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Audit Quality Between Auditor Attributes and Chief Executive Officer Duality

Wiwi Idawati[1], Serli Eka Agtiano[2], Seni Marlina[3]

[1]Accounting Study Program, Faculty of Management and Humanities, Pradita University, Tangerang, Indonesia.
[2]Accounting Study Program, STIE Indonesia Banking School, Jakarta.
[3]Inspektorat Daerah Kota Bekasi, Indonesia.

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Corresponding Author:
Wiwi Idawati

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ABSTRACT

This study aims to test audit tenure, audit fees, audit effort, and CEO duality in non-financial companies on audit quality. The population in this study was non-financial companies that went public as many as 617 companies during the period 2017 to 2020 using purposive sampling, a sample of 176 non-financial companies listed on the Indonesia Stock Exchange was obtained. Data analysis techniques using panel data regression analysis before the COVID-19 pandemic in 2017-2019 during the COVID-19 Pandemic period from 2019-2020. The dependent variables used are audit variables while the independent variables used are audit tenure, audit fee, audit effort, and CEO duality. The results showed the results that before the COVID-19 Pandemic, tenure audits had a positive effect on audit quality during the COVID-19 Pandemic, tenure audits did not affect audit quality, so with audit fees before the COVID-19 Pandemic, it negatively affected audit quality while during the COVID-19 Pandemic, audit fees did not affect audit quality, however, audit effort before the COVID Pandemic did not affect the quality of the audit as it was during the COVID-19 Pandemic, the audit effort had a positive effect on the quality of the audit as well as the ceo duality before and during the COVID-19 Pandemic, the ceo duality did not affect the quality of the audit.

INTRODUCTION

The era of globalization increasingly drives global business competition, which causes the role of accounting in the future to have heavier responsibilities and become more challenging. Company management has the responsibility to report the company's performance to stakeholders, which is conveyed in the form of financial statements audited by a competent and independent party. A public accountant is a competent and independent individual working at a Public Accounting Firm in carrying out their responsibilities based on Law No. 5 of 2011 concerning Public Accountants and the Public Accountant Professional Standards (SPAP).

Financial statements and auditors have a very close relationship, where the auditor must provide an independent opinion on the audited financial statements, and the financial statements must be presented in accordance with generally accepted accounting standards and presented relevantly as a basis for decision-making by investors, creditors, government, and suppliers. Therefore, the opinion given independently on the audited financial statements can be used as an assessment of audit quality.

Audit quality, according to Angelo's Theory (1982), is the joint probability that an auditor will find and report violations in the client's accounting system. To maintain audit quality, a public accountant must adhere to audit standards set by the Indonesian Institute of Public Accountants (IAPI), including general standards that reflect the personal quality that an auditor or public accountant must possess. The auditor or public accountant must have sufficient experience, expertise, and technical training as required to carry out audit procedures, fieldwork standards, and reporting standards, which involve data collection conducted by the auditor during the audit service and require the auditor to prepare financial statements in accordance with established accounting standards (Arens et al., 2016).

According to Pramaswaradana and Astika (2017), the high competition between international and national scale Public Accounting Firms causes auditors to sometimes forget their roles and responsibilities in conducting audit services in accordance with audit standards. This intense competition has led auditors to commit financial statement fraud recently, which has become a topic of discussion and debate. Audit quality is influenced by external factors such as audit tenure and audit fee. Audit tenure refers to the length of the engagement period between the auditor and the client for the agreed audit services. The longer the auditor performs the audit engagement, the more likely the auditor will maintain their reputation by doing everything properly. Therefore, audit rotation is necessary to prevent auditors and clients from having too close a relationship, which could lead to fraud (Pramaswaradana and Astika, 2017). Another external factor is the audit fee, which affects audit quality, where the longer the auditor's engagement with the client, the higher the compensation given to the auditor.

Recently, the non-financial industry has become a public topic due to financial statement fraud involving profit manipulation carried out by company management in collaboration with auditors, which deteriorates audit quality. The factor of CEO duality also influences audit quality, allowing cooperation between management and auditors in committing financial statement fraud, indicating poor audit quality (Jadiyappa et al., 2021). Another significant factor affecting audit quality is audit effort, which can be seen from how long the audit is conducted within an entity, enabling the auditor to detect fraud occurring in the company (Xiao et al., 2020).

