

## THE EFFECT OF AUDIT TENURE, AND OWNERSHIP STRUCTURE ON AUDIT QUALITY WITH AUDIT FEE AS MODERATING VARIABLE

Septi Nurmalita<sup>1</sup>, Rina Y. Asmara<sup>2</sup>

Department of Accounting, Mercu Buana University, Indonesia

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**Abstract:** The purpose of this study is empirically to prove the effect of audit tenure and ownership structure on audit quality as proxied by absolute discretionary accruals and audit fee as moderating variables in financial and banking industry companies listed on the Indonesia Stock Exchange in 2017-2020. The sampling technique used purposive sampling. The sample in this study was 20 companies with 80 research data. This study used panel data analysis techniques run with E-views 10 program. The results showed audit tenure does not affect audit quality; managerial ownership and institutional ownership affect audit quality. This study used hierarchical regression analysis to examine the effect of moderating variable. The result showed that audit fee could not moderate the effect of audit tenure & ownership structure on audit quality. Thus, the type of audit fee is a moderate predictor. The f test proved that audit tenure and ownership structure simultaneously affect audit quality.

**Keywords:** audit quality, audit tenure, managerial ownership, institutional ownership, audit fee

### 1. INTRODUCTION

Financial statements have information which can describe the condition of the company. Information in financial statements is useful in making decisions for users, such as investors. Financial statements cannot be separated from the services of an auditor. The role of auditors assists investors in considering investors' decisions by providing an independent opinion on the truth and fairness of financial statements (Alzoubi, 2018). Therefore, audit quality is needed to ensure the quality of financial reports (Rusman, 2018).

In audited financial statements, one of the most important components is profit. However, profit does not always present the true facts about the company's economic condition, whose results are doubtful (Ardani, 2017). according to (Sulistyanto, 2014), a component of financial statements that management can easily utilize for its freedom and discretion in estimating and using accounting standards is discretionary accruals.

The opportunistic management of accruals, if left undetected, could seriously undermine the informative nature of reported accruals. Research (Krishnan, 2003), stated that high-quality auditors have the expertise, resources, and incentives to limit opportunistic reporting of accruals and increase accruals' credibility. Research (Kafabih & Adiowowo, 2017) stated that the better audit quality, the smaller the discretionary accruals.

The problem of discretionary accruals carried out by management are still exists. Supporting this, (Suprianto & Setiawan, 2020) stated that earnings management in Indonesia tends to be more directed towards opportunistic accruals (discretionary accruals). The low quality of audits is reflected in the finding of violations that are generally disclosed by external parties, such as the Financial Services Authority (OJK), thus indicating that the auditors have not carried out quality audit process. Several violations that have occurred in Indonesia are (1) International BDO affiliates for misrepresentation of the 2018 financial statements of PT Garuda Indonesia (2) Deloitte Indonesia for published unqualified opinions for SNP Finance, but based on the results of the OJK examination, it was indicated that SNP finance presented financial reports that were not in accordance with the actual financial conditions, causing losses to 14 banks.

Audit quality cannot be separated from the factors that influence it. According to (Aqmarina & Yendrawati, 2019), audit tenure affects audit quality. Audit tenure is related to the independence and understanding of the client's business. According to the statement of the Indonesian Minister of Finance, Sri Mulyani (Kontan.co.id, 2018), stated that one of the audit violations occurred because of the audit engagement between the audit team and the client for a fairly long period, which resulted in reduced professional skepticism.

Apart from the period of the engagement, other factors affecting audit quality are ownership structure. In (Sumantaningrum & Kiswara, 2017), stated that the higher ownership (both managerial and institutional) will further increase the effectiveness of monitoring on the management and reduce managers' incentives to act opportunistically. However, (Yunianto, 2016) and (Park, 2018) stated that the ownership structure can encourage the motives of shareholders' interests in personal gain to allow earnings management actions that make audit quality low.

The study of audit tenure and ownership structure on audit quality is still interesting to study because there are still differences results of previous research. This research is expected to be able to provide additional references regarding audit quality specifically by using audit tenure and ownership structure as influencing factors and audit fee as moderating factors. In addition, it is hoped that the practical contribution of the results of this study will help in decision-making practices by considering audit quality.

