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Audit Quality and Its Determinants: Evidence from Food and Beverage Firms in Indonesia

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Abstract:

Purpose:
This study was conducted to address the importance of audit quality in maintaining the credibility of financial statements of manufacturing companies, particularly in the food and beverage subsector, which contributes significantly to the national economy. The study also aims to respond to the inconsistency of previous research findings regarding the factors that influence audit quality.

Methodology:
This research utilized a quantitative approach with logistic regression analysis, focusing on food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2021 to 2023. Using purposive sampling, 49 firms were selected with a total of 147 observations, and the data was sourced from annual financial statements on the IDX website.

Findings:
The results of the study indicate that public accounting firm size and firm size have a positive influence on audit quality. Companies audited by large accounting firms and those with larger scales tend to produce more reliable financial statements. In contrast, audit fees, audit tenure, and firm age do not show a significant effect on audit quality. These findings affirm that not all external factors related to the company or the auditor play an equal role in determining the quality of audit outcomes.

Implication:
This study implies that both company management and policymakers should consider the credibility and size of public accounting firms when appointing external auditors, as well as use these findings to develop more effective audit governance policies that enhance stakeholders' trust in financial statements.

INTRODUCTION

The food and beverage industry is part of the consumer goods sector and plays a significant role in supporting economic stability both nationally and globally. Companies in this sector are challenged to maintain the integrity and transparency of their financial statements amid an increasingly dynamic and high-pressure business environment. Operational complexity and investor expectations for accountability make information transparency essential. In this context, audit quality serves a strategic role in enhancing the integrity of financial reporting and strengthening stakeholder trust (DeFond & Zhang, 2014). This is also emphasized by the study of Dewi and Putri (2023), which highlights the importance of audit quality in the food and beverage industry.

The financial statement manipulation case of PT Tiga Pilar Sejahtera Food Tbk in 2018 revealed significant weaknesses in the external audit process, where the auditor failed to detect overstated sales, resulting in unreliable financial reports. The case of PT Indofood Sukses Makmur Tbk in 2019 indicated that the external auditor did not adequately assess material related-party transactions, reducing the transparency of the company's financial disclosures. Furthermore, in 2020, PT Mayora Indah Tbk attracted public attention due to alleged inaccuracies in inventory recording, reflecting poor auditor diligence in reviewing asset disclosures (Utami & Rahmawati, 2022). Dewi and Putri (2023) also reported that some auditors failed to detect errors in revenue recognition, significantly

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affecting the quality of financial reporting in food and beverage companies in Indonesia and undermining investor confidence.

High-quality audits are essential to reduce information asymmetry between management and external parties, particularly shareholders and creditors. This is in line with Agency Theory, which suggests that the separation between ownership and management creates potential conflicts of interest that can be minimized through independent control mechanisms such as external auditing (Jensen & Meckling, 1976). External auditors play a crucial role in ensuring the fairness of financial statements. However, audit quality may be influenced by several factors originating from both auditor and client characteristics. Variables such as public accounting firm size, audit fee, audit tenure, firm size, and firm age are the focus of this study.

First, the size of the public accounting firm (PAF) is often associated with auditor capability and reputation. Auditors from large PAFs, especially the Big Four, are perceived to maintain higher audit standards and possess greater technical resources (Francis & Yu, 2009). A recent study by Suryani et al. (2023) shows that auditor size significantly affects audit quality in Indonesia. However, not all companies in Indonesia engage large PAFs due to cost constraints or specific preferences. Consequently, disparities in audit quality arise, necessitating further investigation into the relationship between PAF size and audit quality in the local context. On the other hand, Haryanto and Setiawan (2022) found that PAF size does not always positively correlate with audit quality, especially among small and medium-sized enterprises, where internal factors play a more dominant role.

