

The effect of market concentration audit, audit tenure, and audit fees on audit quality (study on companies listed in the jakarta islamic index (JII) in 2020-2023)

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ABSTRACT

The purpose of this research is to find out how audit market concentration, audit tenure, and audit fees influence audit quality partially and simultaneously, a study of companies listed on the Jakarta Islamic Index for the 2020-2023 period. Purposive sampling is the method used in this investigation. Using the E-Views 10 program, panel data regression analysis is a display of the data used and secondary data sources from annual financial reports and literature related to the topic for collecting data. Research findings show that partially, audit market concentration has a positive and significant influence on audit quality, audit tenure has a negative and significant influence on audit quality, while audit fees have no influence on audit quality. Simultaneously audit market concentration, audit tenure and audit fees together have a significant influence on audit quality.

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1. INTRODUCTION

The quality of an audit process is very important to ensure that financial statements can be used as a basis for decision-making and can be trusted by the public and other third parties. With good audit quality, it will make it easier for the company to gain more trust from external parties, so that the company's opportunity to continue to move forward is greater. According to De Angelo in 1981 defined audit quality as the likelihood that an auditor will find and report violations that exist in the client's accounting system. (Calocha and Herwiyanti 2020).

To be able to meet the quality of a good audit, auditors in carrying out their profession as auditors must be guided by the code of ethics for accountants, professional standards and financial accounting standards that apply in Indonesia. Every auditor must maintain integration and objectivity in carrying out its duties by acting honestly, firmly, without prejudice so that he can act fairly, without being influenced or requested by certain parties to fulfill his personal interests, the Auditor is in charge of providing an opinion on the fairness of the financial statements as a basis in making decisions that the financial statements presented by the management are trustworthy. The trust that has been given to the auditor requires the auditor to pay attention to the quality of the audit he conducts.

Currently, the auditor profession is experiencing a crisis of distrust and is in the public spotlight with the emergence of cases of data manipulation and fraud in financial statements carried out by large companies, such as the phenomenon of fraudulent cases of manipulation of financial statement data that occurred in 2020 which was shown in the research of Eka Mayasari and Sri Trisnaningsih in 2023, which shows that the phenomenon of fraudulent practices of manipulating

financial statement data occurred in the case of PT. Adisarana Wanaartha Life Insurance which violated integrity by manipulating financial statements by directors and financial staff, violations of professional conduct where accountants were involved in unethical acts and violations of competence (Mayasari and Trisnarningsih 2023).

The second case was quoted from CNBC Indonesia news, namely, PT. Sunprima Nusantara Financing (SNP Finance) in 2019 which has manipulated the data and information presented in the financial statements. The action taken is in the form of increasing receivables through fictitious sales. Thus, the results of the manipulated financial statements look healthy and as a result the company has managed to attract the attention of creditors. Moreover, SNP Finance's external auditors did not succeed in finding this practice and gave a reasonable opinion on exceptions that made creditors feel secure, accurate, and trustworthy (Mei, Mulyati, and Julianto 2022). The third case quoted from the Kompas.com news in 2023 occurred at PT. Wasita Karya, which committed a form of fraud by manipulating financial data of fictitious subcontract projects in 2020 by approving the disbursement of SupplyChain Financing (SCF) funds or funds with a joint venture scheme by using fake supporters to be used as payment for fictitious projects to meet the suspect's request.

Based on the phenomenon that has been described above, it shows that the practice of fraudulent manipulation of financial statement data is still widely carried out by several large companies in Indonesia. Cases of manipulation of financial statement data are considered unethical and often occur due to various motivations, including pressure to achieve financial targets and maintain the company's reputation. Violations of the professional code of ethics can have a negative impact on society, because members of the profession who do not meet the rules and values that have been established can result in a loss of trust and respect for the profession. Audit Market Concentration is the control of the audit market share of each Public Accounting Firm (KAP) in each industry in a certain period (Mardiana, Sufian and Anggraita 2015). Audit Market Concentration refers to the extent to which the audit services industry is dominated or dominated by several large audit firms. The higher the level of market concentration, the fewer audit firms hold market share and the greater the influence on the industry. Audit Market Concentration is related to audit quality because it has an impact that reduces the number of big 4 clients or the largest KAP in the United States switching auditors and limiting the choice of auditors of large companies, resulting in a softer audit approach and it is feared that the quality of the resulting audit is lower (Afifah, Suryanto, and Sari 2021).

