

Research Article

The Effect of Audit Tenure on Audit Quality in Companies Listed on the Indonesia Stock Exchange

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Abstract: This study aims to analyze the effect of audit tenure on audit quality at PT Wijaya Karya (Persero) Tbk, which is listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. This research employs a quantitative approach with a causal associative research method. The data used are secondary data obtained from the company's annual reports and financial statements. Data collection was conducted through documentation, while sample selection used purposive sampling. The data analysis method applied was simple linear regression to examine the effect of audit tenure on audit quality. The results indicate that audit tenure has a significant effect on audit quality, suggesting that the length of the relationship between the auditor and the client has implications for the quality of audit outcomes. These findings are expected to contribute to the development of accounting literature and serve as a consideration for regulators and companies in determining auditor engagement policies to maintain audit quality.

Keywords: Audit Quality; Audit Tenure; Auditor Independence; Indonesia Stock Exchange; Simple Linear Regression.

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1. Introduction

External auditing is a fundamental instrument in enhancing the reliability and accountability of corporate financial statements (Arens et al., 2020). The presence of independent auditors provides assurance that financial information is fairly presented in accordance with applicable accounting standards (DeAngelo, 1981). However, audit quality is not only determined by auditor capability but also by the characteristics of the professional relationship between the auditor and the client, one of which is audit tenure, namely the duration during which an auditor provides audit services to an entity. This duration is frequently debated because it is considered capable of influencing auditor independence and objectivity (Carey & Simnett, 2006).

The issue of audit tenure has received increasing attention in Indonesia in line with regulatory efforts to strengthen corporate governance quality. The Financial Services Authority (OJK), together with the Institute of Indonesia Chartered Accountants (IAI), has established limits on auditor engagement periods as a measure to reduce potential conflicts of interest. Nevertheless, debate remains regarding whether long-term auditor–client relationships reduce independence or instead improve audit quality through a deeper understanding of the client's operations (Myers et al., 2003).

In the context of the national capital market, particularly companies listed on the Indonesia Stock Exchange (IDX), audit quality is a crucial component in maintaining investor confidence and the credibility of financial information. The IDX, as the organizer of securities trading, requires a high level of transparency and accountability from all listed companies. Therefore, high-quality financial statements that have been examined by independent auditors constitute an important foundation for investment decision-making. Accordingly, the issue of audit tenure in IDX-listed companies is relevant for further investigation.

Rizal and Yohanes (2023) found that audit tenure does not have a significant effect on audit quality. Their findings indicate that the length of the auditor–client relationship, whether short or long, does not result in meaningful differences in audit quality. Although audit tenure is often associated with increased auditor understanding of client conditions, the study emphasizes that longer engagement periods do not necessarily reduce independence or lower audit quality. Therefore, this topic remains important to re-examine in order to ensure consistency of findings across different sectors of companies listed on the Indonesia Stock Exchange.

On the other hand, IDX-listed companies have diverse characteristics in terms of size, industry sector, leverage levels, and operational complexity. These differences may influence how audit tenure affects audit quality (Francis, 2011). For example, companies with high levels of complexity may require auditors who possess in-depth understanding acquired through long-term relationships (Ghosh & Moon, 2005). Conversely, large companies with high public exposure demand fully independent auditors to maintain the credibility of financial reporting (Quick & Warming-Rasmussen, 2009).

Based on these conditions, examining the effect of audit tenure on audit quality in companies listed on the Indonesia Stock Exchange is essential. This study is expected to contribute academically to the development of auditing literature in Indonesia and provide practical implications for auditors, regulators, and public companies in formulating policies that maintain auditor independence while ensuring optimal audit quality in the Indonesian capital market environment (Hay et al., 2014).

2. Preliminaries or Related Work or Literature Review

2.1 Agency Theory

Agency Theory is one of the primary theories widely used in corporate financial management. The main focus of this theory is the contractual relationship between principals (owners or shareholders) and agents (management or company managers) in operating the company. In the context of corporate finance, the theory explains that shareholders, as providers of capital seeking maximum returns on their investments, delegate company management to managers. However, this condition creates potential conflicts because management may make decisions based on their personal interests rather than those of shareholders. Therefore, Agency Theory discusses how relationships between owners and managers can be structured to achieve optimal corporate objectives while minimizing agency conflicts (Widnyana et al., 2024).