From the background description above, the problem formulation can be arranged as follows: Do Audit Tenure, Audit Fee, Audit Effort, and Chief Executive Officer Duality affect Audit Quality before and after the COVID-19 pandemic? The object of this study is Non-Financial Companies listed on the Indonesia Stock Exchange from 2017 to 2020. The purpose of this study is to understand and collect empirical evidence regarding the influence of audit tenure, audit fee, audit effort, and CEO duality on audit quality.

This study measures audit quality proxied by discretionary accruals. Audit quality proxied by discretionary accruals can detect accounting fraud or earnings management carried out by companies and provide concrete evidence in illustrating high audit quality when fraud is committed by the company and detected by the auditor, who then reports the fraud. This shows that auditors with high quality tend to prevent accounting fraud and report material misstatements that do not comply with accounting principles.

The results of this study are very useful for expanding the author's knowledge in theory and practice. This research is also useful for public accounting firms as advice or input that can be considered from the influence of audit tenure, audit fee, and audit effort, as well as improvements in enhancing audit quality in auditing entity financial statements. This study is expected to be beneficial for entities as advice or input and as evaluation material regarding auditor competence and quality.

LITERATURE REVIEW, THEORETICAL FRAMEWORK, AND HYPOTHESES

Agency Theory

Agency Theory is a theory widely used by business practitioners based on the principle of a contractual cooperation between the party with authority, namely the investor, and the party receiving the authority, such as the manager. Agency Theory, popularized by Jensen and Meckling (1976), describes the relationship between the agent and the principal that occurs when a principal hires an agent to perform a task aligned with the principal's interests and delegates some decision-making authority to the agent. Agency Theory explains that the agent acts as the party given power and responsibility to increase the company's value and the interests of shareholders. In a company, there are always boards of directors and commissioners, where duality of roles exists. This duality means that one person holds positions as both a board of director and a commissioner. According to Agency Theory, CEO duality should be separated to avoid dominance over policies or decisions made by the board, minimizing the decline in the board's independence, which could lead to inefficiency in implementing good corporate governance (GCC) principles (Nurlaila, 2013). Regarding the COVID-19 pandemic that affected all countries, including Indonesia, many companies went bankrupt and engaged in earnings manipulation or earnings management. Auditors must enhance the use of analytical procedures to facilitate audits in accordance with facts and existing procedures (Rose et al., 2020).

Compliance Theory

Compliance Theory was introduced by Stanley Milgram (1963). Compliance is the motivation of an individual or group to do or not do something according to existing rules. According to the Indonesian Dictionary (KBBI), compliance comes from the word "patuh," meaning to obey orders or adhere to rules, and compliance means obedience or submission to regulations or existing provisions. The demand for compliance in adhering to regulations to improve audit quality is regulated in the Indonesian Ministry of Finance Regulation No. 17 of 2008 concerning Public Accounting Services. It mandates that companies must rotate auditors or public accountants every three years and rotate public accounting firms every six years to minimize fraud between auditors and clients. Compliance Theory is also related to audit fees and audit effort, where there must be an agreement between the auditor and client regarding the audit fee paid by the company for the audit services provided (Idawati et al., 2024).). The audit fee must be carefully calculated by the auditor based on the effort exerted during the audit to avoid issues that could reduce audit quality.

Auditing

According to Arens, 15th Edition, Volume 1, auditing is the collection and evaluation of evidence about information by a competent and skilled individual with high independence to determine and report the conformity of information with established criteria. Agoes

(2012: p.3) defines auditing as a critical and systematic audit process conducted by an independent person on financial statements prepared by company management, aiming to provide an opinion on the audited financial statements.

Audit Quality

According to Angelo's Theory (1981), audit quality is the auditor's ability to detect fraud and the courage to report fraudulent financial statements. Lee et al. (2019) define audit quality as the probability that an auditor will not issue an unqualified audit opinion on financial statements containing material misstatements. Audit quality is determined by the auditor's ability to reduce errors and bias to enhance the authenticity of accounting data (Wallace, 1980 in Watkins et al., 2004). Auditors have the opportunity to detect fraud based on their competence and courage to report errors in the entity's financial statements (Idawati, 2018).