In Indonesia, the audit services market is dominated by four major KAP which are affiliates of the international Big 4 KAP. The four KAP include Deloitte Touche Tohmatsu, Pricewaterhouse Coopers, Ernst & Young, and KPMG. Competition in the business world is getting tighter, including competition in the business of public accounting services. In line with the increasingly advanced and rapid development of public companies in Indonesia, resulting in an increasing demand for audits of financial statements. So that to be able to survive in the midst of fierce competition, especially in the field of public accounting services business, they must be able to gather as many clients as possible and gain the trust of the wider community, therefore requiring auditors to remain in possession. good audit quality (Khansa and Shofwan 2022).

Tenure Audit is the length of the auditor's engagement with the client (Taufiqah Julia Wardani, Bambang, and Iman Waskito 2022). Audit Tenure can also be affected by the quality of the audit seen from the period of the auditor's engagement with the audit. A long tenure audit can cause an emotional relationship between the client and the auditor so that it can reduce the independence of the auditor which affects the quality of the audit (Calocha and Herwiyanti 2020). The audit engagement period has also become a debate after the issuance of the Decree of the Minister of Finance No. 17/PMK.01/2008 concerning public accountant services and government regulation of the Republic of Indonesia Number 20 of 2015. Where in the 2008 regulation the limitation of the period of provision of audit services by KAP is limited to 6 consecutive book years by a public accountant and three consecutive book years by a public accountant to the same client, and the public accountant and KAP can receive the assignment again after one book year of not providing audit services to the client. Meanwhile, in the government regulation of the Republic of Indonesia number 20 of 2015, there is no limit to the period of providing audit services by KAP and for public accountants it is extended to 5 consecutive financial years, and the reassignment is carried out after 2 financial years.

Tenure audits are related to audit quality because with tenure auditors are able to have comprehensive knowledge and low emotional bonds between auditors and clients, but on the other hand, a short tenure period results in the acquisition of information in the form of data and evidence is limited which allows data to be deliberately omitted by managers and difficult to find, so that what is presented can also be better or worse (Calocha and Herwiyanti 2020). Audit Fee is a nominal amount of payment given by the client to the Public Accountant Firm (KAP) for the services that have been provided, including the investigation of financial statements (Rahmawati and Sudarma 2021). The relevance of audit fees is that to get good audit quality, a high audit fee is needed so that the audit results produced can be of high quality. The existence of this high audit fee allows Public Accounting Firms to report audit procedures in more detail and more depth so that the quality of the resulting audit is also high.

Research on market concentration audits has been researched by Fitri Siti Rahma in 2020 which states that market concentration audits have a positive effect on audit quality (Rohmah and Kusumo 2020). In contrast to the results of research from Fadhillah Rizki Afifah in 2021 which stated that market concentration audits have no effect on audit quality (Afifah et al. 2021). Vena Indahsari, Budi Kurniawan, and Andrey Hasihola in 20223 stated that tenure audits have no effect on audit quality (Indahsari, Kurniawan, and Pulungan 2021). In contrast to the research conducted by Putri Maghfirah Vidhiyanty, Set Asmapane and Ibnu Abni Lahaya in 2022 which stated that tenure audits affect audit quality (Vidhiyanty, Asmapane, and Lahaya 2022). Famelya Ayuni and Dian Itria Handayani in 2023 stated that audit fees affect audit quality (Ayuni and Dian fitria handayani 2023), Agustina Mutia, Khairiyani, and Ratih Kumala Dewi in 2022 stated different results that audit fees have no effect on audit quality (Mutia and Dewi 2022). Based on previous studies, it can be seen that there are still inconsistencies from the results of previous studies, where the inconsistencies of previous studies in the research period are all below 2020 or the same as 2020. Therefore, based on the inconsistency in previous studies, this study has an update of research, namely by adding an audit fee variable. Then using the period of 2020-2023 where the previous year used the period of 2016-2020, then using panel data regression analysis where the previous study used logistic regression for data analysis.

2. RESEARCH METHOD

This study uses an associative method with a quantitative approach. This study uses the population of companies listed in the Jakarta Islamic Index (JII) in 2020-2023. The total illustrations used in this purposive sample study are 32 illustrations, which is the final illustration of 8 companies listed in JII in 2020-2023.