Agency Theory is used as a foundation to analyze and resolve conflicts arising between management as agents and shareholders as principals. One form of moral hazard can be mitigated through the appointment of auditors who examine management actions. From an agency perspective, an independent third party—namely, an external auditor—is required to act as a mediator between agents and principals. Auditors monitor managerial behavior and ensure that agents act in accordance with the interests of principals. Thus, auditors are viewed as parties capable of bridging the interests of shareholders and management while serving as a mechanism for managerial accountability to principals (Wardani et al., 2022).

2.2 Audit Tenure

According to Luthfisahar (2020), audit tenure refers to the length of time or duration of the engagement between an auditor and a client related to agreed-upon audit services. Audit quality may be influenced by the length of this relationship. Longer audit tenure may provide auditors with continuous income benefits. However, such long-term relationships also have the potential to create emotional closeness between auditors and clients, which can weaken auditor independence.

Audit tenure also affects audit quality. Engagement periods that are excessively long may result in familiarity between auditors and clients, potentially reducing auditor independence. This condition may also impact auditor competence because audit opinions may become less

varied. When auditors are unable to maintain independence in disclosing a company's financial difficulties or indications of fraud, limitations on audit engagement periods become necessary (Effendi & Ulhaq, 2021).

2.3 Audit Quality

According to El Badlaoui et al. (2021), audit quality is one of the primary objectives of auditing and must be carried out by professional auditors who possess adequate competence, independence, and experience. The audit process must be conducted in accordance with generally accepted auditing standards to provide reasonable assurance to users of financial statements, through the auditor's report, that the information presented is free from material misstatements. Low audit quality can result in various negative impacts on stakeholders, including investors, suppliers, the public, government, and other parties.

Based on the Indonesian Institute of Accountants (IAI), several indicators are used to assess audit quality, including auditor competence, ethics and independence, time allocation by key personnel in engagements, engagement quality control, results of external and internal quality reviews or inspections, engagement span of control, organizational structure and governance of public accounting firms, and policies related to audit fees.

Audit quality is divided into two types: actual quality and perceived quality. Actual quality refers to the auditor's ability to reduce the risk of material misstatements. Perceived quality reflects the level of trust financial statement users place in the auditor's assessment of the likelihood of material misstatements in financial reports (Tanujaya & Susiana, 2021).

2.4 Research Framework

The framework illustrates that audit tenure, as the independent variable, is presumed to influence audit quality as the dependent variable. The length of the auditor–client relationship may affect the auditor's understanding of the company as well as independence, thereby impacting the resulting audit quality.

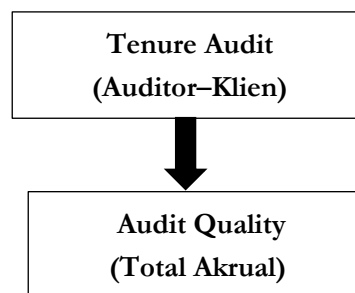


Figure 1. Research Framework.

3. Proposed Method

This study employs a quantitative approach to analyze the effect of audit tenure on audit quality in companies listed on the Indonesia Stock Exchange (IDX). The data used are secondary data obtained from company annual reports during the 2022–2024 period. Data collection was conducted through documentation by reviewing published financial statements and audit information.

Data analysis was performed using simple linear regression to determine the relationship and effect of audit tenure as the independent variable on audit quality as the dependent variable. Audit quality was proxied by total accruals, while audit tenure was measured based on the length of the engagement relationship between the auditor and the client. The regression results were used as the basis for drawing research conclusions.

4. Results and Discussion

4.1. Overview of Research Data

This study uses secondary data obtained from the annual reports of PT Wijaya Karya Tbk for the 2022–2024 period. The data include information on external auditors, auditor engagement periods, and financial information used to measure audit quality. The selected research period provides a continuous overview of the relationship between audit tenure and audit quality over several consecutive years. Based on documentation of annual reports, PT Wijaya Karya Tbk consistently used the same public accounting firm throughout the research period, indicating a sustained audit relationship.

