

# **Audit Quality: Audit Tenure, Audit Fee and Client Importance of Infrastructure, Utilities, and Transportation Sector in Indonesia**

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## **Abstract**

Audit quality is an auditor's tendency to detect and disclose an error or fraud that occurs in a client's accounting system. This study aims to determine the effect of audit tenure, audit fees, and client importance on audit quality both simultaneously and partially. The population in this study were all companies in the infrastructure, utility, and transportation sectors listed on the Indonesia Stock Exchange (IDX) in 2015-2020 totaling 81 companies. The sampling technique used purposive sampling with predetermined criteria obtained from 20 companies with a total sample of 120 data. This study uses logistic regression analysis using SPSS version 25. The results of this study indicate that simultaneously audit tenure, audit fees, and client importance affect audit quality. Meanwhile, partially the audit tenure has no effect on audit quality. This is because the length or short tenure of a public accounting firm with a client does not always affect the attitude of the auditor's independence so that it cannot reduce audit quality. Audit fees have a significant positive effect on audit quality. This is because the greater the fee given to the auditor, the more motivated the auditor will be to improve his performance on duty, so that the resulting audit quality is high. While client importance has a significant negative effect on audit quality. This is because of the possibility of economic dependence that makes the auditor not objective and independent in doing his job. Further researchers can use other independent variables that have not been included in this study. In addition, further researchers are expected to conduct research with different objects. This is intended so that research can provide new insights and a broad picture of what factors affect audit quality. And it is expected that companies that have gone public will prefer to engage with large public accounting firms, namely the big four public accounting firms because they can produce better audit quality than non-big four public accounting firms. Good audit quality can develop the company's ability in its business, so that the financial statements presented can be trusted by investors.

## **Keywords**

Audit Tenure, Client Importance, Audit Fee, Audit Quality, Public Accounting Firms.

## **1. Introduction**

Financial reports can be used as one of the decision-making bases as well as to guarantee the third parties and community that financial reports can be trusted. In order to gain clients' trust, an audit process is required on the financial statements done by the external auditor. A financial reports audit is essential to the needs of companies and management parties of the company to gain the public's trust. Thus, financial statements do not mislead investors in deciding on investing.

According to De Angelo (1981) in Purnomo and Aulia (2019), audit quality is the probability of an auditor finding and reporting an error or deviation occurring in a client accounting system. Moreover, according to Yolanda Siregar (2018) in Renaningtyas (2020), a competent auditor is related to an auditor's skill in detecting misstatements in the client's financial reports. However, auditors are not always able to produce high-quality audits because they cannot detect an error or fraud in the financial reports. It is proven by some cases that occurred, such as cases of PT. Garuda Indonesia Tbk and PT. Inovisi Infracom Tbk, which in the end was sanctioned by the Financial Services Authority (OJK) due to cases of bribery and fraud in the company's financial reports.

In addition, there are still many inconsistencies in previous research, the audit tenure variable has a major impact on audit quality, because the length of the engagement between the client and the auditor can reduce the independence of the auditor, resulting in a decrease in the quality of the resulting audit (Hasanah and Putri 2018). A similar thing also said by Pramaswaradana and Astika (2017) the longer the client engagement period with the auditor can reduce the attitude of auditor independence and reduce work competence so that the resulting audit quality is low. It is contrary to the research of Novrilia et al. (2019), which states that audit tenure has no effect on audit quality because the engagement period between the client and the auditor is not a reference that the audit results will be of quality. On the audit fee variable, according to Salsabila (2018), the fee audit obtained by the auditor has a big effect on the audit quality produced by the independent auditor. It aligns with the research of Renaningtyas (2020) that the greater the fee given to the auditor, the more diligent the auditor will be and improve his performance on duty so that the resulting audit quality is high. It is different from the research of Rinanda and Nurbaiti (2018), which stated that audit fee does not significantly affect audit quality because audit fees cannot be used as a reference for whether or not an audit quality is good. In the client importance variable, according to Wahyu (2020), client importance affects the audit quality. It is in line with the research of Tepalagul and Lin (2015). They stated that the economic interest of the public accounting firms (client importance) is one of the threats to the auditor's independence because it can increase the economic dependence of the auditor on the client. This is contrary to the research conducted by Suciana and Setiawan (2018), who stated that auditors claim all their clients are equal, so there is no effect on the audit quality. The research results that are still inconsistent encourage the researcher to do a re-test with the same variables, namely audit tenure, audit fees and client importance, to determine the effect on audit quality, especially in infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX).