3. RESULTS AND DISCUSSIONS

Table 1. Descriptive Statistical Analysis

	X1	X2	X3	Y
Mean	0.156113	1.656250	24.61936	4.906250
Median	0.057264	1.500000	24.77819	5.000000
Maximum	0.475440	3.000000	26.00145	5.000000
Minimum	0.009513	1.000000	21.82487	2.000000
Std. Dev.	0.164938	0.745281	1.132705	0.530330
Skewness	0.846408	0.637862	-0.807865	-5.388159
Curtosis	2.066062	2.096373	2.907508	30.03226
Observations	32	32	32	32

Based on the results of the descriptive analysis in table 4.2, it can be seen that the sample (N) in this study is 32, in this case it shows the number of data analyzed, which is 32 data. The results of the descriptive statistical analysis above are;

Analysis of audit quality variables in Jakarta Islamic Index (JII) companies has a mean or average of 4.906250, a minimum of 2.000000, a maximum of 5.000000, and a standard deviation of 0.530330. This means that the average number of audit quality measured by the number of audit opinions from each company listed in JII during the period (2020-2023) reported in the annual report is 4.906250, with the smallest value of 2.000000 being for companies that have an opinion value

without giving an opinion, while the largest value of 5.000000 is owned by companies that provide a fair opinion without exception.

The analysis of the market concentration audit variable has a mean or average of 0.156113, a minimum value of 0.009513, a maximum value of 0.475440, and a standard deviation of 0.164938. This shows the average value of the HHI indicator in the annual financial statements of each company listed in the Jakarta Islamic Index (JII) during the period (2020-2023), which amounts to 0.156113, with the smallest value being 0, 009513 is in the Jamu and Pharmaceutical Industry company Sido Muncul Tbk in 2023, while the largest value is 0.475440 in the Semen Indonesia (Persero) Tbk company in 2022.

Analysis of the audit tenure variable has a mean or average of 1.656350, the minimum niali is 1.000000. The maximum niali is 3.000000, and the standard deviation is 0.637862. This shows the average value of companies that conduct audit engagements with public accounting firms of 1.656350, with the smallest value of 1.000000 in companies that conduct audit engagements with public accounting firms for only one period, and the largest value of 3.000000 in companies that engage with public accounting firms for three consecutive periods.

Analysis of the audit fee variable has a mean or average value of 24.61936, a minimum of 21.82487, a maximum value of 26.00145 and a standard deviation of 1.132705. This shows that the average value of the audit fee indicator using the Natural Logarithm (LN) from data on professional fees accounts in the annual reports of JII companies during the period (2020-2023) is 24.61936, with the smallest value being 21.82487, namely for the company Sido Muncul Tbk Herbal Medicine and Pharmaceutical Industry in 2023 and the largest value is 26,00145 for the Indonesian Semen Company (Persero) in 2022.

Table 2. T Test Results

Vaariable	Coefficient	Std.Error	t-Statistic	Prob.
C	-0.691122	0.183179	-3.772925	0.0008
X1	1.066092	0.476096	2.239235	0.0333
X2	-0.523520	0.206285	-2.537846	0.0170
X3	-0.150348	0.126545	-1.188099	0.2448

Source: E-Views V10 released in 2024

Table 3. F TTest Results

R-square	0.320444	Mean dependent var	-0.900542
Adjusted R-square	0.247634	S.D. dependent var	0.330258
S.E. of regression	0.286463	Sum squared resid	2.297702
F-statistic	4.401126	Duburtin-Watson Stat	3.106194
Prob (F-statistic)	0.011721		

Source: E-Views V10 released in 2024

The Influence of Audit Market Concentration on Audit Quality

The research conducted showed that Audit Market Concentration had a positive and significant effect on audit quality. This is proven in the test obtained, namely the magnitude of the positive coefficient along with the significance value of the market concentration audit which is smaller than 0.05%. These results show that the market concentration audit value influences audit quality as measured by HHI. The research results are in line with agency theory, namely that the auditor as an independent third party plays a role in monitoring the behavior of agents (management) to ensure that they act in accordance with the interests of the principal (company owner). KAPs that are affiliated with Big 4 International will have the same policies and standards as International KAPs. This makes the quality of the resulting audit better because it receives monitoring from KAP International. Apart from that, the high competition between KAPs in Indonesia causes the big 4 KAPs to provide better audit quality because they want to maintain their reputation by ignoring the need to please clients.

