

The Contribution of Company Size, Leverage, and KAP Size on the Audit Quality of Manufacturer Company

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ABSTRACT

The purpose of this research is to look into the impact of business size, leverage, and KAP size on audit quality. Manufacturing enterprises listed on the Indonesia Stock Exchange (IDX) during the 2017-2019 timeframe made up the study's population. The purposive sampling strategy was used in this study, and 198 samples were collected from 66 manufacturing organizations between 2017 and 2019. The logistic regression analysis method is a unique data analysis method. The findings of this study show that business size has a beneficial impact on audit quality, but KAP size has a negative impact. While there is no effect on audit quality due to leverage.

Keywords: Firm Size, Leverage, KAP Size, Audit Quality

1. INTRODUCTION

Every business, especially those in the manufacturing industry, is required to publish financial reports. Financial statements are used as consideration in making decisions by investors. Financial statements issued must reflect the actual situation. To get the actual financial statements, it is necessary to process the audit financial statements carried out by an auditor (Nurbaiti et al, 2019). An audit of financial accounts is performed to reduce the risk of information contained in them and to improve the quality of decision-making (Arens et al, 2008). The audit process is carried out to determine whether the financial statements are relatively fair and have used real data, so that audit quality becomes an important and main thing to improve the financial statements' trustworthiness. However, a fair statement is not sufficient to ensure the survival of the company (Nurhayati et al, 2015).

The disclosure of various major cases such as in PT. Garuda Indonesia used AP from KAP Tanubrata, Sutanto, Fahmi, Bambang and colleagues, namely AP Kasner Sirumapea. Where as the auditor the AP has violated the applicable audit standards, because the AP has not assessed the transaction properly, while the transaction has acknowledged the existence of the transaction even though it has not been received by the company. The AP ignores facts after the financial statement's date as the basis for accounting treatment, which is in violation of accounting standard 560. It is clear that the AP auditing PT Garuda Indonesia has violated the Auditing Standards, previously the Ministry of Finance imposed two sanctions on Public Accountant (AP) Kasner Sirumapea and KAP Tanubrata, Sutanto, Fahmi, Bambang Rekan related to the polemic of the financial statements of PT Garuda

Indonesia (Persero) Tbk for the financial year 2018. Not only that, but the KAP responsible for auditing Garuda Indonesia's financial statements has received a written warning and is required to strengthen the Control System. KAP quality and reviewed by BDO International Limited to KAP Tanubrata Sutanto, Fahmi, Bambang Rekan (<https://www.cnnindonesia.com/>, 2019).

The likelihood of an auditor discovering a financial statement error and reporting it to the financial statement users is referred to as audit quality. Auditing standards and the code of ethics of public accountants in Indonesia, which are based on the appropriate Public Accountant Professional Standards, guide auditors in their work (SPAP) in achieving audit quality that has been agreed upon by public accountants (AP) (Nurhayati et al, 2015). A good reputation for the auditors towards clients comes from the quality of audits produced by independent auditors (Permatasari and Astuti 2018).

Quality audit opinion results come from the best audit services, and not a few go-public companies choose the best audit services to get good quality financial reports as well. This of course comes from several factors that affect audit quality (Permatasari and Astuti 2018). The first factor that affects audit quality is firm size. Company size is a measure of a company's ability to maintain business continuity that can be proxied by the natural log of total assets possessed by the company (Berikang et al, 2018).

The next factor that can affect audit quality is leverage. Leverage is a ratio that measures a company's capacity to meet all short- and long-term obligations. This ratio is used to indicate how much debt-financed enterprises own in terms of assets (Anas et al, 2018).

The size of the KAP is another element that can influence audit quality. The size of KAP is an office that provides audit services for the company's financial statements (Papatungan and Kaluge, 2018). The size of the KAP is stated in the Big Four or non-Big Four seen from the affiliation to the KAP (Nurubtiati and Purwanto, 2017).