## 2. LITERATURE REVIEW

### 2.1 Agency Theory (Agency Theory)

Agency theory is a theory that explained the contractual relationship between the agent and the principal. In this contractual relationship, the agent exercises authority and decision-making as a delegate from the principal (Jensen & Meckling, 1976). However, in this delegation, the interests of the agent and the principal may be contradictory because the agent and the principal have their interests. The conflict of interest can be resolved through an independent third party (mediator) between the principal and agent (Aqmarina & Yendrawati, 2019). In this case, the auditor as an independent party becomes a monitoring device because of the potential conflict of interest between owners and managers and between various classes of shareholders (Deangelo, 1981).

### 2.2 Audit Quality

Audit quality is defined as the auditor's opportunity to find violations in the client's accounting system and report these violations (Deangelo, 1981). According to (Asmara, 2016), audit quality is an opportunity for an auditor to find and report errors or fraud in the client's accounting system. High-quality auditors have the expertise, resources, and incentives to limit opportunistic reporting of accruals and can increase the credibility of accruals (Krishnan, 2003).

### 2.3 Audit tenure

Audit tenure is the length of time the auditor has performed audit work on a company in succession (Effendy & Ulhaq, 2021). In audit engagements, a limited audit period is considered very important for internal and external parties to maintain the auditor's independence in carrying out their duties (Asmara & Situanti, 2018). The Indonesian government issued Law No. 20 2015 Chapter V concerning restrictions on audit services to maintain independence. Article 11(1) of Law No. 20 of 2015 about the provision of audit services on historical financial information to an entity by a Public Accountant is limited to a maximum of 5 (five) consecutive financial years.

### 2.4 Institutional Ownership

Institutional ownership is an investment from the outsider group's investors or investments owned by a particular institution, usually higher than individual investors (Odudu et al., 2018). In research (Ashrafi et al., 2017) stated that institutional ownership is a type of investor that is entirely professional; as a result, institutional investors need high-quality data for financial analysis.

### 2.5 Managerial Ownership

Managerial ownership is shareholders of the company are present on the board of directors and thus participate in the company's management (Olotu et al., 2020). Managerial ownership is company shares owned by company management (Boediono, 2005). Thus, managerial ownership is the ownership of company shares owned by the company's management.

## 2.6 Audit fee

The Indonesian Institute of Public Accountants (IAPI)'s regulation Number 2 in 2016 stated fee audit is fee received by a public accountant from his client entity in connection with audit services.

## 3. HYPOTHESIS

### 3.1 Audit Tenure Affect Audit Quality

In connection with audit quality, (Umar 2021) explained that audit quality would increase when the relationship between the auditor and the client is in a short-term period. With a long audit engagement, auditors often tend to satisfy the wishes of their clients. They will tolerate the client's actions in accrual earnings management, which impacts low audit quality. A long cooperative relationship between the auditor and his client can lead to closeness and create many opportunities to commit fraud. It can hinder auditor independence and reduce audit quality (Riyani et al., 2021).

H1: audit tenure affect audit quality

### 3.2 Institutional Ownership Affect Audit Quality

According to (Odudu et al., 2018), who examined the effect of institutional ownership on audit quality stated increasing institutional ownership in companies to the proportion that can be justified by the board of directors or company management can help improve audit quality. Research (Ajay & Madhumathi, 2015) reveals that large institutional investors can increase monitoring of accounting choices made by managers. Therefore; significant institutional share ownership reduces management's ability to use discretionary accruals opportunistically and affect audit quality.

H2: institutional ownership affect audit quality

### 3.3 Managerial Ownership Affect Audit Quality

According to (Odudu et al., 2018), who examined the effect of institutional ownership on audit quality stated, increasing institutional ownership in companies to the proportion that can be justified by the board of directors or company management can help improve audit quality. Research (Ajay & Madhumathi, 2015) reveals that large institutional investors can increase the monitoring of accounting choices made by managers. Therefore, significant institutional share ownership reduces management's ability to use discretionary accruals opportunistically and affect audit quality.

H3: managerial ownership affect audit quality

### 3.4 Audit Fee Moderate Effect of Tenure Audit on Audit Quality

In terms of audit quality, (Kurniasih & Rohman, 2014) stated that a high audit fee would improve audit quality because the audit fee obtained and the estimated operational costs needed to carry out the audit process can improve audit quality. Study (Hay, 2012), who tested the meta-analysis of audit fee and the relation to audit tenure, stated that lengthy tenure audits with a high fee are better than short tenures with a low fee. Because low audit fee with short tenure can be a way for audit firm to attract clients and possibly provide low audit quality thus, the audit quality will be better with a high audit fee and long tenure.