Audit Tenure

Audit tenure refers to the length of the engagement period between the auditor and client for agreed audit services. A long relationship between auditor and client can create close ties and reduce auditor independence and audit quality (Thuneibat et al., 2011). The length of the relationship may lead to satisfaction between client and auditor, potentially resulting in collusion to commit fraud or auditors not performing audit services according to established procedures.

Audit Fee

According to Angelo's Theory (1981), audit fee is the income that varies depending on several factors in the audit assignment, such as client company size, audit complexity, audit risk, and the reputation of the public accounting firm providing the audit services. Based on the Decree of the Chairman of the Indonesian Institute of Public Accountants No. 24 of 2008, an auditor must consider the following when determining audit fees with clients, (1) Client needs; (2) Auditor's duties and responsibilities under the law; (3) Independence; (4) Level of expertise and responsibility inherent in the auditor's work; (5) Complexity of the work; (6) Time required to complete the work; (7) Basis of the agreed fee.

Audit Effort

Audit Effort, as stated by Palmrose (1984), is the number of days or time spent by the auditor and audit team in performing audit services for an entity. Audit effort is measured by the number of days used by the auditor to complete the audit process, including audit planning, fieldwork, and review of the audited financial statements. Simunic (1980) and Houston et al. (1999) explain two risks affecting audit effort: audit risk as the present value loss to third parties caused by audited financial statements, requiring investment in audit resources to minimize this risk, and the risk of material misstatement not detected or irrelevant.

Chief Executive Officer Duality

The Chief Executive Officer (CEO) is responsible for implementing company policies, running operational activities, and representing shareholders. The CEO is considered the face of the company, impacting financial aspects such as financial performance, profit, and stock returns, as well as non-financial aspects like company reputation and trust from shareholders and stakeholders (Fetscherin, 2015). CEO Duality refers to an official holding two positions as both a board of director and commissioner in a company (Booth et al., 2002). Law No. 40 of 2007 concerning Limited Liability Companies explains that the implementation of good corporate governance (GCG) in Indonesian Limited Liability Companies adopts a two-tier system that separates the functions of the board of directors and the board of commissioners.

CONCEPTUAL FRAMEWORK

This research variable consists of the dependent variable, audit quality, and independent variables, namely audit tenure, audit fee, audit effort, and chief executive officer duality.

Hypothesis Development

Audit Tenure on Audit Quality

Compliance theory and audit tenure are related, where companies that comply with the Ministry of Finance Regulation No. 17 of 2008 concerning the duration of audit services by public accountants can minimize special relationships between auditors and clients. The time limitation in providing audit services can improve audit quality.

Sari et al. (2019) stated that audit tenure positively affects audit quality. The longer the engagement between auditor and client, and compliance with audit rotation regulations, can improve auditor quality. Audit rotation aims to prevent overly close relationships between auditors and clients that may affect auditor independence.

Darya & Puspitasari (2017) stated that longer auditor-client engagements increase auditors' knowledge, making them more thorough and preventing earnings management fraud, thus producing high audit quality. This finding aligns with research by Kirana (2020), Nugroho (2018), Darya & Puspitasari (2017), Lee & Sukartha (2017), and Ardani (2017).

H1: Audit Tenure positively affects Audit Quality

Audit Fee on Audit Quality

Compliance theory relates to audit fees, where agreements between auditors and clients must include audit fees paid by clients according to the complexity and risk of services provided. Such agreements prevent fee wars and disputes that could reduce audit quality.

Siregar & Kiswara (2018) stated that excessively high fees can cause auditor dependence on clients, acceptance of client accounting methods that do not comply with standards, and impair auditor objectivity and professional skepticism, reducing audit quality. Sangkrista & Fitriany (2017) found that excessive fees lead auditors to accept earnings management by companies, as auditors receive large compensation for this, lowering audit quality and the reputation of auditors and public accounting firms. This aligns with Kraub et al. (2015).

H2: Audit Fee negatively affects Audit Quality

Audit Effort on Audit Quality

Compliance theory relates to audit effort, where auditors perform audit services according to existing auditing standards and devote more time to audit services, which can improve auditor quality in performing audits within an entity.