The formulation of the problem in this study is:

- (1) Does firm size have a positive effect on audit quality;
- (2) Does leverage have a negative effect on audit quality;
- (2) Does the size of KAP have a positive effect on audit quality, based on the backdrop that has been presented.

In light of the above-mentioned study question, The study's goals are to (1) discover empirical evidence of the effect of business size on audit quality, (2) discover empirical evidence of the effect of leverage on audit quality, and (3) discover empirical evidence of the effect of KAP size on audit quality.

THEORY BASIS

1.1. The Influence of Firm Size on Audit Quality

Small companies tend to have weak information and internal control systems, resulting in higher quality audits. The larger the size of the company, the greater the agency costs. Thus, to produce high audit quality, large companies are more likely to choose professional and independent audit services (Andreas Berig et al, 2018). The first hypothesis in this investigation is based on the above description:

H1: Firm size has a positive effect on audit quality.

1.2. Effect of Leverage on Audit Quality

The ability of a corporation to employ assets or assets with fixed costs (fixed cost assets or funds) to improve the level of revenue (return) for company owners is known as leverage (Anas et al, 2018). Leverage as a ratio to show how much assets owned by the company to be financed with debt. Based on the description above, the first hypothesis in this study is:

H2: Leverage has a negative effect on audit quality.

1.3. Effect of KAP Size on Audit Quality

The size of KAP is an office that provides audit services for the company's financial statements (Papatungan and Kaluge, 2018). When compared to non-Big Four KAPs, the size of KAPs affiliated with Big Four KAPs is deemed to have strong independence and good audit quality (Nurubtiati and Purwanto, 2017).

H3 : KAP size has a positive effect on audit quality.

2. RESEARCH METHOD

2.1. Data Collection Method

Secondary data in the form of yearly financial statements from Manufacturing businesses listed on the IDX from 2017 to 2019 is used in this study. Data on

audit quality, firm size, and leverage are required for this investigation. The documentation approach was used to collect data in this study. In terms of the literature review, it was based on earlier research and was backed up by additional sources. The financial statement data for the company may be seen on the Indonesia Stock Exchange's (IDX) official website, www.idx.co.id.

2.2. Operational Definition and Variable Measurement Pengukuran

2.2.1. Audit Quality (Y)

Audit quality refers to an auditor's capacity to detect material misstatements and willingness to reveal them, while adhering to auditing standards and the appropriate public accountant code of ethics while doing their duties (Novrilia, 2019).

The audit quality as measured by Earning Benchmark is the dependent variable in this study. Earning Benchmark used is between and , where is the average earnings / total assets and is the deviation. This benchmark differs from Carey and Simnet (2006) which uses 2% of total assets on the grounds that the data is for Australian capital market conditions so it is not necessarily valid for Indonesian conditions (Rossieta and Wibowo, 2009).

Audit quality is assumed to be poor if:

- 1) Profit exceeds the earnings benchmark, namely when the ROA value $> +\sigma$, which means that the auditor gives the company the opportunity to practice "windows dressing" (which is management's effort to make financial statements "good" by increasing profits so that management can enjoy bonuses). in the present).
- 2) Loss exceeds the earnings benchmark, namely when the ROA value $< -\sigma$, which means that the auditor gives the company the opportunity to practice "taking a bath" (which is management's attempt to make financial statements "bad" by increasing losses in the hope that management will get a profit). future bonuses due to increased profits).

The dependent variable of audit quality (MEET BE) is as follows if defined in the formulation:

- 1) MEET_BE = 1 when it meets the criteria $-\sigma < ROA < +\sigma$, indicating a high audit quality.
- 2) MEET_BE = 0 for $ROA > +\sigma$ where management practices “windows dressing” or $ROA < -\sigma$ where management practices “taking a bath”, which indicates low audit quality.

2.2.2. Company Size (X1)

A value for the size of a firm can be used to represent its size. The size of the company in this study is size. According to Junaidi and Hartono (2010: 9) large companies have a better ability to manage the company and produce higher quality financial reports.