### **1.1 Objectives**

This research aims to determine whether there are simultaneous effects between audit tenure, audit fee, and client importance on audit quality. Also, to find out whether there are partial effects between audit tenure, audit fee, and client importance on audit quality in infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020.

## **2. Literature Review**

According to Kurnia & Khomsiyah (2014) in Hidayat and Wahjoe (2019), audit quality is an auditor's probability of finding and reporting violations in the accounting system. Audit quality is measured by a dummy variable which will show a value of 1 if audited by the big four public accounting firms and a value of 0 if not audited by the big four public accounting firms. Big four public accounting firms are claimed to have better knowledge, experience, and reputation than non-big four public accounting firms, so the big four public accounting firms are capable of producing a better audit quality than non-big four public accounting firms (Arvyanti and Budiyo 2019).

Audit tenure is the length of the relationship between the client and the auditor as measured by the number of years (Praptika and Rasmini 2016). The audit tenure variable is measured by a ratio scale based on the length of the engagement, which is by calculating the auditors' number of years of engagement from the same public accounting firms in conducting audit engagements against the client company, the first year of audit engagement begins with number 1, if for the following year still using the same public accounting firm plus one (Hasanah and Putri 2018). Audit tenure is negatively related to audit quality. It aligns with research conducted by Pertamina and Lestari (2018) and Buchori and Budiantoro (2019) because the longer the client's engagement period with the auditor can reduce the attitude of auditor independence and reduce work competence so that the resulting audit quality is low. Because tenure can have an impact on the capacity of the auditor, such as the emergence of an emotional relationship between the auditor and the client.

An audit fee is a compensation in the form of money or other forms given to the auditor from the client to obtain engagements from clients or other parties. In general, before starting the audit process, the client and auditor determine the audit fee based on mutual agreement (Siregar 2020). Audit fee variables are measured by a natural logarithm from the audit fee (Mauliana and Laksito 2021). The audit fee is positively related to audit quality. It is in line with the research of Salsabila (2018) and Purnomo and Aulia (2019) because the greater the compensation for services provided

by the client to the auditor, the auditor is motivated to maximize his ability to carry out audits and make his performance better.

Client importance is the importance of close finance from the audit’s client for the local office of the audit company. Main clients are clients who have a large amount of assets from a company compared to other companies (Wahyu 2020). Client importance is negatively related to audit quality. It aligns with the research conducted by Devi et al. (2019) because the establishment of a working relationship with a long period of time has the potential to make the auditor make the company an important client because it becomes a source of income for the auditor. So that it can cause a loss of auditor independence due to economic dependence. Client importance variables are measured by formulation (Udayanti and Ariyanto 2017), namely:

$$Clit = SIZEit / \sum_{i=1}^n SIZEit \quad (1)$$

Description:

CI = Client importance

SIZE = Natural logarithm of the client i’s total assets

$\sum_{i=1}^n SIZEit$  = Total assets (natural logarithm) of n clients audited by public accounting firms i in a given year

Based on the literature review, the research framework in this study is as follows: (Figure 1)