H4 :audit fee moderate the effect of audit tenure on audit quality

### 3.5 Audit Fee Moderates the Effect of Institutional Ownership on Audit Quality

In research (Ashrafi, Mohammadnezhad, & Ghanbari, 2017) stated that institutional ownership is an exceptionally professional type of investor, so institutional investors need high-quality data for financial analysis. Therefore, institutional ownership can pressure managers to use the services of high-quality audit firms.

The relationship between audit fee and institutional ownership is the institutional investors demand external audit

quality as a form of investor protection (Vivandari & Fitriany, 2019). In other words, institutional investors will demand high audit quality, which causes a high audit fee. The research also reinforced by research (Han & Kang, 2009)

However, research (Yahyazadehfar, Shababi, & Hosseini, 2015) stated that concentrated institutional ownership might have accessibility to internal company information. Therefore, they are less likely to offer high-quality financial information to the market and, in the end, will lead to lower audit fee.

H5: audit fee moderate the effect of institutional ownership on audit quality

### 3.6 Audit Fee Moderates the Effect of Managerial Ownership on Audit Quality

The level of interest in managerial ownership in a company can affect management incentives regarding the type and quality of accounting information produced (George et al., 2019). Support with research (Pangaribuan et al., 2018) stated that the level of monitoring of managerial ownership makes better audit quality. (Harahap & Prasetyo, 2018) explained the managerial ownership structure is expected to have a high-risk control mechanism to make the auditor spend less time and energy, so that audit cost is also low.

H6: audit fee moderate the effect of managerial ownership on audit quality

## 4. RESEARCH METHODS

This type of research is causal research with a quantitative approach. The population of this study is the financial and banking sector companies listed on the Indonesia Stock Exchange in 2017-2020. The total population is 87 companies. The sample used probability sampling with the following criteria: (a) Companies in the industrial, financial, and banking sectors listed on the Indonesia Stock Exchange (IDX) in 2017-2020 (b) using the Indonesian rupiah as currency in their financial statements (c) not conducting mergers in the study period (d) disclose audit fee (e) disclose the ownership structure. Based on these criteria, 22 companies were selected. However, the results showed outlier data based on the initial normality test. Therefore, we excluded the outlier data from the sample. Thus, the selected sample amounted to 20 companies.

This research was tested using panel data and hierarchical regression analysis techniques to test the moderating effect. There are two models of regression equations; the first equation model determines the direct effect between the dependent and independent variables. While the second equation model is used to see the moderating effect on the effect of the independent variable on the dependent variable.

In this study audit firm's reputation tested as control variable. The equation model is as follows:

1st equation model:  $DA = 0 + 1AT + 2KI + 3KM + e$

2nd equation model :  $DA = 0 + 1AT + 2KI + 3KM + \beta_4 AT * FEE + \beta_5 KI * FEE + \beta_6 KM * FEE + \beta_7 Size + e$

Description :

DA = absolute discretionary accruals

AT = audit tenure

KI = institutional ownership

KM = managerial ownership

fee = audit fee

SIZE = audit firm's reputation

**Table 1 Definition of Variable Operationalization**

No	Variable	Dimension	Indicator	Measurement Scale
1	Audit tenure [(Asmara & Sitianti, 2018)(Kurniasih &	Audit firm engagement	Initial engagement is rated 1 and added 1 for the following year	interval

	Rohman, 2014)			
2	Institutional Ownership (Koh, 2003).	Institutional investor shareholding	$= \frac{\text{Total institutional shares}}{\text{Total company's shares}} \times 100\%$	Ratio
3	Managerial ownership (Warfield et al., 1995)	Share ownership of the company's board of directors/decision maker	$\frac{\text{Total managerial shares}}{\text{Total company's shares}} \times 100\%$	Ratio
4	Audit Quality (Y) (Kothari, 2005)	Absolute discretionary accruals	$DA_{it} = TAC / (TA_{i,t-1}) - ND_{i,t}$	Ratio
5	audit fee [(Homayoun & Hakimzadeh, 2017), (Mohammed et al., 2018).]	Audit fee	audit fee = Ln audit fee	Ratio
6	Control variable : Audit firms reputation (Rudyanto et al., 2017)	Audit firm's Big 4 & Non Big 4	give a score "1" for companies that are audited by Big 4 and "0" audited non-Big 4	Dummy