Caramanis & Lennox (2008) stated that auditors who work hard on audit services by spending more time and maintaining skepticism towards client revenues demonstrate high auditor quality to minimize earnings manipulation. Xiao et al. (2020) stated that auditors who work hard by applying good audit procedures and collecting sufficient audit evidence can detect misstatements, justify audit opinions appropriately, and demonstrate good auditor quality by following established audit procedures.

H3: Audit Effort positively affects Audit Quality

Chief Executive Officer Duality on Audit Quality

Agency theory relates to CEO duality, where one person holds two positions simultaneously, dominating decisions and potentially collaborating with auditors to provide fair opinions and manipulate earnings, reducing audit quality.

Jadiyappa et al. (2021) stated that CEO duality positively affects audit quality. The presence of CEO duality allows CEOs and auditors to collaborate in earnings management, as CEOs hold strong power and auditors may accept offers to manipulate earnings. CEOs may also provide high compensation to auditors for cooperation, worsening audit quality. This aligns with Asghar et al. (2020), Sajjad et al. (2019), Latif & Abdullah (2015), Razak & Palahuddin (2014), Krause et al. (2014), Soliman & Ragab (2013).

H4: CEO Duality positively affects Audit Quality

COVID-19 Pandemic on Audit Quality

The COVID-19 pandemic, which affected many countries including Indonesia, caused many companies to go bankrupt and engage in earnings manipulation. Auditors must increase the use of analytical procedures to facilitate audits according to facts and existing procedures (Rose et al., 2020).

Auditors rely on analytical procedures to better understand company financial reports and reduce time-consuming tests, considering that most communication during the pandemic was online via email rather than face-to-face (KPMG, 2020).

Rose et al. (2017) stated that audit quality is crucial to ensure auditor reports and opinions are accurate. Pasupati & Husain (2021) found that the COVID-19 pandemic caused audit delays, which can reduce audit quality during the pandemic. This aligns with Akmiri (2021) and Albitar et al. (2020).

H5: COVID-19 Pandemic negatively affects Audit Quality

RESEARCH METHODOLOGY

Population and Sample

The population in this study consists of Non-Financial Companies listed on the Indonesia Stock Exchange from 2017 to 2020. The data collected relates to audit quality, audit tenure, audit fee, audit effort, and CEO duality through the Indonesia Stock Exchange website (www.idx.co.id) and the official company websites. This study uses purposive sampling technique aimed at obtaining a representative sample according to predetermined criteria. The sample criteria used are as follows:

1. Non-Financial Companies listed on the Indonesia Stock Exchange during the period 2017-2020.
2. Non-Financial Companies that provide complete financial statements from 2017 to 2020 using Indonesian Rupiah currency.
3. Non-Financial Companies that publish financial statements consecutively and are accessible to the public.
4. Non-Financial Companies that have complete data related to the variables used in this study.

RESULTS AND DISCUSSION

Research Sample

This research focuses on Non-Financial Companies spanning ten different industry sectors, all of which are listed on the Indonesia Stock Exchange during the period from 2017 to 2020. The sample selection was carried out using specific criteria over an observation period of four years, from 2017 to 2019. Through this process, 176 Non-Financial Companies were selected after eliminating others from an initial total of 617 companies. The sampling method applied was purposive sampling, guided by the established sample criteria.

Panel Data Analysis Chow Test

The Chow test is conducted using the Simultaneous Significance Test (F Test) to determine the most appropriate model among the common effect or fixed effect models to be used in the study (Gujarati, 2015). The following are the results of the Chow Test in this study, namely:

Table 4. Chow Test Results

Research Equation Model 1 (2017-2019) Before the Pandemic			
Effect Test	**Statistic**	**d.f**	**Prob**
Cross-section F	2.30833	(175,348)	0.0000
Cross-Section Chi-Square	406.812508	175	0.0000
Research Equation Model 2 (2019-2020) Pandemic Period			
Effect Test	**Statistic**	**d.f**	**Prob**
Cross-section F	0.82154	(175,171)	0.90161
Cross-Section Chi-Square	214.78395	175	0.02174

Source: Author's processing with EViews 9, 2022

It can be observed that the Cross-Section Chi-Square probability for research equation 1 is 0.0000, while for research equation 2 it is 0.02174. These Chi-Square probability values are both below the significance level of 0.05, leading to the rejection of the null hypothesis (H0) and acceptance of the alternative hypothesis (Ha). Consequently, it can be concluded that the regression model used in this study is a fixed effect model. Furthermore, this necessitates conducting an additional test, namely the Hausman test, for further validation.