The natural logarithm of the total assets owned by the company is used to determine its size (Andrian & Nursiam, 2017), namely:

Information:

Size = Company Size

Ln = Logarithm

2.2.3. Leverage (X2)

Leverage is a metric for determining a company's ability to meet all of its short- and long-term obligations. The ratio describes the relationship between the company's debt to capital and assets. The higher the leverage value, the risk that investors will face will be higher and investors will ask for greater profits (Hasty et al, 2017).

The ratio of total debt to total assets is used to calculate this variable. The following is the formula:(Halim, 2007)

2.2.4. KAP Size

The size of KAP is an office that provides audit services for the company's financial statements (Papatungan and Kaluge, 2018). The size of the KAP is expressed in Big Four or non-Big Four in terms of affiliation with the KAP. KAPs affiliated with Big Four KAPs are considered to have more independence and good audit quality. Auditors from KAPs with high reputations tend to display high audit quality with opinions that are in accordance with the annual financial statements and are reliable (Nurubtiati and Purwanto, 2017).

The KAP size will be given a value of 1 for companies linked with Big Four KAPs and 0 for companies affiliated with non-Big Four KAPs in this variable, which will be tested using a dummy variable (Nurubtiati and Purwanto, 2017).

2.3. Data Analysis Method

SPSS was used to conduct the data analysis in this study (Statistical Package for Social Science). In this study, many data analysis approaches were applied, including:

2.3.1. Descriptive Statistics

The average value (mean), standard deviation value, maximum value, and minimum value are all used in descriptive statistics to provide an overview or description of the data (2016, Ghozali).

2.3.2. Test the Overall Model (Overall Model Fit)

To analyze the overall model in this study, the model that has been hypothesized to be fit or not with the data was used. The test is performed by comparing the value of $-2 \log$ likelihood at the start (block number = 0) to $-2 \log$ likelihood at the conclusion (block number = 1).

The fact that the value of $-2LL$ in the next phase (final $-2LL$) is lower than the original $-2LL$ function suggests that the hypothesized model fits the data.

2.3.3. Feasibility Test of Regression Model

The regression model's feasibility was determined using Hosmer and Lemeshow's Goodness of Fit Test. The null hypothesis is that the empirical data is suitable or in accordance with the model (there is no difference between the data, hence the data model is considered to be fit) according to Hosmer and Lemeshow's Goodness of Fit Test (Ghozali, 2016).

2.3.4. Testing the Coefficient of Determination (Nagelkerke's R Square)

The coefficient of determination (R^2) is a test that determines how well an independent variable can explain a dependent variable (Ghozali, 2016). R^2 has a value of 0 (zero) to 1 (one) (one).

2.3.5. Parameter Estimation and Interpretation

The regression coefficient, which shows regression, can be used to estimate parameters. The regression coefficient demonstrates the link between two variables. The profitability figures are compared to test hypotheses (sig).

2.3.6. Logistics Regression Test

In this work, multivariate analysis and logistic regression were utilized to assess hypotheses (logistic regression). Logistic regression has the characteristics of the independent variable is a combination of more than one nonmetric metric. The logistic regression analysis technique no longer requires the classical assumption test because the multivariate normal distribution assumption cannot be fulfilled because the independent variable is a mixture of continuous (metric) and categorical (nonmetric) variables (Ghozali, 2016). The logistic regression model used is as follows:

Information :

KA : Quality Audit
 UP : Company Size
 LEV : Leverage
 KAP : KAP size
 E : Error

4. RESULTS AND DISCUSSION

4.1. Population and Sample

Manufacturing enterprises listed on the Indonesia Stock Exchange (IDX) from 2017 to 2019 comprise the study's population. This study analyzes secondary data from Manufacturing businesses registered on the Indonesia Stock Exchange, complete with financial reports and audited reports for the 2017-2019 period, and a financial year-end date of December 31. The website www.idx.co.id is used to collect data. Researchers utilized a purposive sampling strategy in this study with the goal of producing a representative sample that met preset criteria.