## 5. RESULTS

### 5.1 Descriptive Statistics Test

The results of the statistical test can be seen in the table below:

**Table 2 Descriptive Statistics**

	DA	AT	KI	KM	FEE	SIZE
Mean	0.146155	2.187500	0.578613	0.004712	21.57500	0.812500
Median	0.086662	2.000000	0.599500	0.000100	22.00000	1.000000
Maximum	0.950686	4.000000	0.965000	0.050600	23.00000	1.000000
Minimum	0.002886	1.000000	0.032000	0.000000	19.00000	0.000000
Std. Dev.	0.187492	1.080246	0.312937	0.012655	1.144884	0.392775
Skewness	2.500404	0.410437	-0.371870	2.902132	-0.185320	-1.601282
Kurtosis	9.490077	1.892020	1.671940	10.13340	1.805923	3.564103
Jarque-Bera	223.7639	6.338186	7.722974	281.9163	5.210650	35.24874
Probability	0.000000	0.042042	0.021037	0.000000	0.073879	0.000000
Sum	11.69240	175.0000	46.28900	0.377000	1726.000	65.00000
Sum Sq. Dev.	2.777106	92.18750	7.736447	0.012653	103.5500	12.18750
Observations	80	80	80	80	80	80

Based on table 2 Descriptive Statistics, the minimum absolute discretionary accrual is 0.002886; the maximum value is 0.950686. The average absolute discretionary accrual is 0.146155. Low absolute discretionary accruals indicate high audit quality (Nadia, 2015). Audit tenure in all companies for the first year of research was scored 1, while there were 13 companies for the maximum value that does not replace audit firms during the research year from 2017 to 2020. The average audit tenure is 2.18. This means the average company has used audit services in the same audit firm for two years. The highest institutional ownership is 0.9650000 or 96.5%. The minimum value of KI is 0.030000 or 3%. The average institutional ownership is 0.578613 or 57%. The maximum managerial ownership (KM) is 0.050600 or 5%. The minimum value is 0% owned by several companies. The average KM is

0.004712 or 0.05%. The highest value of the audit fee is IDR15,037,000,000 in 2018. The minimum value is in 19, which amounted to IDR 220,000,000. The average audit fee is IDR 4,011,138,526. Almost all companies used Big 4 audit firms in the research period. There were 4 companies that did not use Big 4 audit services during 2017-2020.

## 5.2 Selection of Regression Model

There are three regression models: common effect, fixed effect, and random effect. Selection of the regression model among the three models is run by performing the Chow test, Hausman test, and Lagrange multiplier test.. Table 3 Summary of Model Selection

Test	Common Effect	Fixed Effect	Random Effect	Prob.	Result
<b>Equation 1</b>					
Chow	V	V		0,0281	Fixed Effect
Hausman		V	V	0,0005	Fixed Effect
<b>Equation 2</b>					
Chow	V	V		0,0078	Fixed Effect
Hausman		V	V	0,0027	Fixed Effect

Table 3 Summary of Model Selection showed that the Chow test first model is  $0.02815 < 0.05$ , and second model is  $0.0078 < 0.05$ . The Hausman test showed the probability results of  $0.0005 < 0.05$  (equation 1) and  $0.0027 < 0.05$  (equation 2). Both equations showed a probability less than 0.05. Therefore, the selected model is the Fixed Effect Model.

## 5.3 Classical Assumption Test

Three main problems often arise that affect the non-fulfillment of basic assumptions known as BLUE (Best Linear Unbiased Estimator): Multicollinearity, Heteroscedasticity, and Autocorrelation. (Surjandari & Wati, 2020).

### 5.3.1 Multicollinearity Test

**Table 4 Multicollinearity Test**

	AT	KI	KM
AT	1.000000	-0.039549	-0.187208
KI	-0.039549	1.000000	0.159398
KM	-0.187208	0.159398	1.000000

Based on the multicollinearity test, there is no coefficient higher than  $>0.80$  indicating the data is free from multicollinearity

### 5.3.2 Heteroscedasticity Test

According to (Wati 2018, p. 318), cross-section data usually occurs heteroscedasticity, and only the common effects and fixed effects models allow heteroscedasticity to occur. The chosen one is the fixed effect model from the model selection test. So, it is necessary to do a heteroscedasticity test. One of the regression repairing techniques is Generalize Least Square (GLS) by comparing the results of the unweighted and weighted model (Wati, 2018, p. 318). Parameters in selecting models that have been weighted or unweighted used three parameters, namely t-statistic probability (sig), R-squared, and F-statistic probability.