Second, audit fee is commonly linked to audit complexity and the resources allocated by the auditor. However, a higher audit fee may also lead to economic dependence on the client, potentially compromising auditor independence and objectivity (DeAngelo, 1981). Suyono and Farida (2021) argue that in Indonesia, audit fees do not always reflect the quality of services delivered. Empirical findings by Utami and Rahmawati (2022) further show inconsistent results, underlining the need for deeper examination. Additionally, Zuliarti and Raharjo (2023) found that in some cases, lower audit fees were associated with higher audit quality, as auditors became more selective in choosing clients and safeguarding their professional reputation.

Third, audit tenure or the duration of the auditor-client relationship, is another important factor in audit practices. Short audit tenures may limit the auditor's understanding of the client's business processes, while extended tenures may create excessive familiarity and reduce auditor independence (Carey & Simnett, 2006). Rahman and Nasution (2022) observed that audit tenure's effect on audit quality in Indonesia remains inconclusive. Other studies, such as Prasetyo (2023), even found no significant relationship between audit tenure and audit quality.

Fourth, firm size is believed to affect audit quality because larger firms typically have more complex internal controls and are more publicly scrutinized. This leads auditors to be more cautious in forming their audit opinions (Lennox, 2005). Amelia and Firmansyah (2023) confirmed that firm size influences audit quality, although the effect depends on the firm's internal governance. In contrast, Fitriani and Rachmawati (2022) reported that in some large companies, pressure to meet investor expectations and operational complexity increased the risk of financial misstatements, thereby reducing audit quality.

Fifth, firm age represents the maturity of business operations and internal control systems. Older firms are assumed to have more experience in financial reporting and audit processes. However, older age does not guarantee financial transparency, as some long-established firms may experience stagnation in reporting innovation (Chen et al., 2005). Sari and Nugroho (2023) highlighted that older firms may face declining transparency due to outdated practices. In contrast, Lestari and Handayani (2023) noted that several younger firms with modern organizational structures produce more accurate and adaptive financial reports, leading to higher audit quality than older firms.

This study aims to address gaps in the literature regarding the influence of these five variables on audit quality. The focus is on manufacturing companies in the food and beverage subsector listed on the Indonesia

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Stock Exchange during the 2021–2023 period. This subsector was chosen due to its economic significance and the growing public demand for financial transparency in the consumer sector. Using a quantitative approach, this study tests the hypothesis that public accounting firm size, audit fee, audit tenure, firm size, and firm age significantly influence audit quality, which is proxied by the audit going concern opinion.

METHODS

This study adopted a quantitative approach aimed at examining the causal relationship between independent variables and audit quality as the dependent variable. This approach is appropriate because it allows for testing the direct and significant effects of each independent variable on audit quality and presents empirical evidence that can be generalized.

The research is categorized as an ex-post facto study, as it utilizes secondary data that already exists, specifically annual financial reports obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The population in this study comprises all manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange during the period 2021–2023. The sample was selected using a purposive sampling technique based on specific criteria such as the publication of annual financial statements consistently during the observation period, completeness of data, and non-delisting status.

A total of 49 companies were selected, resulting in 147 observations (covering 3 years). The variables in this study were measured using commonly accepted approaches in accounting and auditing literature, with each variable designed to represent specific characteristics that are assumed to influence audit quality.

First, public accounting firm size is measured using a dummy variable, with a value of 1 assigned to Big Four firms (PwC, Deloitte, Ernst & Young, and KPMG) and 0 for non-Big Four firms. This measurement is based on the assumption that large firms generally have more competent human resources, international experience, and higher audit standards, thus potentially improving audit quality (Suryani et al., 2023).

Second, the audit fee is measured using the natural logarithm of the total audit fee disclosed in the company's annual report. The logarithmic transformation is used to normalize the data and reduce the effect of outliers, in line with standard statistical practices in audit research (Putra et al., 2023).

Third, audit tenure is measured by counting the number of consecutive years the same auditor has served the client. This variable is of interest because audit tenure may influence both auditor independence and audit effectiveness. Previous studies by Carey and Simnett (2006) and Rahman and Nasution (2022) have shown that audit tenure can have both positive and negative effects on audit quality, depending on regulatory oversight and contextual factors.

