

THE EFFECT OF AUDIT FEE, AUDIT DELAY, AND AUDITOR SWITCHING ON AUDIT QUALITY

Alberto Harianja^{1*}, Judith Tagal Gallena Sinaga²

Adventist University, Indonesia¹²

albertoharianja88@gmail.com^{1*}, judith.sinaga@unai.edu²

Abstract: The purpose of this research is empirically to examine the effect of audit fees, audit delay, and auditor switching on audit quality in state-owned companies (BUMN). Secondary data used in this study were obtained from the Indonesia Stock Exchange (IDX), namely all state-owned companies that published complete audited financial reports in the period 2016-2020. Audit quality is proxied by discretionary accruals in Kasznik's model. The Data were analyzed using analysis descriptive, coefficient of determination, f test, and t test. Simultaneously, the result of this study indicates that empirical evidence for audit fees, audit delay, and auditor switching have significant influence on audit quality. Partially, the audit fee and audit delay have significant influence on audit quality. Meanwhile, auditor switching has no significant influence on audit quality.

Keywords: Audit Fee, Audit Delay, Auditor Switching, Audit Quality

INTRODUCTION

BUMN companies (state-owned enterprises) are companies whose operational activities are managed by the state, and most of their capital comes from the state. Capital from the state cannot be separated from the goal of improving the condition and performance of BUMN companies. The company's performance is certainly reflected in the financial reports issued by management, but it does not rule out the possibility that management can manipulate the numbers in the financial statements so that the company's performance looks good or increases so that users of financial reports such as investors, creditors and the government feel that they are not wrong to give their capital to the entity. In minimizing this possibility, it requires a third party that is not affiliated with the entity and is independent, namely an external auditor. The external auditor has a role in improving the quality of the client's financial statement information and is only responsible for the audit results, namely the opinion regarding the fairness of the client's financial statements. Thus, auditors must have high independence and competence in carrying out their duties so that the quality of the audit is maintained.

Audit quality is a series of audit processes carried out by public accountants following audit standards so that they can find and report any accounting violations committed by client entities Rinanda & Nurbaiti, (2018). Public Accountants have an important role to play in increasing the credibility and quality of information presented in the financial statements of the client entity. In this case, users of financial statements have great confidence in public accountants in providing audit opinions by the entity's performance. Thus, audit quality is very important because high audit quality will produce

financial reports whose information quality can be trusted by users of financial statements as a basis for decision making Prabhawanti & Widhiyani, (2018)

Regarding audit quality, this is consistent with the news on the Tempo website by Hidayat (2018) which reports that the Financial Services Authority (OJK) has imposed administrative sanctions in the form of cancellation of registration to public accounting firms Satrio, Bing, Eny, and Partners. The public accounting firm is considered to have failed to detect the financial statement manipulation scheme by the management of PT. SNP Finance. Starting from the credit problems of PT. SNP Finance to banks or creditors then submits a postponement of debt payment obligations with collateral for uncollectible receivables. These receivables are fictitious receivables made by management for the reason that after the receivables are collected, they will be immediately used to pay debts to creditors. In this case, the auditor does not apply a prudent attitude when carrying out his duties, even the opinion given is unqualified. However, based on the examination of the Financial Services Authority (OJK), PT. There are indications that SNP Finance presented financial reports that were not by the actual financial conditions, thus causing losses to many parties. Therefore, a high-quality audit is required to ensure their clients convey quality information and protect the principal as users of financial statements Pham et al., (2017).

In this study, audit quality is associated with audit fees, audit delay, and auditor switching. An audit fee is a reward in the form of money paid by the client to the auditor after performing his audit services. According to Jannah (2018), the amount of the audit fee can put the auditor in a dilemma, on the one hand, the auditor must be independent in providing an opinion on the client's financial statement audit, but on the other hand, the auditor must also be able to meet the needs of clients who have provided compensation for their services feel satisfied with his work and continue to use his services in the future. Thus, such unique conditions can put the auditor in a dilemma that can affect the quality of the audit. From the research results Ardani (2017) states that audit fees affect audit quality because audit quality is created by professional auditor performance, where professional auditors analyze what costs are done, the length of time they work, the location, and responsibility for the work. In contrast to the research conducted by Dhimadhanu (2016), it is stated that the audit fee does not affect audit quality because independence is still maintained by the auditor.