Table 5 Comparison of Unweighted and Weighted Models 1st Equation Model

Hypothesis	$\beta$	t-Statistic	Sig	Statistical Model
<i>Unweighted</i>				
AT	0.011487	0.085599	0.9321	n/a
KI	7.120654	2.684875	0.0095	n/a
KM	-31.55859	-0.957620	0.3423	n/a
R-Squared	n/a	n/a	n/a	0.359292
Adjusted R-Square	n/a	n/a	n/a	0.112002
Prob(f-statistic)	n/a	n/a	n/a	0.130376
<i>Weighted</i>				
AT	0.058367	0.791063	0.4314	n/a
KI	-0.892260	-2.757579	0.0073	n/a
KM	26.75446	3.349465	0.0013	n/a
R-Squared	n/a	n/a	n/a	0.163011
Adjusted R-Square	n/a	n/a	n/a	0.129972
Prob(f-statistic)	n/a	n/a	n/a	0.003486

Table 5 showed that the Fixed Effect Unweighted Equation 1st model has one significant hypothesis (KI) of  $0.0095 < 0.05$ , R-square 35%, and probability (f-statistic) of 0.130376. As for the Fixed Effects Weighted model, two hypotheses have a significant value: Institutional Ownership (KI) of 0.0073 and Managerial Ownership (KM) of 0.0013. R-square 16.3% and prob(f-statistic) of 0.003486.

Table 6 Comparison of Unweighted and Weighted Models 2nd Equation Model

Hipotesis	$\beta$	t-Statistic	Sig	Statistical Model
<i>Unweighted</i>				
AT*Z	0.123692	1.123682	0.2663	n/a
KI*Z	-2.293409	-1.773985	0.0819	n/a
KM*Z	-14.00051	-0.503104	0.6170	n/a
R-Squared	n/a	n/a	n/a	0.454417
Adjusted R-Square	n/a	n/a	n/a	0.171134
Prob(f-statistic)	n/a	n/a	n/a	0.071562
<i>Weighted</i>				
AT*Z	0.046261	0.675538	0.5023	n/a
KI*Z	-1.429332	-1.818421	0.0748	n/a
KM*Z	-24.75692	-1.719246	0.0915	n/a
R-Squared	n/a	n/a	n/a	0.877922
Adjusted R-Square	n/a	n/a	n/a	0.814535
Prob(f-statistic)	n/a	n/a	n/a	0.000000

Table 6 showed that the fixed effect unweighted 2nd equation model does not have a significant hypothesis. R-square unweighted 45.4% and Probability(f-statistic) 0.071562. Meanwhile, the weighted model also does not have a significant hypothesis. R-square is 87% and Prob(f-statistic) is 0.0000

Based on the summary above concluded that the correct model for 1st and 2nd equations are the Fixed Effect Model with Weighted (Fixed Effect Model Weighted).

#### 5.4 Hypothesis

In the regression model, the first equation is to determine the direct effect between the dependent and independent variables. While the second equation is used to see the moderating effect on the effect of the independent variable on the dependent variable.

**Table 7 Regression Test Results 1st Equation**

Fixed Effect Model (Weighted)- Dependent Variable Audit Quality 1st Equation					
Hypotheses	Independent Variables	Fixed effects model		Result	
		□	t-Statistics	-value	
Audit tenure on audit quality	audit tenure	0.058367	0.791063	0.4314	No effect
Managerial ownership on audit quality	Managerial ownership	-0.89226	-2.75758	0.0073	Has effect
Institutional Ownership on audit quality	Institutional ownership	26,75446	3.349465	0.0013	Has effect
Statistical model	R-Squared	0.163011			
	Adjusted R-Squared	0.129972			
	Prob(F-statistic)	0.0034			

The regression test results of the 1st equation showed that the significant variables are institutional ownership (KI) and managerial ownership (KM). With adjusted R square is 0.129. It means in this research model, Audit Quality (DA) can be explained by the variables Audit tenure (AT), Institutional Ownership (KI), and Managerial Ownership (KM) by 13%. While 87% are influenced by other variables. And the probability f statistic is 0.0034 < 0.05. Thus, it concluded that the suitability of the regression model to the relationship between audit tenure and ownership structure to audit quality has a simultaneous effect..