The Hausman test

The Hausman test was conducted to select the most appropriate model between the fixed effect model or the random effect model to be used in the study (Gujarati, 2015). The results of the Hausman Test in this study are as follows:

Table 5. Hausman Test Result

Research Equation Model 1 (2017-2019) Before the Pandemic			
Test Summary	**Chi-Sq. Statistic**	**Ch-Sq. d.f**	**Prob**
Cross-section Random	9.35183	4	0.05288
Research Equation Model 2 (2019-2020) Pandemic Period			
Test Summary	**Chi-Sq. Statistic**	**Ch-Sq. d.f**	**Prob**
Cross-section Random	0.00000	5	1.00000

Source: Author's processing with EViews 9, 2022

It can be observed that the Cross-section Random probability for research equation 1 is 0.05288, while for research equation 2 it is 1.00000. These values exceed the significance level of 0.05, leading to the acceptance of the null hypothesis (H0) and rejection of the alternative hypothesis (Ha). Therefore, it can be concluded that the regression model applied in this study uses the common effect model. This finding necessitates further testing, specifically the Lagrange Multiplier test.

Lagrange Multiplier Test

The Lagrange Multiplier test is employed to determine whether a study should use a common effect model or a random effect model. The results of the Lagrange Multiplier test in this research are as follows:

Table 6. Results of the Lagrange Multiplier Test of Equation 1 Before the COVID-19 Pandemic

Research Equation Model 1 (2017-2019) Before the Pandemic			
Test Hypothesis			
	Cross-section	**Time**	**Both**
Breucsh-Pagan	(0.0000)	(0.9819)	(0.0000)

Source: Author's processing with EViews 9, 2022

Table 7. Results of the Lagrange Multiplier Test for Equation 2 during the COVID-19 Pandemic

Research Equation Model 2 (2019-2020) Pandemic Period			
Test Hypothesis			
	Cross-section	**Time**	**Both**
Breucsh-Pagan	(0.0061)	(0.4709)	(0.0046)

Source: Author's processing with EViews 9, 2022

Based on the results of the Lagrange multiplier test in the table above, it can be seen that the Breucsh-Pagan probability in research equations 1 (one) and 2 (two) produces figures of 0.0000 and 0.0046. These figures are smaller than the significance level of 0.05 so that H0 is rejected and Ha is accepted, so it can be concluded that the results of the regression equation in this study use a random effect model.

Classical Assumption Test

Normality Test

The normality test can be used to test or detect in research whether the regression model between the dependent variable and the independent variable has a normal or near-normal distribution result (Ghozali, 2018). Data can be said to be normally distributed if the Jarque-Bera probability is above 0.05. The results of the Normality Test in this study are as follows:

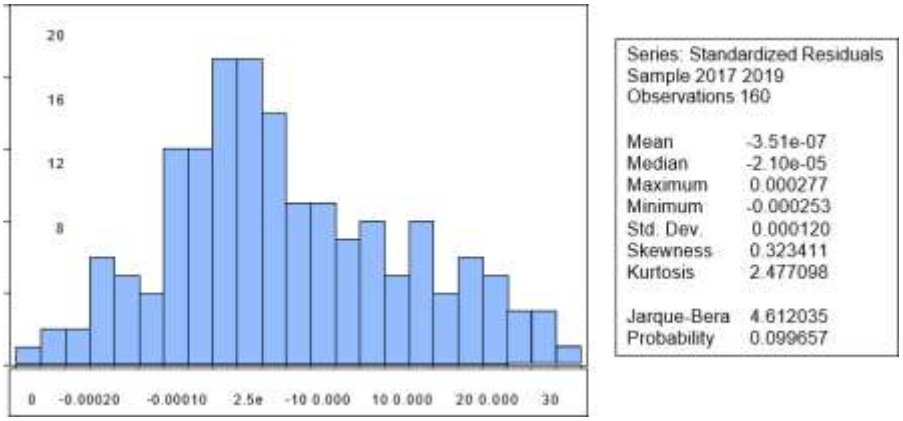

Figure 1. Normality Test Results Before the COVID-19 Pandemic
Source: Author's processing with EViews 9, 2022