Audit delay is the time required by the auditor to complete the audit of the client's financial statements. This time can affect the timeliness of submitting financial reports to the public and it is known that timeliness is also associated with market reactions to the information that has been submitted Suyanto et al., (2018). Research conducted by Rahayu et al., (2020) states that audit delay affects audit quality and it is also explained that any audit delay has the potential to reduce the relevance of information on client financial reports. Therefore, the auditor must use the best time possible when carrying out the audit process so that there are no delays that cause the loss of client confidence in the auditor and the loss of the relevance of information on the client's financial statements.

Auditor switching is a change in auditors or public accountants by the client entity. It is hoped that periodic changes in auditors by the company can be a good solution to

reduce the probability of problems with a decline in audit quality. Research conducted by Siregar et al., (2011) states that auditor switching has a significant effect on audit quality. In contrast to the results of research conducted by Ardani (2017) which states that auditor switching does not have a significant effect on audit quality and explains that not all entities carry out auditor switching because the client has a hidden interest so that the client wants the company to be audited by the same auditor. Research hypothesis can be formulated as follows: Audit fees has effect on audit quality. Audit delay has effect on audit quality. Auditor switching has effect on audit quality.

METHODS

This study examines all state-owned enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) for the period 2016-2020. Based on information on the official website of the Indonesia Stock Exchange, there are 20 state-owned companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2020. The observation period in this study lasted from 2016 to 2020, so that 100 research samples were found. The type of data used in this research is secondary data, namely annual reports in which financial reports are available and obtained through the website www.idx.co.id.

The dependent variable in this study is audit quality as measured by using proxy Discretionary Accrual the Kasznik (1999) model. Kasznik (1999) model is a modification of the Modified Jones Model (1995) by adding a variable change in operating cash flow (ΔCFO) to get the value of non-discretionary accruals and discretionary accruals because according to Kasznik (1999), changes in cash flows from company operations will be negatively correlated. with total accruals. Audit quality is a negative value from the value of discretionary accruals, where high discretionary accruals value indicates low audit quality and if the value of discretionary accruals is low, it indicates high audit quality.

The following is the formula Discretionary Accrual:

1. Calculate the total accruals with the following equation:

$$TACC_{it} = NI_{it} - CFO_{it}$$

2. Calculating the accrual value with a simple linear regression equation with the equation:

$$\frac{TACC_{it}}{TA_{it-1}} = \alpha_1 \left(\frac{1}{TA_{it-1}} \right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) + \alpha_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \alpha_4 \left(\frac{\Delta CFO_{it}}{TA_{it-1}} \right) + \varepsilon$$

3. Calculate the nondiscretionary accruals model (NDA) as follows:

$$NDA_{it} = \alpha_1 \left(\frac{1}{TA_{it-1}} \right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) + \alpha_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \alpha_4 \left(\frac{\Delta CFO_{it}}{TA_{it-1}} \right) + \varepsilon$$

4. Calculating discretionary accruals:

$$DA_{it} = \frac{TACC_{it}}{TA_{it-1}} - NDA_{it}$$

Explanation:

DA_{it}	= Discretionary accruals of the company i in period t
NDA_{it}	= Nondiscretionary accruals of the company i in period t
$TACC_{it}$	= Total accruals of the company i in period t
TA_{it-1}	= Total assets of the company i in period t
NI_{it}	= Net income of the company i in period t
CFO_{it}	= Cash flow from operating activities of the company i period t
ΔREC_{it}	= Change in receivables of the company i in period t
ΔRev_{it}	= Change in revenue of the company i in period t
PPE_{it}	= Fixed assets of the company i in period t
ΔCFO_{it}	= Change in cash flow from operating activities of the company i in period
ε	= error

