Variable	Unstandardized Coefficients (B)	t count	Sig.	Description
(Constant)	13,866			
Auditor Independence ( $X_1$ )	0,244	3,266*	0,001	Significant
Audit Tenure ( $X_2$ )	0,089	1,191*	0,236	Non Significant
Audit Fee ( $X_3$ )	0,390	5,224*	0,000	Significant
R	= 0,481			
R Square	= 0,231			
Adjusted R <sup>2</sup>	= 0,214			
F count	= 13,914			
F table	= 2,670			
Sign. F	= 0,000			
Alpha ( $\alpha$ )	= 0,05			
N	= 143			

Significant at level 5%, t-table 5% = 1,977

Source: Research Findings, 2013 (Processed)

### 6.6 The influence of auditor independence on audit quality

Auditor independence has t count at 3.266, greater than t table ( $3.266 > 1.977$ ) as well as having a significance of 0.001 which is less than 0.05. It can be concluded that the first hypothesis ( $H_1$ ) is accepted, meaning that auditor independence significantly influences audit quality. The influence of auditor independence on audit quality is positive, which means that the higher the auditor independence, the higher the audit quality is. The results are consistent with a research conducted by Lawalata, Said and Mediaty (2008) and Christiawan (2002) which states that there is a significant positive effect of auditor independence on audit quality.

### 6.7 The influence of audit tenure on audit quality

Audit tenure has t count of 1.191, smaller than t table ( $1.191 < 1.977$ ) as well as having a significance of 0.236 which is more than 0.05. It can be concluded that the second hypothesis ( $H_2$ ) is rejected, which means that the audit tenure does not have a significant influence on audit quality. The result is consistent with a research conducted by Hartadi (2009) which states that the audit tenure does not significantly affect the quality of the audit, with audit tenure the auditor will be disrupted in carrying out his audit, for example, in providing a work up opinion, so that audit quality will decrease. However, the results conflict with Jackson et al. (2007) which state that the audit tenure can provide auditor a better understanding of his clients, thus increasing audit quality.

### 6.8 The influence of audit fee on audit quality

Audit fee has t count at 5.224, greater than t table (1.977) and has a significance of 0.000, less than 0.05, it can be concluded that the third hypothesis ( $H_3$ ) is accepted, meaning that audit fee has significant effect on audit quality. The influence of audit fee on audit quality is positive, which means that the higher audit fee, the higher the audit quality is. The results are consistent with a research conducted by Yuniarti (2011) and Venkataraman, Weber and Willenborg (2008) which state that audit fee affect the audit quality. However, the results conflict with studies conducted by Sundgren and Tobias (2011) which state the audit fee has a negative impact on audit quality.

### 6.9 The influence of auditor independence, audit tenure, and audit fee on audit quality

Based on table 3, the value of F count at 13.914 which is greater than the F table ( $13.914 > 2.670$ ) and the significance of 0.000 is less than 0.05. Thus, it is concluded that the fourth hypothesis ( $H_4$ ) is accepted, meaning that auditor independence, audit tenure, and audit fee simultaneously have significant effect on audit quality, although individually audit tenure has no significant effect on audit quality.

## 7. Conclusions and recommendations

This study was conducted to determine the effect of auditor independence, audit tenure, and audit fee on audit quality either partially or simultaneously. Based on the data testing results that have been conducted, a conclusion can be drawn up as follows:

- Auditors who were respondents in this study already had high degree independence in performing the audit whether in programming, working, and reporting the audit results to the client. Therefore, in this study, auditor independence has positive and significant influence on audit quality.
- Audit tenure does not significantly affect audit quality. This could be due to audit tenure above client aimed to understand better and more efficient in providing the audit services not to affect the auditor independence in providing audit services. Thus, the results of this study showed no significant effect of audit tenure on audit quality.
- The testing results of third hypothesis showed that through the audit fee, it can produce better audit quality. The amount of audit fee can vary depending on the risk assignment, the complexity of services, the level of expertise required, the cost structure of the Public Accountants Firm, and other professional considerations. Therefore, in this study, audit fee has positive and significant influence on audit quality.
- The results of the simultaneous regression coefficient test (F test) showed that auditor independence, audit tenure, and audit fee simultaneously affect audit quality.
- Donations of variables influence to auditor independence, audit tenure, and audit fee simultaneously on audit quality variable is at 21.4 %, which means that as many as 78.6% remaining factors were not examined in this study that affect audit quality variables. The factors may include the auditor's understanding of internal control, auditor's size, auditor's industry specialization, audit risk, and other various factors beyond the model.

## 8. Recommendations

For improving the audit quality, we recommend that IAPI should set up an independent Audit Review Board, who would be responsible for conducting practice reviews for the auditors of public interest entities. Rotation of audit partners and accounting firms as required by Minister of Finance Decree No.17/PMK.01/2008 which mandates a three-year rotation for audit partners a six-year rotation for firms, should be changed and follow the IFAC Code of Ethics for Professional Accountants, revised in July 2009, that requires audit partner rotation every seven years for public interest entities.