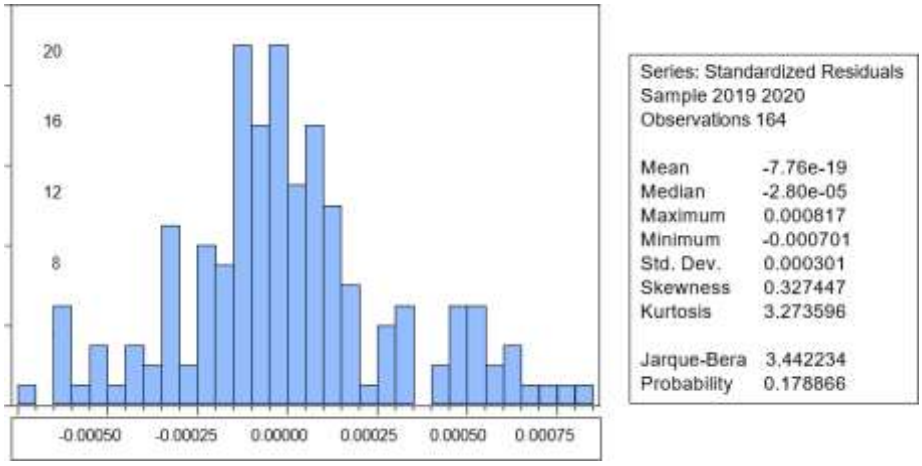

Figure 2. Results of the Normality Test During the COVID-19
Source: Author's processing with EViews 9, 2022

Multicollinearity test

Multicollinearity test can be used to determine the presence of correlation of more than one linear relationship on the variables used. To detect whether there is multicollinearity or not can be seen from the probability value of each variable, if each independent variable (independent variable) has a probability value below 0.8 then it can be said that there is no multicollinearity, and vice versa if each independent variable (independent variable) has a probability value above 0.8 then it can be said that there is multicollinearity (Nachrowi and Usman, 2006). The results of the Multicollinearity Test in this study are as follows:

Table 8. Results of Multicollinearity Test of Equation 1 Before the COVID-19 Pandemic

Research Equation Model 1 (2017-2019) Before the COVID-19 Pandemic				
	ATR	**AFE**	**AFT**	**CEOD**
ATR	1.000000	-0.104017	0.142117	0.006963
AFE	-0.104017	1.000000	-0.196494	-0.088553
AFT	0.142117	-0.196494	1.000000	0.152461
CEOD	0.006963	-0.088553	0.152461	1.000000

Source: Author's processing with EViews 9, 2022

Table 9. Results of Multicollinearity Test of Equation 2 During the COVID-19 Pandemic

Research Equation Model 2 (2019-2020) COVID-19 Pandemic Period					
	ATR	**AFE**	**AFT**	**CEOD**	**D_COVID**
ATR	1.000000	0.066455	0.127200	0.078422	0.078396
AFE	0.066455	1.000000	-0.214106	-0.090440	-0.025108
AFT	0.127200	-0.214106	1.000000	-0.031699	0.095136
CEOD	0.078422	-0.090440	-0.031699	1.000000	0.010988
D_COVID	0.07839	-0.025108	0.095136	0.010988	1.000000

Source: Author's processing with EViews 9, 2022

Based on Table 4.10 and Table 4.11 above, all independent variables in both research equations are free from multicollinearity problems. This can be seen from the correlation coefficient value between independent variables having a correlation of no more than 0.8, so it can be concluded that there is no linear relationship between independent variables in the research equation.