Fourth, firm size is measured using the natural logarithm of total assets. Firm size is considered a proxy for operational complexity and the degree of external monitoring. Larger companies typically have more complex internal control systems and are subject to greater public scrutiny, requiring more rigorous audits (Amelia & Firmansyah, 2023).

Fifth, firm age is calculated from the year the company was established to the year of observation. Firm age is assumed to reflect the maturity and experience of the organization in financial management and reporting. However, older firms may also experience stagnation in innovation and reduced transparency (Sari & Nugroho, 2023).

Sixth, audit quality is proxied by the audit opinion issued by the external auditor. This variable is measured using a dummy: 1 if the company receives a going concern opinion and 0 otherwise. The going concern opinion is a critical indicator as it reflects the auditor's professional judgment regarding the company's ability to continue operating. This proxy is widely used in audit quality research due to the high level of auditor discretion involved (Iskandar & Trisnawati, 2021).

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Using these measurement approaches, the study is expected to provide a comprehensive understanding of the determinants of audit quality within the context of food and beverage manufacturing companies in Indonesia. Data analysis was conducted using logistic regression since the dependent variable is dichotomous. Logistic regression allows researchers to estimate the probability of a specific outcome based on the values of the independent variables. The analytical stages included descriptive statistics, model fit test (Hosmer and Lemeshow Test), parameter significance test (Wald Test), and model explanatory power test (Nagelkerke R Square). The statistical software used for testing was SPSS.

This methodological approach was selected as it aligns with the research objectives, provides strong statistical justification, and helps identify the key factors influencing audit quality in Indonesia's food and beverage manufacturing sector.

RESULTS AND DISCUSSION

The results of the logistic regression analysis in this study are presented in several key stages: descriptive statistics, model fit testing, and hypothesis testing to evaluate the influence of each independent variable on audit quality. Each stage was analyzed comprehensively to understand the dynamics of factors affecting audit opinions in food and beverage sector companies.

Table 1. Results of Descriptive Statistics Test

	N	Minimum	Maximum	Mean	Std. Deviation
Auditor Size	147	0,000	1,000	0,33831	0,475191
Audit Fee	147	18,612	21,753	21,98315	0,850205
Audit Tenure	147	1,000	4,000	1,98413	0,870522
Firm Size	147	14,382	30,804	23,31866	5,229211
Firm Age	147	10,000	95,000	18,21571	10,311234
Audit Quality	147	0,000	1,000	0,84121	0,335239
Valid N (listwise)	147				

Table 1 presents the results of the descriptive statistics test, which aims to provide an overview of the data characteristics in this study. Based on the table, the variable of public accounting firm size (UK) has a mean value of 0,338, indicating that non-Big Four firms audited most companies in the sample. The audit fee (AF) shows an average value of 21,98 (in natural logarithm), reflecting variations in audit costs paid by companies with differing levels of audit complexity. Meanwhile, audit tenure (AT) has a mean of 1,98 years, suggesting that most companies maintain short-term audit relationships, indicating relatively active auditor rotation practices. Firm size (UP) and firm age (UM) have average values of 23,31 and 18,21, respectively, suggesting that the sample is dominated by medium to large-scale companies with relatively established operational histories. Finally, the audit quality variable (KA) has a mean value of 0,841, indicating that most companies received a non-going concern opinion or an unmodified opinion regarding business continuity.

Table 2. Hosmer and Lemeshow's Goodness of Fit Test

Step	Chi-square	Df	Sig.
1	9,050	8	0,627

Table 2 presents the results of the Hosmer and Lemeshow test, which is used to evaluate the goodness-of-fit of the logistic regression model applied in this study. The significance value obtained is 0,627, which exceeds the threshold of 0,05. This indicates that there is no significant difference between the model's predicted outcomes

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and the actual observed data. Therefore, the logistic regression model is considered to have a good fit and is appropriate for examining the relationship between the independent variables and audit quality.

