

The Effect of *Fee Audit* and *Audit Tenure* on the Quality of Audits with Asymmetry Information as Intervening Variables (At the Manufacturing Companies Listed on the Indonesia Stock Exchange)

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Abstract:- The purpose of this study to examine the effect of audit fees, audit tenure of audit quality and information assymetry as intervening variable. Audit quality variables are measured using the KAP size included big four and non big four group of auditor. Audit fee measured by log n, tenure measured by calculate how long the auditor cooperation relationship with the auditee and information assymetry measured by altman z score. The population used in this study is a manufacturing company listed on Indonesia Stock Exchange with the 2013-2017 research year. The results of the tests carried out in this study show that audit fee and audit tenure have significant influenced of audit quality while audit fee do not affect on information assymetry, audit tenure have significant influenced of information assymetry and information assymetry also have significant influenced on audit quality.

Keyword:- Audit Quality, Audit Fee, Audit Tenure, Information Assymetry.

I. INTRODUCTION

Business development is increasingly fast and varied. Various types of businesses that can continue to be carried out by the management or company management. One of the effort made by management was to increase public trust in the company. Public trust can be obtained by conducting an audit of financial statements. In other words the audit can be used to increase public confidence in the financial statements of a company.

According to Rahmina and Agus (2014) financial reports need to be checked by an independent auditor so that it is known whether there is any discrepancy in the financial statement and financial statement user's can use the information to make decision. According to Al-thuneibat, Ream and Rana (2011) audits are designed to check whether the financial statements in the company are presented fairly. In addition, the financial statement audit is also useful to facilitate management and investor in making decision. For this reason, management need a public accountant to audit its financial statements.

Research conducted by Hoitash (2007), Asthana and Jeff (2012, Hartadi (2012) states that fees audit have a positif effect on audit quality. The above studies explain that audit quality is determined by fees audit. When fees audit are paid high, the audit quality will also be high. This

is different from the result of research conducted by Cahan and Jerry (2015) and Yuniarti (2011) stating that fees audit has negatively affect on audit quality. This study explain that audit quality is not determined by the amount of fees paid, when high fees are paid, it result in low audit quality.

Beside that, audit quality can also be effect by audit tenure, namely the length of tme the auditor conducts an examination of the financial statement of a company (Rahmina et al,2014). According to Junaidi, Harun and Eko (2014) the long term relationship between client and auditors can reduce auditor independence, if both parties are intensively involved, the auditor shoul be able to detect the cause of the low quality of financial statement without being influenced by other parties.

Research on the effect of fees audit and audit tenure on the quality has been previously investigated, but the research has a different result, so that information on the audit quality produced will also be different. This reason is reinforcing to try again to examine audit quality. In addition, in this study added information assymetry variable.

This study aims to obtain empirical evidence about the effect of audit fees and audit tenure on audit quality and effect of audit fees and audit tenure on information assymetry, also to examine the effect of information assymetry on audit quality. Other than that, this research has a purpose to give a benefit in the form of guidelines for conducting next research and make the other people know about audit quality.

II. THEORETICAL FRAMEWORK AND HYPOTHESIS

➤ Agency Theory

Jensen and Meckling (1976) defines theory agency as a theory that explains the relationship between the owner of the company or shareholder and the management. The management as an agent appointed by shareholder to manage the company. In reality there is always a difference of interest between the shareholder and management.

The main purpose of agency theory is to explain how contracting parties can design contract whose purpose is to minimize cost as a result of assymetry information and uncertainty condition. In financial reporting, manager who

act as agent and have an obligation to present information that is useful for users of financial statement.

➤ *Signaling Theory*

Signal theory explain the reason a company has an encouragement to give information of financial report to external user. Signal theory also indicates that the company was trying to show the signal in the form of positive information (goodnews) to potential investor through disclosure in the financial statement (Suwardjono, 2008). Information provided by management will make it easier for creditors to make decisions.

When information has been disclosed, market participant will analyze the information as a signal that is good or bad. Disclosure of these information is one way to eliminate information asymmetry that occurs between shareholder and management. Managers from well-performing companies will be encouraged to sign up for that expectation and managers from companies that have neutral news will also give the good news.

Manager from poorly performing companies choose not to report anything. Nonetheless, manager from poorly performing companies may be want to give information to maintain their credibility at capital market. By assuming that these things encourage the delivery of information on the capital market.