Heteroscedasticity test

The heteroscedasticity test can be used to test whether there is a variance inequality in the regression model between the residuals of one observation to another. Regression can be said to be free from heteroscedasticity if it has a probability value above 0.05. The results of the Heteroscedasticity Test in this study are as follows:

Table 10. Results of Heteroscedasticity Test for Equation 1 Before the COVID-19 Pandemic

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.59E-05	6.20E-05	1.384930	0.1681
ATR	8.13E-06	1.21E-05	0.670211	0.5037
AFE	-8.84E-15	5.91E-15	-1.495233	0.1369
AFT	4.69E-06	1.22E-05	0.384113	0.7014
CEOD	-6.62E-06	6.90E-06	-0.959607	0.3387

Source: Author's processing with EViews 9, 2022

Table 11. Results of Heteroscedasticity Test of Equation 2 for the COVID-19 Pandemic Period

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.90E-05	0.000182	-0.488390	0.6260
ATR	-1.96E-06	3.12E-05	-0.062743	0.9501
AFE	3.88E-15	1.00E-14	0.387629	0.6988
AFT	6.85E-05	3.87E-05	1.770892	0.0785
CEOD	-6.37E-06	3.27E-05	-0.194759	0.8458
COVID	-5.68E-06	2.96E-05	-0.191926	0.8480

Source: Author's processing with EViews 9, 2022

Based on the table above, it can be seen that all independent variables in the 1-year research equation 2017-2019 Before the COVID-19 Pandemic and the 2-year research equation 2019-2020 During the COVID-19 Pandemic used the Cross-section SUR treatment which showed that it was free from heteroscedasticity problems because the probability was above 0.05, so it can be interpreted that the data used did not indicate heteroscedasticity.

Autocorrelation Test

The autocorrelation test is conducted to test linear regression whether there is a correlation in the period of the year being studied with errors in the previous year period. Detecting the presence of autocorrelation using the Durbin Watson (DW) Test, then comparing the results of the Durbin Watson Test with the Durbin Watson table (Ghozali, 2011). The following are the results of the Autocorrelation Test in this study, namely:

Table 12. Autocorrelation Test Results

Research Equation Model 1 (2017-2019) Before the Pandemic			
Durbin-Watson Stat			1.879368
N	**K**	**dL**	**dU**
160	5	1.6776	1.8063
Research Equation Model 2 (2019-2020) Pandemic Period			

Durbin-Watson St			1.990106
N	**K**	**dL**	**dU**
164	6	1.6695	1.8209

Source: Author's processing with EViews 9, 2022

Based on Table 4.14, it can be seen from the Durbin-Watson value for the 1 (one) year study 2017-2019 Before the COVID-19 Pandemic, which is 1.879368. This autocorrelation test has 5 (five) independent variables and the number of observations (N) is 160, so the dL value is 1.6776 and the dU value is 1.8063. Furthermore, the value of 4-dU is 2.1937 and the value of 4-dL is 2.3224, so it can be concluded that there is no positive or negative autocorrelation.

Based on Table 4.14, it can be seen from the Durbin-Watson value for the 2 (two) year study 2019-2020 During the COVID-19 Pandemic, which is 1.990106. This autocorrelation test has 6 (six) independent variables and the number of observations (N) is 164, so the dL value is 1.6695 and the dU value is 1.8209. Furthermore, the value of 4-dU is 2.1791 and the value of 4-dL is 2.3305, so it can be concluded that there is positive autocorrelation. The autocorrelation test is not used from the classical assumption test section in panel data regression. The autocorrelation test only occurs in the time series data regression model, so not all classical assumption tests must be carried out on each regression model. Autocorrelation testing carried out on cross-section or panel data can be in vain or meaningless (Basuki & Prawoto, 2017).

ANALYSIS AND DISCUSSION

Analysis of Audit Tenure on Audit Quality

The findings before the COVID-19 pandemic indicate that audit tenure positively influences audit quality. This is because a longer engagement period between the auditor and the client, combined with adherence to audit rotation regulations, tends to enhance the auditor's quality. Audit rotation aims to prevent overly close relationships between auditors and clients that could compromise auditor independence (Sari et al., 2019). A prolonged auditor-client relationship allows auditors to gain sufficient knowledge to conduct professional audits more meticulously, thereby reducing the risk of earnings management fraud and resulting in higher audit quality. These results align with the studies by Darya & Puspitasari (2017) but contradict Agustini & Siregar (2020), who found a negative effect of audit tenure on audit quality.