The independent variables in this study include audit fees, audit delay, and auditor switching. The proxy for each independent variable can be seen in the table as follows:

Table 1. Variable Measurement Method

Variable	Formula	Scale
Audit Fee (X1)	Audit fee = Ln (Audit fee)	Ratio
Audit Delay (X2)	Audit delay = Data of audit report – closing date of the book year	Ratio
Auditor Switching (X3)	Dummy. If there is a change of auditor in the year under review is given a value of 1, while the value of 0 if there is no change of auditor in the year under review.	Nominal

Source: data that has been processed by the author (2021)

The analysis method used is regression analysis which includes analysis descriptive, coefficient of determination, f test, and t test. The regression model that is formed is as follows:

$$DAC = \alpha + \beta_1 AF + \beta_2 AD + \beta_3 AS + \varepsilon$$

Explanation:

DAC	= Discretionary Accrual as a proxy for Audit Quality
α	= Regression Constant
$\beta_1 \beta_2 \beta_3$	= Regression Coefficient
AF	= Audit Fee
AD	= Audit Delay
AS	= Auditor Switching
ε	= Standard Error

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AF	100	19.54	24.90	21.6966	1.20280
AD	100	15.00	196.00	63.9700	32.07770
AS	100	.00	1.00	.5700	.49757
DAC	100	-.16	.16	.0186	.05447
Valid N (listwise)	100				

Source: IBM SPSS 26 Output, 2021

Table 2 shows the characteristics of each variable used in the study. In terms of audit quality which is measured using the discretionary accrual value of Kasznik's model, it has a minimum value of -0.16 and a maximum value of 0.16 with an average of 0.0186 indicating that earnings management is carried out around 1.86% of the total assets. The audit fee variable has a minimum value of 19.54 and a maximum of 24.90 with an average of 21.6966. The audit delay variable has a minimum value of 15 days and a maximum value of 196 days with an average of 63 days. Auditor Switching variable has a minimum of 0 and a maximum of 1 with an average of 0.5700 indicating that 57% of the total sample studied occurred auditor switching.

Coefficient Determination

Tabel 3. Coefficient Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.377 ^a	.142	.116	.05123

Source: IBM SPSS 26 Output, 2021

The results of the determination coefficient test (R Square value) above indicate that the audit quality variable can be explained by the audit fee, audit delay, and auditor switching variables by 14.2%, while the remaining 85.8% is explained by other variables not included in this study.

F Test

Table 4. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.042	3	.014	5.312	.002 ^b
	Residual	.252	96	.003		
	Total	.294	99			

Source: IBM SPSS 26 Output, 2021

Based on table 4, a significance value of 0.002 is obtained. This value is smaller than the significance level of 0.05 (5%), which is $0.002 < 0.05$. So, it can be concluded that simultaneously the independent variables, namely audit fee, audit delay, and auditor switching have an effect on audit quality.

T Test

Table 5. T Test

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.325	.095		3.413	.001
	AF	-.013	.004	-.280	-2.940	.004
	AD	.000	.000	-.249	-2.633	.010
	AS	-.007	.010	-.061	-.638	.525

Source: IBM SPSS 26 Output, 2021

Based on table 5, the regression equation formed as follows:

$$DAC = \alpha + \beta_1 AF + \beta_2 AD + \beta_3 AS + \varepsilon$$

$$DAC = 0.325 - 0.013AF + 0.000AD - 0.007AS + \varepsilon$$

The following is an interpretation of the regression coefficient values above:

1. The coefficient value of the audit fee variable is -0.013, which means that if there is an increase in audit fees of 1.3%, it will reduce discretionary accruals or the same as an increase in audit quality by 1.3%.
2. The coefficient value of the audit delay variable is 0.000423, which means that if there is an additional audit delay of 0.0423%, it will increase discretionary accruals or the same as lowering the audit quality by 0.0423%.
3. The dummy coefficient value for the auditor switching variable is -0.007, which indicates that each one unit increase in auditor switching will reduce discretionary accruals. Low discretionary accruals indicate high audit quality so that auditor switching can improve audit quality.