The results of this research are supported by research conducted by Fitri Siti Rahmah (Apandi and Rahmah 2021), where the research shows that audit market concentration has a positive effect on audit quality. However, this research contradicts research conducted by Fadhila

Rizki Afifah(Afifah et al. 2021) dan Risdianti whose research results show that audit market concentration has no effect on audit quality.

The Influence of Audit Tenure on Audit Quality

The next hypothesis in this research is that audit tenure has a negative and significant effect on audit quality, while the results of regression research show that audit tenure has t count $>$ t table, namely $-2.537846 > 2.04523$ and a significant value of $0.0170 < 0.005$ so that audit tenure has an effect. on audit quality. The results of this research show that audit tenure has a negative and significant effect on audit quality. In other words, H2 is accepted, audit tenure has a significant effect on audit quality. A relationship that is too long between the client and the auditor tends to give rise to the perception that it is very difficult for the auditor to be independent, as a result the auditor does not make changes or new developments to the audit strategy used, thereby causing the quality of the audit to decline.

These results are supported by research conducted by research Deni Rahmadani Tasya Hervia,,Vena Indahsari (Indahsari et al. 2021) Fadhila Rizki Afiffah(Afifah et al. 2021) where the research shows that audit tenure has a negative and significant effect on audit quality.

The Influence of Audit Fees on Audit Quality

In accordance with the partial hypothesis test or t test above, H3 is partially rejected or the audit fee is negative and not significant to audit quality. This hypothesis is rejected because the amount of the audit fee cannot determine whether the quality of the audit is good or not, because the amount of the audit fee is an agreement between the two parties based on several considerations such as working hours, complexity of work, level of expertise, number of personnel, and responsibilities. A high audit fee will not influence the auditor's decision to provide an unqualified opinion.

These results are supported by research Tasya Hervia Vena Indahsari(Indahsari et al. 2021) dan Nur Andika Handayani(Nur Andika Handayani 2023) where research shows that fees generally have no effect on audit quality.

Market Concentration Audit, Tenure Audit, and Audit Fees on Audit Quality

The influence of Market Concentration audits, Audit Tenure and Audit Fees has a positive and significant effect on audit quality. The research results are based on simultaneous tests (f test), it can be seen that the calculated F value is $4.401126 > F$ table which is 2.95 and the probability value is $0.011721 < 0.05$, so it can be seen that audit market concentration (X_1), audit tenure (X_2), and audit fees (X_3) together have a significant effect on audit quality (Y).

Audit Market concentration, audit tenure, and audit fees influence audit quality because large and dominant audit firms tend to have more resources and incentives to maintain high audit quality, while good relationships and appropriate fees can increase audit effectiveness in reduce conflict between principal and agent. However, it is important to ensure that auditor independence is not threatened by too close a relationship or excessive financial dependence on a client.

4. CONCLUSION

Based on the results of testing and analysis results that have been carried out using the E-Views 10 application regarding the influence of audit market concentration, audit tenure and audit fees on audit quality, the results of the testing and analysis are as follows; Based on the results of the partial test statistics (t test) which are as follows;The market concentration audit variable has a positive effect on audit quality; The audit tenure variable has a negative and significant effect on audit quality; The audit fee variable has no effect on audit quality;Based on the results of simultaneous statistical testing (f test), the results of the testing and analysis show that audit market concentration, audit tenure and audit fees together have an effect on audit quality.Future researchers are expected to be able to expand the population and research sample, not just limited to the Jakarta Islamic Index (JII) to get different results later. The research period is not only four years but can be more than four years. Future researchers can add other variables to get even more optimal research results, such as adding other variables related to audit quality. the effect of audit market concentration, audit tenure, and audit fees on audit quality in companies listed on the Jakarta Islamic Index (JII) from 2020 to 2023 revealed several significant findings. First, the level of market concentration has a direct impact on audit quality, with an increase in market concentration tending to reduce the quality of audits performed. This indicates that less competition in the audit market may reduce the incentive to

maintain high audit quality. Second, audit tenure also plays an important role; longer tenure tends to reduce audit quality, possibly due to its potential to reduce auditors' independence and objectivity towards their clients. Third, with regard to audit fees, the relationship with audit quality is more complex: while higher fees are generally expected to improve audit quality because they provide incentives for auditors to do a better job, the study results show that this is not always consistently the case. The results of this study provide insights for companies looking to improve their audit practices, particularly in the context of competitive financial markets and increasingly stringent audit regulations.

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