Table 4.1
Sampling Description

No	Research Sample Criteria	Number of Companies
1	Manufacturing Companies listed on the Indonesia Stock Exchange sample 2017-2019	179
2	Companies that do not provide data needed in research	113
3	Companies used as samples	66
4	The total sample data used during the 3 year research period (66 company x 3 years)	198

4.2. Results of Data Analysis

4.2.1. Descriptive Statistical Analysis

As previously explained, the amount of data sampled in this study is 198 data from 66 Manufacturing companies for the 2017-2019 period. The results of descriptive statistical analysis are shown in the following table:

Table 4.2
Descriptive Statistical Analysis Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Ukuran Perusahaan	198	25,02	33,49	28,6878	1,63711
Leverage	198	0,10	1,95	0,4187	0,23587
Valid N (listwise)	198				

Source: Processed data, 2021

Table 5.2 shows that the average share owned by the company size variable is 28.6878 with a standard deviation of 1.63711, the minimum value is 25.02 and the maximum value is 33.49. Table 5.2 shows the average value of the leverage variable that is sampled in this study of 0.4187 with a standard deviation of 0.23587, a minimum value of 0.10, a maximum value of 1.95.

Table 4.3
Frequency of Audit Quality Test Results

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	KA Rendah	14	7,1	7,1	7,1
	KA Tinggi	184	92,9	92,9	100,0
	Total	198	100.0	100.0	

Source: Processed data, 2021

The value of audit quality in this study uses a dummy variable with a range of 1 (which means that the company uses high audit quality auditors) and 0 (means the company uses low audit quality auditors), in table 5.3 shows the number of research samples 198, of which samples are categorized 1 is 184 or 92.9% and categorized 0 is 14 or 7.1%.

Table 4.4
Frequency of KAP Size Test Results

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NON BIGFOUR	109	55,1	55,1	55,1
	BIGFOUR	89	44,9	44,9	100,0
	Total	198	100.0	100.0	

Source: Processed data, 2021

The value of KAP size in this study uses a dummy variable with a range of 1 (meaning that the company is affiliated with the Big Four KAP) and 0 (meaning the company is affiliated with non-Big Four KAP), in table 5.4 shows the number of research samples 198, of which the sample is categorized 1 as 89 or 44.9% and categorized 0 as 109 or 55.1%.

4.2.2. Logistics Regression Test

The purpose of a logistic regression analysis is to see if the probability of the dependent variable occurring can be predicted using the independent variable. Because the dependent variable, audit quality, is quantitative data with dummy factors, and the independent variable (independent), is a mix of continuous and categorical characteristics, logistic regression is utilized (Ghozali, 2016).

1) Feasibility Test of Regression Model

Table 4.5

Goodness of Fit Test Results Hosmer and Lemeshow Test

Step	Chi-Square	Df	Sig
1	6,756	8	0,563

Source: Processed data, 2021

The statistical value of the Hosmer and Lemeshow Goodness of Fit Test is 6.756 with a significant probability of 0.563, which is greater than 0.05, as shown in Table 5.5. As a result, the model can be concluded to be acceptable, i.e., the model can predict the variables in this study, allowing it to be used for further analysis.

2) Assessing the Overall Model (Overall Model)

Table 4.6

Overall Test Results Model Fit Iteration History a, b, c

Iteration	-2 Log likelihood	Coefficients	
		Constant	
Step 0	1	113,481	1,7173
	2	101,879	2,349
	3	101,169	2,556
	4	101,164	2,576
	5	101,164	2,576

Source: Processed data, 2021

Table 4.7

Overall Test Results Model Fit 2 Iteration History a, b, c

Iteration	-2 Log likelihood	Coefficients				
		Constant	X1	X2	X3	
Step 1	1	104,467	-2,481	0,167	-0,574	-0,789
	2	84,437	-6,363	0,351	-1,063	-1,751
	3	79,759	-9,029	0,482	-1,396	-2,653
	4	79,029	-9,672	0,527	-1,623	-3,190
	5	78,989	-9,671	0,534	-1,701	-3,363
	6	78,989	-9,666	0,534	-1,708	-3,376
	7	78,989	-9,666	0,534	-1,708	-3,376

Source: Processed data, 2021

The test is performed by comparing the value of -2 Log Likelihood (-2LL) at the start (Block Number = 0) to -2 Log Likelihood (-2LL) at the end (Block Number = 1). If there is a decline, it means the regression model or postulated model is working well with the data.