➤ *Hypothesis*

• *Audit Fee and Audit Quality*

According to hoiash (2007) fees paid by auditee to auditor can have an effect to audit quality. The high cost of audit service carried out by public accountant can increase the effort carried out by the auditor, thereby improving audit quality. The research by Kurniasih and Abdul (2014) have the result that fee audit have a positive effect on audit quality, that means high fees audit will result in high audit quality. So the company prefers to pay a large audit fee because with a large fee the public accountant can produce quality report and will make trust in financial statement increase.

This is consistent with theory put forward, namely the theory signaling. Research by Rahmina, et al (2014) that fees audit have a positive effect on audit quality. High fees audit will result in high audit quality. The explanation above produces the following hypothesis :

H₁ : Fee audit has an effect on audit quality

• *Audit Tenure and Audit Quality*

Audit tenure is the length of the relationship between auditor and the auditee in auditing financial statement. The longer relationship will reduce independence of the auditor. The previous research related to audit tenure is a study conducted by Al-thuneibat et al (2011) and the result of their study show audit tenure has negative effect on audit quality. Research conducted by Jackson et al, (2008) have

a different result that is audit tenure has a positive effect on audit quality. Hypothesis as follow :

H₂ : Audit tenure has an affect on audit quality

• *Audit Fee and Information Asymmetry*

According to DeAngelo (1981) audit fees are income whose magnitude varies depending on the nature of the audit assignment. Hoitash (2007) argues that when the auditor negotiates with management regarding the amount of fee that must be paid by management for audit services performed, then reciprocal concessions are likely to occur which will clearly reduce the quality of audit reports. This action is an action that no longer reflects the professional attitude, so this will have an impact on the provision of information on the users of financial statement, in other words asymmetry information on the company will increase. This study have a hypothesis :

H₃ : Fee audit has an affect on information asymmetry

• *Audit Tenure and Information Asymmetry*

According to Hartadi (2012) the long engagement relationship between auditor and auditee will cause the established professional standards. This of course interferes with the auditor's objectivity in conducting an audit of a company.

Previous research has shown that the influence of audit tenure on information asymmetry still has different result. The research conducted by Almutairi, Kimberly and Terrace (2009) revealed a positif relationship between audit tenure and information asymmetry, where market participant realize that the longer auditor relationship with a company, the auditor's objectivity level will decrease so that information gaps in a company occur. This research have a hypothesis :

H₄ : Audit tenure has an affect on information asymmetry

• *Asymmetry Information and Audit Quality*

Asymmetry information is an information gap that occurs between one party and another. Good quality is expected to be able to provide good information on each use. Research conducted by Varici (2013) show that result has a relationship between asymmetry information and audit quality which means that, if there is an increase in the level of information asymmetry, there will be an increase in audit quality, because auditor continue to work well so that information asymmetry is not an obstacle in conduct audits, based on the above framework, the authors propose the following hypothesis :

H₅ : Asymmetry information has an affect on audit quality

III. RESEARCH METHODE

This research is a quantitative descriptive study that is intended to test models that explain the about fees audit, audit tenure and information asymmetry on audit quality. The approach in the purpose of this study is to test the hypothesis. According to Sekaran (2003) study examined in testing hypothesis it is usually related to certain traits or form differences between groups or the independence of two or more factor in one situation.

The type of research data relates to data sources and the selection of methods used to obtain a data in the study. The data used in this study are secondary data, namely data in the form of audited financial report and published on Indonesia Stock Exchange.

The data resources in this study are financial statement obtained from websites company. This research

uses financial statement for 2013-2017. The population of this research will be carried out to company going public on Indonesia Stock Exchange during 2013-2017, so that companies that have been delisted from the stock exchange are not included.

The method used for sampling is purposive sampling, the population used in this study is population that meets certain criteria. These criteria are as follow :

- All manufactur company listed on the indonesia stock exchange during 2013-2017, so that company have been delisted are not included.
- Companies that are sampled are companies that publish complete financial reports during 2013-2017
- Data on research variables that will be examined must be available in full.

| No | Variables | Indicators | Measurement |
|----|-------------------------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | <i>Fee Audit</i> | <i>Fee</i> received by the auditor | Natural logarithm of <i>fees</i> audit |
| 2. | <i>Audit Tenure</i> | Number of engagements between auditors and companies | Calculating the number of years of engagement between companies and auditors |
| 3. | Audit Quality | KAP big 4 / non Big 4 (dummy) | 1: big 4 0: non big 4 |
| 4. | Information onAsymmetry | <i>AltmanZ-score</i> | $Z = 1,2 (WCTA) + 1.4 (RETA) + 3.3(EBITTA) + 0.6 (MVEBVL) + 1 (STA)$ WCTA : <i>Working capital to total assets</i> or working capital divided by total assets. RETA : <i>Retained earnings to total assets</i> divided by total assets EBITTA : <i>Earning before interest and taxes to total assets</i> divided by total assets MVEBVL : <i>Market value of equity to book value of liability</i> or securities market value divided by book value of debt). STA : <i>Sales to total assets</i> or sales divided by total assets. |

Table 1:- Measurement of Variables

This study uses data analysis methods using smart software PLS version 3.0 which is run on computer. According to Abdillah and Jogiyanto (2015) we can used PLS to examines measurement models and structural model.