During the COVID-19 pandemic, audit tenure was found to have no significant effect on audit quality. This is attributed to auditors maintaining their public accounting firm's reputation and feeling more confident with their clients, which reduces the need to develop new audit procedures that might otherwise affect audit quality (Andria & Nursiam, 2018). This finding is consistent with Priyanti & Dewi (2019) but contrasts with Sari et al. (2019), who reported a positive impact of audit tenure on audit quality.

Analysis of Audit Fee on Audit Quality

Before the pandemic, audit fees negatively affected audit quality. Excessively high fees could lead to auditor dependence on clients, acceptance of client accounting methods that do not comply with standards, and impair the auditor's objectivity and professional skepticism, thereby lowering audit quality (Siregar & Kiswara, 2018). This finding supports the research by Sangkrista & Fitriany (2017) but opposes Jadiyappa et al. (2021), who found a positive relationship between audit fees and audit quality.

During the COVID-19 pandemic, audit fees showed no significant effect on audit quality. The size of the audit fee paid to auditors does not necessarily reflect auditor quality, which is better gauged by the auditor's independence during the audit process. Additionally, many companies experienced profit declines during the pandemic and requested auditors to reduce fees (Yustari et al., 2021). This result aligns with Erieska (2018) but contradicts Jadiyappa et al. (2021).

Analysis of Audit Effort on Audit Quality

Before the pandemic, audit effort did not significantly affect audit quality. This aligns with He et al. (2012), who argued that greater effort by auditors does not always translate to higher audit quality due to differences in client company characteristics and complexity. However, Xiao et al. (2021) found that audit effort does influence audit quality.

During the pandemic, audit effort positively impacted audit quality. The COVID-19 pandemic forced companies to adopt remote work, requiring auditors to innovate and utilize technology for remote audits. Auditors had to conduct more detailed examinations and spend more time planning audits remotely to produce independent auditor reports and maintain high audit quality (Khasanah & Suryatimur, 2021). Conversely, He et al. (2021) found no significant effect of audit effort on audit quality.

Analysis of CEO Duality on Audit Quality

Both before and during the pandemic, CEO duality showed no significant effect on audit quality. CEO duality in public companies tends to minimize earnings management practices and collaboration with auditors to manipulate financial reports, partly due to familial ties between CEOs of different public companies. CEOs holding dual roles aim to present a positive image of the company through leadership structure (Gumanti & Prasetyawati, 2011). This finding aligns with Purti & Deviesa (2017) but contradicts Jadiyappa et al. (2021), who found a positive effect of CEO duality on audit quality.

Analysis of COVID-19 Pandemic on Audit Quality

The study found that the COVID-19 pandemic negatively affected audit quality. The pandemic caused many companies to face bankruptcy and increased the likelihood of earnings manipulation. Auditors had to adapt to fully digital audit processes while working from home, which made audit procedures more challenging. Consequently, auditors relied more on analytical procedures and reduced detailed testing, which typically requires more time, thereby lowering audit quality (Rose et al., 2020).

CONCLUSION

Based on the analysis and discussion, the study concludes: (1) Before the COVID-19 pandemic, audit tenure positively influenced audit quality, whereas during the pandemic, it had no significant effect. (2) Audit fees negatively affected audit quality before the pandemic but had no significant effect during the pandemic. (3) Audit effort did not affect audit quality before the pandemic but positively influenced it during the pandemic. (4) Chief Executive Officer Duality had no significant effect on audit quality both before and during the pandemic. (5) Dummy the COVID-19 pandemic itself negatively impacted audit quality.

IMPLICATIONS

These findings provide important implications for Public Accounting Firms. Audit tenure, audit fees, and audit effort positively influence audit quality and should be considered in efforts to improve audit standards. Auditors should comply with audit tenure regulations to enhance audit quality. Additionally, agreed-upon audit fees between auditors and clients can improve audit outcomes. The pandemic's impact highlights the need for auditors to adapt to remote auditing technologies and maintain independence despite challenges.

SUGGESTIONS

Based on the limitations encountered in this study, improvements or additions are recommended for future research. The suggestions for this study are as follows:

(1) Future research could expand the sample by including companies from various other countries.

(2) Subsequent studies may incorporate additional independent variables such as Audit Delay, Industry Specialist Auditors, and other relevant factors.

(3) Future research could employ direct interview techniques to measure Audit Quality and Audit Tenure more effectively.

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