The overall value of the model fit is shown in tables 5.6 and 5.7, with the beginning -2LL value (Block 0) of 103.481 and the final -2LL value (Block 1) of 78.989. This value has decreased, indicating that the regression model is good, or that the predicted model matches the data..

3) Value of Nagelkerke R Square

Table 4.8

Nagelkerke R Square Test Results

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	78,989a	0,106	0,265

Source: Processed data, 2021

Table 5.8 shows the results of the output spss Cox and Snell R Square values of 0.106 and Nagelkerke R Square values of 0.265 which means that the variability of the dependent variable can be explained by the variability of the independent variable of 26.5%, while the remaining 73.5% of the variability of the dependent variable is explained. by other variables not examined in this study.

4.2.3. Parameter Estimation and Their Interpretation

The regression coefficients, the results of which may be seen in the accompanying table, show parameter estimation:

Table 4.9
Regression Coefficient Test Results

		B	S.E	Wald	df	Sig.
Step 1a	X1	0,534	0,214	6,257	1	0,012
	X2	-1,708	0,978	3,049	1	0,081
	X3	-3,376	0,991	11,593	1	0,001
	Constant	9,666	5,969	2,622	1	0,105

Source: Processed data, 2021

The logistic regression model is derived as follows from the logistic regression equation testing:

From the above logistic regression model equation can be interpreted as follows:

α = constant value of 9.666 means that if the value of the independent variable (company size, leverage, KAP Size) is considered zero, then the dependent variable, namely audit quality proxied by earnings benchmark, is 9.666.

β_1 = The coefficient value of the firm size variable is 0.534. Score positive regression coefficient indicates that every increase of 1 kenaikan company size variable unit assuming other variables constant value it will increase the probability of audit quality.

B_2 = The leverage variable's value coefficient is -1.708. Score negative regression coefficient shows that every increase in 1% leverage variable assuming other variables are worth constant it will reduce the probability of audit quality kualitas of -1.708 for companies that have quality high audit rate compared to companies that have low audit quality.

B_3 = The value of the regression coefficient of the KAP reputation variable is -3.376. The negative regression coefficient value indicates that every 1 unit decrease in the KAP reputation variable with the assumption that other variables are constant will reduce the probability of companies performing audit quality by -3.376 for

companies that have high quality. High audit rate compared to companies that have low audit quality.

4.2.4. Hypothesis Testing Results

a. Effect of Company Size on Audit Quality

The first hypothesis analysis shows that the company size variable is significant at 0.012 which means it is smaller than 0.05 with a regression coefficient value of 0.534. Thus, the conclusion of the first hypothesis which states that company size has a positive effect on audit quality is accepted.

b. Effect of Leverage on Audit Quality

The analysis of the second hypothesis shows that the significant leverage variable is 0.081, which means it is greater than 0.05 with a regression coefficient of -1.708. Thus, the conclusion of the second hypothesis which states that leverage has a negative effect on audit quality is rejected.

c. The Effect of KAP Size on Audit Quality

The third hypothesis analysis shows that the significant variable of KAP size is 0.034 which means it is smaller than 0.05 with a regression coefficient value of -3.376. Thus the conclusion of the third hypothesis which states that The magnitude of the KAP has a good impact on audit quality, yet it is rejected.

CONCLUSION

Based on the results of data analysis and discussions that have been carried out, then some conclusions can be drawn as follows:

1. Firm size has a positive effect on audit quality in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2018 period.
2. Leverage has no effect on audit quality in the company manufacturers listed on the Indonesia Stock Exchange for the 2016-2018 period.
3. The size of KAP has a negative effect on audit quality in manufacturing company listed on the Indonesia Stock Exchange period 2016-2018.

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