Abdillah and Jogiyanto (2015) explained that PLS analysis is a multivariate statistical technique that make comparisons between multiple dependent variable and multiple independent variables. PLS is designed to solve multiple regression when specific problem occur in the data.

IV. RESULTS AND DISCUSSION

| | Original Sample (O) | Mean (M) | Standard Standard Deviation (STDEV) | T Statistics (O / STERR) |
|----------------------------------------|---------------------|----------|-------------------------------------|------------------------------|
| Tenure Audit -> Asymmetry Information | 0.162494 | 0.162932 | 0.034452 | 4,716516 |
| Tenure Audit -> Audit Quality | 0,274886 | 0.274137 | 0.034826 | 7.893171 |
| Audit Fee -> Asymmetry Information | 0.032008 | 0.034039 | 0.033955 | 0.942640 |
| Audit Fee -> Audit Quality | 0.341786 | 0.345019 | 0.023353 | 14,635492 |
| Asymmetry Information -> Audit Quality | 0.066527 | 0.067506 | 0.035856 | 1.855375 |

Table 2:- Path Coefficients (Mean, STDEV, T-Values)

Hypothesis testing is intended to test the effect of an exogenous variable or the effect of endogenous variables on other endogenous variable. In other word, you want to test the significance of the influence of a variable that affects another variable that is affected.

The basis of decision making from the hypothesis test is that if the value of $t_{\text{statistic}} < t_{\text{table}}$ then the hypothesis is accepted. The hypothesis that can be described based on the result in the table above are:

- The effect of audit fees on audit quality

H_1 : fee audit has a significant effect on audit quality

Based on testing of hypothesis using PLS obtained $t_{\text{statistik}}$ of 14,635 > t_{table} (1,654). This mean that audit fee has a effect on audit quality. The value means sample of 0,345019 indicates that fee audit have a direct positive relationship to audit quality. Thus the first hypothesis of this study was accepted.

- The effect of audit tenure on audit quality

H_2 : audit tenure has a significant effect on audit quality

Based on the result of hypothesis using PLS obtained $t_{\text{statistik}}$ of 7,893171 > t_{table} (1,645).this mean that audit tenure has a effect on audit quality. The value means sample of 0,274137 indicate that audit tenure has a direct positive relationship to audit quality. Thus the hypothesis of this study was accepted.

- The effect of audit fees on information asymmetry

H_3 : audit fees has significant effect on information asymmetry

Based on the result of hypothesis using PLS obtained $t_{\text{statistik}}$ of 0,942 > t_{table} (1,645).this mean that audit fee has no effect on information asymmetry. In other word, between fee audit and information asymmetry do not have a relationship. Thus the hypothesis of this study was rejected.

- The effect of audit tenure on information asymmetry

H_4 : audit tenure has a significant effect on information asymmetry

Based on the result of hypothesis using PLS obtained $t_{\text{statistik}}$ of 4,716516 > t_{table} (1,645). This mean that audit tenure has a effect on information asymmetry. The value means sample of 0,162932 indicate that audit tenure has a direct positive relationship to information asymmetry. Thus the hypothesis of this study was accepted.

- The effect of information asymmetry on audit quality

H_5 : information asymmetry has a significant effect on audit quality

Based on the result of hypothesis using PLS obtained $t_{\text{statistik}}$ of 1,855375 > t_{table} (1,645). This mean that information asymmetry has a effect on audit quality. The value means sample of 0,067506 indicate that information asymmetry has a direct positive relationship to audit quality. Thus the hypothesis of this study was accepted.

V. CONCLUSION

This study aims to empirically examine the effect of fee audit and audit tenure on audit quality with information asymmetry as an intervening variable. In this study the author uses partial least square (PLS) version 3.0 in analyzing relationship between variables.

SUGGESTION

The suggestion from this research are that the next researcher can conduct research in other industries because this research only uses manufacturing companies, so that it can be better generalized. In addition, the next researcher can add other variable that can make this study more perfect, such as adding audit committee variables and extending the research period and using different measuring instruments.

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