Discussion

Based on table 5, the audit fee (AF) variable obtained a regression coefficient of -0.013 and the t value of -2.940 with a significance of 0.004 ($0.004 < 0.05$). This result indicates that H_1 was accepted, and indicates that the audit fee has a significant effect on audit quality. The results of this study indicate that a large audit fee will trigger auditors to carry out their work objectively and independently which can improve audit quality. The result of this study is the same as research conducted by Nurintiati & Purwanto (2017) and Ardani (2017) but differed from the results of research conducted by Dhimadhanu (2016).

Based on table 5 shows the audit delay (AD) variable obtained a regression coefficient of 0.000423 and the t value of -2.633 with a significance of 0.010 ($0.010 < 0.05$). This result indicates that H_2 was accepted, and indicates that audit delay has a

significant effect on audit quality. The result means that with a delay in conducting an audit, there will be a delay in the submission of financial statements to the public which can reduce the relevance of financial statement information so that audit quality will be below. Therefore, a quality audit not only ensures that the client's financial statements are presented correctly, but also that audits are carried out on time. The result of this study is the same as research conducted by Tehupuring & Sitanala (2016) and Rahayu et al., (2020).

Based on table 5 shows the variable auditor switching (AS) obtained a regression coefficient of -0.007 and the t-value of -638 with a significance of 0.525 ($0.525 > 0.05$). This result indicates that H_3 was rejected, and indicates that auditor switching has no significant effect on audit quality. This shows that high audit quality is not always accompanied by auditor switching, both voluntary and mandatory. This is because, even though the company does not change auditors, auditor independence remains high, thereby improving audit quality. The result of this study is the same as research conducted by Ardani (2017) but differed from the results of research conducted by Siregar et al., (2011).

CONCLUSION

Based on the results of data analysis and the discussion that has been described, it can be concluded that the audit fee is proven to have a significant effect on audit quality. This means that the company that pays a large audit fee is directly proportional to the quality of the audit. In addition, audit delay is proven to have a significant effect on audit quality. This shows that the higher the audit delay in state-owned companies, it will affect on audit quality. In addition, auditor switching is also not proven to have a significant effect on audit quality. The regulations governing auditor switching were formed because of concerns about the decline in auditor independence if it took too long to audit the financial statements of the same client entity. However, in this study, the presence or absence of auditor switching does not affect the audit quality of the client's financial statements. Because auditor independence is not only formed because of the regulation.

For further research, it is suggested to add other variables that may affect audit quality, such as rotation of public accounting firms, audit committee, company size, leverage, or adding moderating variables. In addition, further research can use other sectors such as manufacturing and banking that have more samples and add to the research period or by using other proxies of audit quality models, such as the Jones (1991) model, the Dechow et al. Model (1995), so that the results can be compared with the Kasznik (1999) model used in this study.

The implication of this research from a theoretical perspective is expected to increase knowledge about the factors that affect audit quality. In addition, the practical implications are: For management, assisting the auditor in increasing the effectiveness and efficiency of the audit process by controlling for factors that can affect audit quality. For auditors, building high competence and independence to be able to maintain audit quality when auditing client entity reports. For investors, it can be a consideration for

making investment decisions, whether the numbers contained in the entity's financial statements are following the company's actual performance.