**Table 8 Regression Test Results Equation 2**

Fixed Effect Model (Weighted)- Dependent Variable Audit Quality Equation 2					
Hypotheses	Independent Variables	Fixed effects model		Result	
		□	t-Statistics	-value	
Audit Fee Moderate Effect of Tenure Audit on Audit Quality	audit tenure	0.046261	0.675538	0.5023	No effect
Audit Fee Moderate Effect of Institutional Ownership on Audit Quality	Managerial ownership	-1,42933	-1.81842	0.0748	No effect
Audit Fee Moderate Effect of Managerial Ownership on Audit Quality	Institutional ownership	-24.7569	-1.71925	0.0915	No effect
Control variable	Public accounting firm reputation	-1.019	-3,03492	0.0038	
Statistical model	R-Squared	0.877922			
	Adjusted R-Squared	0.814535			
	Prob(F-statistic)	0.00000			

The regression test results of equation 2 showed the effect of audit fee in moderating the effect of the independent variable to the dependent variable. The results showed a significance of more than 0.05. The control variable of audit firm's reputation showed a significance of  $0.0038 < 0.05$ , meaning that the public accounting firm's reputation affects audit quality. Adjusted R-square of 0.814535. The independent variables (audit tenure, institutional ownership, managerial ownership, and audit fee as moderating) in explaining changes in the dependent variable (audit quality) are 81%, and other variables outside the study explain the rest. The probability of statistic is  $0.0000 < 0.05$ . It showed that the suitability of the regression model on the relationship between audit tenure and ownership structure with audit fee as a moderating variable on audit quality has a simultaneous effect.

## 6. DISCUSSION

### 6.1 Effect of audit tenure on audit quality

The probability of audit tenure is  $0.4314 > 0.05$  thus hypothesis 1 is rejected. Audit tenure has no effect on audit quality.

According to (Arvyanti & Budiyono, 2019), audit tenure has no effect on audit quality because changes in auditors are not things that companies often do. The long engagement is because related parties still have confidence in the auditor as an examiner of the client's financial statements (Riyani et al, 2021). The long engagement period makes the auditor feel confident with the client so that the auditor does not develop a strategy for the procedure audit and does not reduce his quality as an auditor, so it does not affect audit quality as well (Riyani, et al, 2021).

In agency theory, the auditor acts as an independent party who is a liaison between the interests of the agent and the principal. Therefore, the auditor must be independent in assessing the client's financial statements. The auditor's dependence on the client can cause agency problems. With a long audit engagement, it is feared that independence will be disrupted because the auditor has a close relationship with the agent.

The results of this study support research (Priyanti et al., 2019), (Arvyanti & Budiyono, 2019), (Riyani et al., 2021) (Charles, 2019), which stated that audit tenure does not effect on audit quality. Audit tenure can not fully be a measure of audit quality, which means that a long audit tenure does not always affect the independence and objectivity of the auditor so that it does not affect the quality of the audit conducted by an auditor.

The results of this study contradict with research (Aqmarina & Yendrawati, 2019), (Kurniasih & Rohman, 2014), (Hasanah & Putri, 2018) and (Kyriakou & Dimitras, 2019), which stated that the independence and objectivity of an auditor could be maintained with audit rotations carried out by the company because it can prevent closeness between auditors and managers. The close relationship between the auditor and the client will reduce the independence and professionalism of the auditor's work, resulting in low audit quality.

### 6.2 Effect of Institutional Ownership on Audit Quality

Based on the result, the probability is  $0.0073 < 0.05$ ; thus, institutional ownership effect on audit quality, or hypothesis 2 is accepted. The negative coefficient of -0.89 means that the higher the institutional ownership, the lower the absolute discretionary accruals thus, the audit quality is increased.

Institutional ownership in agency theory is explained by (Boediono 2005); institutional ownership makes the monitoring process effective to reduce agents' actions to take opportunistic actions.