4.2. Audit Tenure Results

Audit tenure in this study was measured based on the length of the external auditor's engagement with the company. The review of annual reports shows that no auditor changes occurred during the 2022–2024 period. Consequently, audit tenure increased progressively from year to year. This continuous audit relationship reflects consistency in the financial statement examination process. Retaining the same auditor allows for deeper understanding of the company's operational characteristics, financial structure, and inherent business risks, which are essential elements in conducting effective and consistent audits.

Table 1. Audit Tenure PT Wijaya Karya Tbk Period 2022–2024.

Year	Company Name	Public Accountant Firm (PAF)	Audit Period
2022	PT Wijaya Karya (Persero) Tbk	Amir Abadi Jusuf, Aryanto, Mawar & Rekan (RSM Indonesia)	Year 1
2023	PT Wijaya Karya (Persero) Tbk	Amir Abadi Jusuf, Aryanto, Mawar & Rekan (RSM Indonesia)	Year 2
2024	PT Wijaya Karya (Persero) Tbk	Amir Abadi Jusuf, Aryanto, Mawar & Rekan (RSM Indonesia)	Year 3

Source: Annual Report PT Wijaya Karya Tbk Year 2022–2024

4.3. Audit Quality Results

Audit quality in this study was proxied using total accruals derived from the company's financial statements. Total accruals reflect the difference between accounting profit and operating cash flows, thereby representing the level of accounting policy application.

Observations of financial statements during the research period indicate that PT Wijaya Karya Tbk's total accrual values fluctuated year to year. These changes reflect dynamics in financial reporting influenced by operational conditions, accounting policies, and oversight of the financial reporting process.

Table 2. Audit Quality Summary PT Wijaya Karya Tbk Period 2022–2024.

Year	Audit Quality Proxy	General Description
2022	Total Accruals	There are accrual adjustments that reflect the company's initial conditions during the early audit period.
2023	Total Accruals	Changes in accruals along with improved auditor understanding of the company.
2024	Total Accruals	Accruals are relatively stable as a result of asustainable audit process.

Source: Annual Report PT Wijaya Karya Tbk Year 2022–2024

4.4. Effect of Audit Tenure on Audit Quality

Based on simple linear regression analysis, audit tenure was found to be related to audit quality. This relationship is reflected in changes in audit quality that occur as auditor engagement periods increase. Longer audit tenure provides auditors with sufficient time to recognize operational patterns and financial policies, enabling more focused and effective audit procedures. At the same time, audit continuity offers stability in financial statement examination processes, thereby maintaining audit quality. These results indicate that audit tenure plays a role in influencing audit quality, although such influence must be managed carefully to avoid reduced objectivity due to long-term auditor–client relationships.

5. Conclusions

5.1. Conclusion

This study concludes that audit tenure is associated with audit quality in companies listed on the Indonesia Stock Exchange, particularly PT Wijaya Karya Tbk during the 2022–2024 period. Longer auditor engagement periods contribute to improved auditor understanding of company operations, financial structures, and business risks, enabling more effective and targeted audit processes. Audit quality, proxied by total accruals, tends to become more stable as audit tenure increases, indicating improvements in financial reporting quality. Nevertheless,

continuous auditor–client relationships still carry potential risks to auditor independence and must be managed proportionally to maintain audit quality.

5.2. Recommendations

Based on the findings, companies are advised to continue considering auditor independence when determining audit engagement durations so that the benefits of auditor familiarity do not compromise objectivity. Regulators are expected to continuously evaluate audit tenure policies to ensure a balance between improving audit quality and protecting auditor independence. For auditors, this study emphasizes the importance of maintaining professionalism and ethical standards despite long-term client relationships. Future research is encouraged to expand the scope of study objects, extend observation periods, and use various audit quality proxies to provide more comprehensive results and stronger generalizations regarding the effect of audit tenure on audit quality.

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