REFERENCES

- Ardani, S. V. (2017). Pengaruh Tenure Audit, Rotasi Audit, Audit Fee terhadap Kualitas Audit dengan Komite Audit Sebagai Variabel Moderasi (Studi pada Perusahaan Sektor Keuangan yang Terdaftar di BEI Tahun 2010-2014). *Jurnal Akuntansi*, 6(1), 1–12. Retrieved from
- Dhimadhanu, R. (2016). Pengaruh Asimetri Informasi, Fee Audit, dan Tenur Audit terhadap Kualitas Audit pada Perusahaan-Perusahaan non-Keuangan yang Terdaftar pada LQ45. *GEMA Ekonomi (Jurnal Fakultas Ekonomi)*, 05(01), 43–53. Retrieved from <http://journal.unigres.ac.id/index.php/GemaEkonomi/article/view/332/242>
- Hidayat, A. A. N. (2018). OJK Beri Sanksi Akuntan dan Kantor Akuntan Publik Auditor PT SNP. *www.bisnis.tempo.co*. Retrieved from <https://bisnis.tempo.co/read/1131969/ojk-beri-sanksi-akuntan-dan-kantor-akuntan-publik-auditor-pt-snp>
- Jannah, R. (2018). Pengaruh Tenure Audit, Fee Audit, dan Spesialisasi Auditor terhadap Kualitas Audit (Studi pada Perusahaan Jasa yang Terdaftar di Bursa Efek Indonesia Periode Tahun 2012-2016). *Jurnal Akuntansi STIE Muhammadiyah Palopo*, 04(02), 43–57.
- Kaszniak, R. (1999). On the Association between Voluntary Disclosure and Earnings Management. *Journal of Accounting Research*, 37(1), 57–81.
- Nurintiati, A. A., & Purwanto, A. (2017). Pengaruh Tenure KAP, Ukuran KAP, Spesialisasi Auditor dan Audit Fee terhadap Kualitas Audit dengan Moderasi Komite Audit. *Diponegoro Journal of Accounting*, 6(1), 1–13. Retrieved from <https://ejournal3.undip.ac.id/index.php/accounting/article/view/18265>
- Pham, N. K., Duong, H. N., Pham, T. Q., & Ho, N. T. T. (2017). Audit Firm Size, Audit Fee, Audit Reputation and Audit Quality: The Case of Listed Companies in Vietnam. *Asian Journal of Finance & Accounting*, 9(1), 429.
- Prabhawanti, P. P., & Widhiyani, N. L. S. (2018). Pengaruh Besaran Fee Audit dan Independensi Terhadap Kualitas Audit dan Etika Profesi Auditor Sebagai Moderasi. *E-Jurnal Akuntansi Universitas Udayana*, 24(3), 2247–2273.
- Rahayu, N., Harto, P. P., & Kamal, M. (2020). Determinasi Kualitas Audit pada Perusahaan yang Terdaftar di Indeks Saham Syariah Indonesia. *Jurnal Akuntansi dan Keuangan Islam*, 8(2), 89–113.
- Rinanda, N., & Nurbaiti, A. (2018). Pengaruh Audit Tenure, Fee Audit, Ukuran Kantor Akuntan Publik dan Spesialisasi Auditor terhadap Kualitas Audit (Studi pada Perusahaan Manufaktur Subsektor Aneka Industri yang Terdaftar di Bursa Efek Indonesia Tahun Periode 2012-2016). *e-Proceeding of Management*, 5(2), 2108–2116.

- Siregar, S. V., Fitriany, Wibowo, A., & Anggraita, V. (2011). Rotasi dan Kualitas Audit: Evaluasi Atas Kebijakan Menteri Keuangan KMK No. 423/KMK.6/2002 Tentang Jasa Akuntan Publik. *Jurnal Akuntansi dan Keuangan Indonesia*, 8(1), 1–20.
- Suyanto, S., Anita, N. A. C., & Sugiharti, E. (2018). Antecedents and Consequences of Audit Delay on Audit Quality. *Jurnal Akuntansi Dewantara*, 2(1), 96–108.
- Tehupuring, R., & Sitanala, T. F. (2016). Antecedents and Consequences of Audit Delay in Banking Companies Period 2011-2014. *Jurnal Ekonomi dan Bisnis*, 19(2), 225–247.