Institutional investors play monitoring role by influencing corporate audit committees to implement high-quality external audits (Han & Kang, 2009). Increasing institutional ownership in companies to a proportion that can be justified by the board of directors or company management could improve audit quality (Odudu et al., 2018). Large institutional investors could improve monitoring of accounting policy made by management so that significant institutional share ownership reduces management's ability to use discretionary accruals opportunistically (Ajay & Madhumathi, 2015). Thus, the lower absolute discretionary accruals make the better audit quality.

This research support research (Odudu et al., 2018), (Ashrafi et al., 2017), (Khasharmeh & Joseph, 2017). The results of this study contradict research (Sumantaningrum & Kiswara, 2017), (Yunianto, 2013) which stated that corporate institutional ownership cannot inhibit managers' opportunistic behavior.

### 6.3 Effect of Managerial Ownership on Audit Quality

Based on the results, managerial ownership effect on audit quality. The direction of the positive coefficient means that if the managerial ownership variable increases by 1 point, then the absolute discretionary accrual (da) will increase by 26.75446; so that the audit becomes less qualified.

With managerial ownership, it can increase the possibility of earnings management practices, because the manager's position as investor tends to take policies to manage earnings from investors's side. (Iriandha & Widyastuti, 2018). Because the company's management owns shares, management cannot prevent selfish opportunistic behavior that affects the audit quality (Sumantaningrum & Kiswara, 2017). Higher managerial ownership can encourage management to use the company's information for personal use. Therefore, management will try to reduce audit quality to avoid external control (Park, 2018).

Agency theory (Jensen & Meckling, 1976) showed the relationship between agents and principals. In agency theory, managers know more about factual information than the principal, which causes information asymmetry to occur. This information asymmetry makes managers behave opportunistically by not disclosing the information in its entirety for personal purposes.

This study support the results (Sumantaningrum & Kiswara, 2017), (Iriandha & Widyastuti, 2018) and (Park, 2018) which stated higher managerial ownership can encourage management to use the company's personal information to pursue its own interests, so that management will seek lower audit quality to avoid external controls.

This study contradicts (Niu 2006) and (Olotu et al., 2020), which stated that managerial ownership could effectively motivate managers' performance and closely monitor management.

### 6.4 Audit Fee Moderate Effect of Audit Tenure on Audit Quality

Based on the results, the significance value is  $0.5023 > 0.05$ , so hypothesis 4 is rejected. The result showed that the audit fee could not moderate the effect of audit tenure on audit quality. The type of moderate variable is predictor moderation. Predictor moderation mean audit fee only functions as an independent variable in the formed model (Umamah, 2019).

The audit fee does not moderate the effect between audit tenure and audit quality because the contract between management and the auditor will not affect the length of the audit engagement. Therefore, high and low fee produce good audit quality regardless of how long the engagement lasts (Lee & Sukartha, 2017).

According to (Jensen & Meckling, 1976), how the principal can limit these differences in interests is by setting appropriate incentives for agents and incurring monitoring costs designed to limit deviant activities of agents. In this case, one of the monitoring costs is to hire the services of an independent auditor. In (Meidawati & Assidiqi, 2019) explained that the auditor could be in a problematic situation if there is a conflict of interest with his agent, which usually starts from a structural mechanism between the auditor and management. Management appoints auditors to conduct an audit. On the other hand, management also paid the auditor. It caused the auditor's dependence on the client for a long engagement to create a close relationship between the auditor and the client. This study supports research (Lee & Sukartha, 2017). This study contradicts (Riswan et al., 2020) that audit tenure is advised to avoid close a relationship with clients. But sometimes audit firms offer low fee to attract new clients. Also contradicts with the result (Hay, 2012), which stated that the larger the audit fee received by the auditor, the more negative the effect of audit tenure on audit quality with shorter audit tenure, the audit results will be less qualified.

### 6.5 Audit Fee Moderate Effect of Institutional Ownership on Audit Quality

Based on the results, the probability is  $0.0748 > 0.05$ , the hypothesis is proven that the audit fee cannot moderate the effect of institutional ownership on audit quality. The moderating variable is classified as a predictor moderation.

The audit fee does not moderate the effect between institutional ownership and audit quality because the auditor always hold a code of ethics and professionalism (Sumantaningrum & Kiswara, 2017). Institutional ownership may have direct information access to the company thus, it does not affect the audit fee offered. There is no effect between audit fee and audit quality, because auditors will continue to audit according to audit standard regulations (Kusuma et al, 2019).