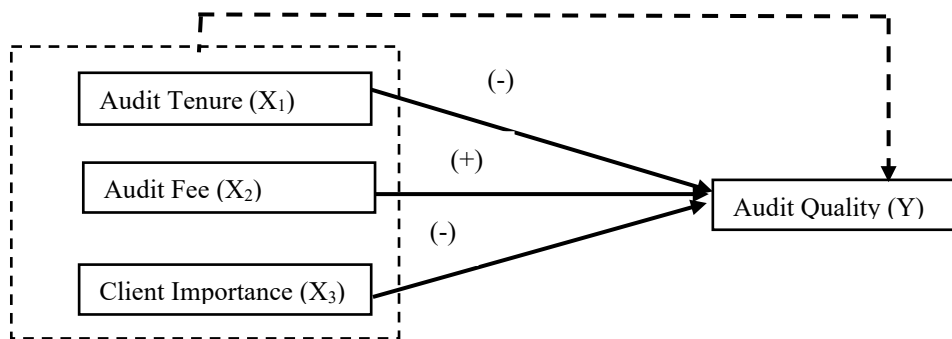


Figure 1. Research Framework

Description:

→ : Partial effect

- - - - -> : Simultaneous effect

Based on the literature review and the framework described above, the researcher formulates the research hypothesis as follows:

H<sub>1</sub>: Audit tenure, audit fees, and client importance simultaneously affect audit quality.

H<sub>2</sub>: Audit tenure has a partial negative effect on audit quality.

H<sub>3</sub>: Audit fee has a partial positive effect on audit quality.

H<sub>4</sub>: Client importance has a partial negative effect on audit quality.

### 3. Methods

Population in this research is all infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020. In this research, the data used were obtained from the annual reports of every company. The population in the infrastructure, utility, and transportation sector companies amounted to 81 companies. Based on the results of purposive sampling with predetermined criteria, it is obtained from 20 companies with a total sample of 120. (Table 1)

Table 1. Sample Selection Criteria

No	Description	Total
1.	Infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020	81
2.	Companies that inconsistently publish audited annual reports on the Indonesia Stock Exchange (IDX) for the period of 2015-2020	(29)
3.	Companies whose annual audit reports do not include audit fees	(32)
4.	Total research samples	20
5.	Total samples in the research period (20 x 6)	120

This research uses logistic regression analysis by using SPSS version 25. The model used in this research is shown in the following logistic regression equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

Y	= Audit Quality
X <sub>1</sub>	= Audit Tenure
X <sub>2</sub>	= Audit Fee
X <sub>3</sub>	= Client importance
β <sub>0</sub>	= Constant
β <sub>1</sub> , β <sub>2</sub> , β <sub>3</sub>	= Regression Coefficient
e	= Error Component

#### 4. Data Collection

This research used quantitative data with a secondary data type. Secondary data is sources that indirectly give data to the data collector through other people or documents (Sugiyono 2021:296). Some of the secondary data sources are government publications, data obtained from previous research, case studies and literature documents, websites, online data, and the internet (Sekaran and Bougie 2016:37). The data collection technique in this research is using methods of documentation and literature study, which are as follows:

1. Audited financial reports of companies in the infrastructure, utilities, and transportation sectors registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020.
2. A literature study is a method of collecting data by studying theories or literature from books, theses, journals, and the internet, which contains discussions about research conducted by researchers.

#### 5. Results and Discussion

##### 5.1 Descriptive Statistical Analysis

Table 2. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Deviation Std.
Audit Quality	120	0	1	0,59	0,494
Audit Tenure	120	1	6	3,27	1,738
Audit Fee	120	18,8261	24,9036	21,047707	1,5898525
Client Importance	120	0,8111	1,0000	0,951601	0,0567796
	120				

Based on Table 2 above, the dependent variables used, which are audit quality, have a mean value of 0.59, while its deviation standard has a value of 0.494, smaller than the mean value of 0.59. It means that the data does not vary because the deviation standard value is smaller than the mean value. The mean value of the audit tenure variable is 3.27, while its standard deviation is 1.738, smaller than the mean value of 3.27. It means that the data tends not to vary because the standard deviation value is smaller than the mean value. The audit fee variable has a mean value of 21.04707 while its standard deviation value is 1.5898525, smaller than the mean value of 21.047707. It means that the data tends not to vary because the standard deviation value is smaller than the mean value. The mean value of the client importance variable is 0.951601, while its standard deviation value is 0.0567796, smaller than the mean value of 0.951601. It means the data tends not to vary because the standard deviation value is smaller than the mean value.