Table 3. Nagelkerke R Square Test Results

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	57,119a	0,451	0,442

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Table 3 presents the results of the coefficient of determination test using the Nagelkerke R Square value as a measure of goodness-of-fit in logistic regression. Based on the results, the Nagelkerke R Square value of 0,442 indicates that the model is able to explain approximately 44,2% of the variation in the dependent variable, which is audit quality. Therefore, the model demonstrates a reasonably good explanatory power in evaluating the influence of the independent variables on audit quality in the food and beverage companies under study.

Table 4. Logistic Regression Results of the Effect of Independent Variables on Audit Quality

Variable	Coefficient	Wald Test	Sig.	Interpretation
Auditor Size	1,403	3,076	0,004	Significant, positive effect
Audit Fee	-0,527	2,484	0,107	Not significant
Audit Tenure	-0,203	0,071	0,210	Not significant
Firm Size	0,247	4,483	0,019	Significant, positive effect
Firm Age	-0,108	0,235	0,178	Not significant

Table 4 presents the results of logistic regression, showing the effect of each independent variable on audit quality. The regression results reveal that out of the five independent variables tested, only two public accounting firms, size and firm size, were found to have a statistically significant influence on audit quality.

The size of the Public Accounting Firm (PAF) shows a significant positive coefficient. This indicates that companies audited by larger firms (Big Four) tend to receive higher-quality audit opinions. This can be attributed to the advantages possessed by large PAFs, such as more experienced human resources, standardized audit methodologies, and strong professional reputations. This finding is consistent with the study by Francis and Yu (2009), which states that auditors from larger firms deliver higher audit quality compared to those from smaller firms.

Firm size also demonstrates a significant positive effect on audit quality. Larger firms typically have more complex internal control systems, formal reporting structures, and adequate resources to support the audit process. As a result, auditors are more likely to obtain sufficient and reliable audit evidence. This result is supported by DeFond and Zhang (2014), who conclude that firm size contributes to the effectiveness of the audit process through better infrastructure and documentation systems.

In contrast, audit fees, audit tenure, and firm age do not show significant effects on audit quality. This indicates that higher audit fees do not necessarily reflect the depth of audit procedures performed or the quality of the audit output. Suyono and Farida (2021) argue that in Indonesia, audit fees are more influenced by client bargaining power and audit market conditions rather than audit quality demands. Similarly, the length of the auditor-client relationship does not significantly contribute to audit quality, suggesting that auditor independence may remain intact despite prolonged engagement. Furthermore, firm age, as a proxy for experience, is not a strong indicator of audit quality, as older firms are not always adaptive to changes in accounting standards or reporting practices.

Overall, the findings suggest that to enhance audit quality, companies should consider appointing auditors with strong reputations and sufficient resources. In addition, firms must strengthen their internal control systems as part of sound governance strategies. This study also underscores the importance of continuous regulatory oversight to safeguard the objectivity and integrity of audits, especially in the increasingly complex environment of the food and beverage industry, which is the focus of this research.

CONCLUSION

This study concludes that among the variables examined, only the size of the Public Accounting Firm (PAF) and firm size significantly influence audit quality in manufacturing companies within the food and beverage industry in Indonesia. Firms audited by Big Four auditors and those with larger operational scales tend to produce higher-quality audits. This highlights the importance of auditor reputation and capability, as well as the role of internal control systems in enhancing the quality of financial reporting.

In contrast, audit fees, audit tenure, and firm age do not show a significant effect on audit quality. These findings suggest that the amount paid for audit services, the length of the auditor-client relationship, or the age of the firm do not automatically guarantee the quality of the audit outcome. Therefore, emphasis on auditor independence, integrity, and strengthened corporate governance becomes crucial.

The study provides practical implications for corporate management to be more selective in appointing external auditors, focusing on their competencies and track records. It also encourages regulators to enhance national audit standards that prioritize quality and accountability continuously. For future research, it is recommended to develop a more comprehensive model by considering additional variables such as operational complexity, ownership structure, or psychological factors in the auditor-client relationship. Furthermore, a qualitative approach could be employed to explore deeper insights from auditors and management on audit quality determinants that quantitative data may not capture. In doing so, future studies are expected to offer more in-depth and applicable contributions toward improving sustainable audit quality.

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