In agency theory (Jensen & Meckling, 1976), audit fee are as monitoring costs to limit the activities that deviate from managers. In this case, the auditor as an independent party becomes monitoring devices because of the potential conflict of interest between owners and managers as well as between various classes of shareholders (Deangelo, 1981).

This study support research (Sumantaningrum & Kiswara, 2017), which stated that audit fee do not moderate audit quality. This study contradicts (Riswan et al., 2020), which stated audit tenure is suggested to avoid close relationships with clients. But sometimes audit firms offer low fee to attract new clients. Also, contradicts the result (Hay, 2012), which stated that the larger the audit fee received by the auditor, the more negative the audit tenure on audit quality; with shorter audit tenure, the audit results will be less qualified..

### 6.6 Audit Fee Moderate Effect of Managerial Ownership on Audit Quality

Based on the results, the probability is  $0.915 > 0.05$ , the hypothesis is proven that audit fee cannot moderate the effect of institutional ownership on audit quality. The moderating variable is classified as a predictor moderation.

Audit fee does not affect the effect of managerial ownership and audit quality because auditors have professionalism and independence despite low or high fee is (Sumantaningrum & Kiswara, 2017). Audit quality can be seen from the independence of an auditor, not from how much audit fee the company provided (Sari et al., 2019).

In agency theory, (Jensen & Meckling, 1976) suggest that the principal can limit these differences in interests by setting appropriate incentives for the agent and incurring monitoring costs designed to limit the abnormal activity of the agent. In this case, one of the monitoring costs is to hire the services of an independent auditor.

These results support the results of the study (Sumantaningrum & Kiswara, 2017). But this study contradicts with research (Harahap & Prasetyo, 2018) which stated that the managerial ownership structure is expected to have a strong risk control mechanism so that the auditor spends less time and energy so that audit costs are also low. And (George et al., 2019) managerial ownership in a company can affect management incentives regarding the type and quality of accounting information produced. Managers can generate low monitoring costs because managers as agents have more information within the company.

## 7. CONCLUSIONS AND SUGGESTIONS

### Conclusion

Based on the test and discussions above, the conclusions of this study are as follows:

1. Audit tenure has no effect on audit quality in the financial and banking industries. Long-term engagements make the auditor understand the company's condition, so they tend not to develop audit procedures and not reduce their quality as auditors.
2. Institutional ownership in the financial and banking industry affects audit quality. High institutional ownership can increase the control of management performance to avoid behavior that is detrimental to the principal.
3. Managerial ownership in the financial and banking industry affects audit quality. The direction of the

positive coefficient with absolute discretionary accruals indicated that managerial ownership in the financial and banking industries has not been able to prevent opportunistic management behavior because the manager's position as an investor tends to take policies to manage earnings from the perspective of investors' desires so that high absolute discretionary accruals indicate low audit quality.

4. Audit fee is not proven to moderate the effect audit tenure on audit quality. The contract between management and the auditor will not affect the length of the audit engagement. Thus, both high and low fee result in good audit quality regardless of how long the engagement lasts. The moderating variable is classified as a predictor moderation.
5. Audit fee is not proven to moderate the effect of institutional ownership on audit quality because institutional ownership may have direct information access to the company so that it does not affect audit fee. The moderating variable is classified as a predictor moderation.
6. Audit fee is not proven to moderate the effect of managerial ownership on audit quality. Audit fee does not affect the effect of managerial ownership with audit quality because auditors have professionalism and independence in working with both low and high fees. The moderating variable is classified as a predictor moderation.

### Suggestion

1. In particular, companies in the financial and banking industries have no problem using a long audit tenure because it does not affect audit quality;
2. Companies in the financial and banking industry suggested increasing institutional ownership because it can increase monitoring which has impact on higher audit quality;
3. Companies in the financial and banking industries are expected to reduce the number of managerial ownership because it will reduce audit quality;
4. Companies in the financial and banking industry that have long audit tenure with audit firm do not need to consider high or low audit fee because it does not affect the length of the engagement and its impact on audit quality.
5. Companies in the financial and banking industries with a managerial ownership structure do not need to consider high or low audit fee because it does not affect institutional ownership and its impact on audit quality.
6. Companies in the financial and banking industries with institutional ownership structures do not need to consider high or low audit fee because it does not affect institutional ownership and its impact on audit quality.

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