## 5.2 Logistic Regression Analysis

### 5.2.1 Assessing the Feasibility of the Regression Model

Table 3. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	4,162	8	,842

Based on the test results in Table 3 above, it can be seen that the chi-square value is 4.162, and the significance value is 0.842. The significance value is bigger than 0.05, which means that hypothesis 0 (zero) is accepted, and the logistic regression model can be used for further analysis because it matches the observation data.

### 5.2.2 Assessing the Model Fit

Output Beginning -2Log Initial Likelihood (Block Number 0)

Table 4. Iteration History

Iteration		-2 Log	Coefficients
		likelihood	Constant
Step 0	1	162,300	,367
	2	162,299	,371
	3	162,299	,371

Output Beginning -2Log Final Likelihood (Block Number 1)

Table 5. Iteration History

Iteration		-2 Log	Coefficients			
		likelihood	Constant	AT	FA	CI
Step 1	1	62,053	1,583	-,032	,798	-18,827
	2	42,739	1,293	,009	1,329	-30,082
	3	35,518	,646	,117	1,856	-41,058
	4	33,097	1,269	,256	2,319	-52,017
	5	32,620	2,635	,352	2,610	-59,946
	6	32,595	3,172	,378	2,695	-62,401
	7	32,594	3,209	,380	2,701	-62,560
	8	32,594	3,209	,380	2,701	-62,560

Table 4 shows that the initial -2Likelihood (Block Number 0), which only includes constants, has a value of 162.299, while table 5 shows that the final -2Likelihood (Block Number 1) by entering constants and independent variables has

a value of 32.594. It shows that there is a decrease in the value that makes -2LL Block Number = 0 > -22LL Block Number = 1, which means the regression model is good and in accordance with the data.

### 5.2.3 Determination Coefficients

Table 6. Determination Coefficients

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	32,594 <sup>a</sup>	,661	,891

Based on the test results in Table 6 above, it can be known that the value of Nagelkerke R Square is 0.891, bigger than the value of Cox & Snell R Square, which is 0.661. It means that the combination of independent variables used, audit tenure, audit fee, and client importance, influence the dependent variables as much as 89.1%, and the rest is 10.9% influenced by other factors that cannot be seen in this research.

### 5.2.4 Simultaneous Significance Test

Table 7. Omnibus Test of Model Coefficient

Step 1		Chi-square	df	Sig.
	Step	129,705	3	,000
	Block	129,705	3	,000
	Model	129,705	3	,000

In Table 7. above, it can be known that the chi-square value is 129.705 with a degree of freedom of 0.000 (p-value <0.05, then H<sub>1</sub> is accepted). It shows that the variables of audit tenure, audit fee, and client importance have a significant simultaneous effect on audit quality.

### 5.2.5 Individual Parameter Significance Test (Partial Test)

Table 8. Variable in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
								Lower	Upper
Step 1 <sup>a</sup>	AT	,380	,300	1,601	1	,206	1,462	,812	2,634
	FA	2,701	,672	16,169	1	,000	14,893	3,992	55,553
	CI	-62,560	18,155	11,875	1	,001	,000	,000	,000
	Constant	3,209	14,141	,051	1	,821	24,746		

Based on the results of the regression test, the following equation is obtained:

$$Y = 3,209 + 0,380X_1 + 2,701X_2 - 62,560X_3 + e$$

Description:

- Y : Audit Quality
- X<sub>1</sub> : Audit Tenure
- X<sub>2</sub> : Audit Fee

$X_3$  : Client Importance  
 $e$  : Error Component

Based on the results of the regression coefficient test in Table 8 shows that:

1. The regression coefficient value from audit tenure is 0.380, and the significance level is 0.206. The value is greater than the significance level ( $\alpha$ ), which is 0.05. Thus,  $H_2$  is rejected, meaning that audit tenure does not affect audit quality. These results do not align with the hypothesis that the researcher has put forward that audit tenure has a negative effect on audit quality because the longer the bond between the client and the auditor can lead to a loss of auditor independence. However, the results of this study indicate that audit tenure does not affect audit quality. The results of this study align with research conducted by Fauziyyah and Praptiningsih (2020) and Novrilia et al. (2019), which states that audit tenure has no effect on audit quality. It is because the tenure of the public accounting firms with the client cannot be used as a comparison or measure of audit quality. It is because the long tenure of public accounting firms does not always affect the attitude of auditor independence, so it cannot reduce audit quality. In addition, the short tenure of public accounting firms also cannot always determine the reliability of audit quality because the auditor may not have sufficient knowledge and experience in conducting audits on the clients' companies.
2. The regression coefficient value of the audit fee is 2.701, and the significance level is 0.000. The value is smaller than the significance level ( $\alpha$ ), which is 0.05. Thus,  $H_3$  is accepted, meaning that the audit fee affects audit quality. These results are in line with the hypothesis that the researcher has put forward that audit fees have a positive effect on audit quality. The results of this study are in line with research conducted by Renaningtyas (2020) and Pramaswaradana and Astika (2017), which state that audit fees have a positive effect on audit quality. It is because the greater the fee given to the auditor, the more diligent the auditor will be and improve his performance in the duties so that the resulting audits quality is high. Most companies in the infrastructure, utilities, and transportation sectors choose to pay higher fees due to producing quality audit reports and increasing the credibility of the company's financial reports. These results indicate that the company prefers to pay a larger audit fee to use the big four public accounting firms to audit its financial reports so that the produced quality is better.
3. The value of the regression coefficient of client importance is -62.560, and the significance level is 0.001. The value is smaller than the significance level ( $\alpha$ ) of 0.05. Thus,  $H_4$  is accepted, meaning that client importance has a negative effect on audit quality. These results are in line with the hypothesis that the researcher has put forward that client importance affects audit quality. Because the direction of the coefficient of client importance on the client importance variable has a negative effect, indicating the more important the client is to the auditor, the resulting audit quality is low because it makes the auditor not objective and independent. The results of this study are in line with the research conducted by Devi et al. (2019) and Wahyu (2020), which state that client importance has a negative effect on audit quality. It is because most companies with important non-big-four public accounting firms clients make it possible to produce low audit quality. It is economic dependence which makes the auditor not objective and independent. When the auditors find something deviant in the client's financial reports due to fraud, auditors tend not to report it because they feel that if it is reported, it will make the client no longer want to use the services of the auditor again, which will have an impact on the auditors' income.

## **6. Conclusion and Recommendations**

### **6.1 Conclusion**

Based on the results of descriptive statistical analysis and logistic regression testing that has been carried out, the following conclusions are obtained:

1. Audit tenure, audit fee, and client importance on the audit quality significantly affect the audit quality of the infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020.
2. Partially:
  - a. Audit tenure does not affect the audit quality of the infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020.
  - b. Audit fee affects the audit quality of the infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020.
  - c. Client importance negatively affects the audit quality of the infrastructure, utility, and transportation sector companies registered on the Indonesia Stock Exchange (IDX) in the year 2015-2020.

## **6.2 Recommendations**

This research is expected to be additional information to add insight and knowledge in the field auditing regarding audit quality. Further researchers can use other independent variables that are not included in this study such as auditor specialization, audit switching, publication age, company size, and audit committee. Moreover, the next researchers are expected to do research with different objects. It is intended so that research can provide new insights and a broad picture of what factors affect audit quality. Also, it is expected that the go public companies prefer to perform engagements with large public accounting firms, namely big four public accounting firms, because they can produce better audit quality than non-big four public accounting firms. Good audit quality can develop the company's ability in its business so that investors can trust the financial reports presented.

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## **Biography**

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