## References

- AAA Financial Accounting Standards Committee. (2001). Commentary: SEC auditor independence requirements. *Accounting Horizons*.15. (4). pp. 373-386
- Agoes, S. (2012). *Auditing: Petunjuk Praktis Pemeriksaan Akuntan oleh Akuntan Publik (Practical Guide of Auditing by Public Accountant)*. Jakarta: Salemba Empat
- Arens, Alvin A., Elder, Randal J., and Beasley, Mark S. (2012). *Auditing and Assurance Services: An Integrated Approach*, 14<sup>th</sup> edition. New Jersey: Pearson Education, Inc.
- Christiawan, J. Y. (2002). Competence and independence of public accountant: Reflections on the results of empirical research. *Journal of Accounting and Finance*. 4. (2). pp. 79-91
- DeAngelo, L. (1981). Auditor size and audit quality. *Journal of Accounting and Economics* 3. (3). 183-199.
- Djamil, N. (2000). Factors affecting audit quality in the public sector and some characteristics to increase it. *Journal of Economics and Accounting STIE Nasional Banjarmasin*
- Hair, J.F., R.E. Anderson, R.L. Tatham & W.C. Black. (2006). *Multivariate Data Analysis*. Fourth Edition. New Jersey: Prentice-Hall International, Inc.
- Hartadi, B. (2009). Influence of audit fee, KAP rotation, and the reputation of auditors on audit quality in the Indonesia Stock Exchange. *Journal of Economic and Finance*.16. (1). pp. 84-103
- Indah, S. N. M. (2010). *Effect of auditors competence and independence on audit quality (empirical study on KAP auditor in Semarang)* <http://eprints.undip.ac.id/22994/1/SKRIPSI...pdf>
- Institut Akuntan Publik Indonesia. (IAPI) (2011). *Standar Profesional Akuntan Publik (Public Accountants Professional Standards)*. Jakarta: Salemba Empat
- Jackson, A. B., Moldrich, M., & Roebuck, P. (2007). Mandatory audit firm rotation and audit quality [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1000076](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1000076)
- Kusharyanti. (2003). The findings of research on audit quality and the possibility of future research topics. *Journal of Accounting and Management*.14. (3). pp. 25-34
- Lawalata, J., Said, D., & Mediaty. (2008). The Influence of auditor independence, organizational commitment, leadership style and organizational culture on the performance of auditors <http://118.97.33.150/jurnal/files/8f673f6840d5d71f10d0e328c11de7bd.pdf>
- Nuratama, I. P. (2011). *Tenure Influence and Public Accountant Firm Reputation on Audit Quality by the Audit Committee as Moderation variable (Case Study at Manufacturing Companies Listed on the Stock Exchange Year 2004-2009)*
- Nurchasanah, R. & Rahmanti, W. (2003). Factors Analysis of audit quality determinant. *Journal of Accounting and Management*.14.(2). pp. 47-60
- Parasuraman, A., Zeithaml, Valerie A., & Berry, L. L. (1988). Servqual: A multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing*.64. (1). pp. 12-40
- Regulation of the Minister of Finance (Peraturan Menteri Keuangan) No. 17/ PMK.01/ 2008/ about Public Accountant Service <http://www.sjdih.depkeu.go.id/fullText/2008/17~PMK.01~2008Per.HTM>
- Sekaran, U. (2006). *Metode Riset Bisnis (Business Research Method)*. Jakarta: Salemba Empat
- Sundgren, S., & Svanström, T. (2010). Auditor-in-charge characteristics and going concern reporting behavior: Does number of assignments, age and client fee dependence matter? [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1717943](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1717943)
- Suharli, Michell & Nurlaelah. (2008). The concentration of the auditor and the audit fee determination: Investigation on SOEs. *Jurnal Akuntansi dan Auditing Indonesia*.12. (2). pp. 133-148
- Surat Keputusan Ketua Umum Institut Akuntan Publik Indonesia (Decree of the Chairman of the Institute of Indonesian Public Accountants) Nomor: KEP.024/IAP/VI/2008 about Audit Fee Determination Policy <http://www.iapi.or.id/iapi/download/Peraturan/Kebijakan%20Penentuan%20Fee%20Audit.pdf>
- Venkataraman, R., Weber, J., & Willenborg, M. (2009). Litigation risk, audit quality, and audit fees: Evidence from Initial Public Offerings. <http://www.carlsonschool.umn.edu/assets/37726.pdf>
- Wati, C. & Subroto, B. (2003). Factors that influence the independence of public accountant appearance. *Theme Journal*.4. (2). pp. 85-101
- Wibowo, A. & Rossieta, H. (2008). Determination factors of audit quality: A study with earnings surprise benchmark approach <http://staff.ui.ac.id/system/files/users/hilda.rosieta/publication/siae41.pdf>
- Widiastuty, E. & Febrianto, R. (2010). The measurement of audit quality: an essay. *Scientific Journal of Accounting and Business*. (2)
- Yuniarti, R. (2011). Audit firm size, audit fee and audit quality. *Journal of Global Management*.2. (1). pp. 84-97