

# The Analysis of Determinants of Qualified Audit Opinion on Manufacturing Companies Listed in Indonesia Stock Exchange Period 2016-2018

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## ABSTRACT

In audit opinion there are 4 types: Unqualified opinion, qualified opinion, adverse, and disclaimer. A public accountant can only conduct financial statement audits company for 3 (three) years in a row. This study aims to determine the effect of Certified Public Accountant Reputation, Auditee Characteristics, and Audit Tenure influence Qualified Audit Opinion on manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2016-2018. The population in this study are all manufacturing companies listed on the IDX in 2016-2018. Samples were taken using a purposive sampling method. Sample total are 91 companies, for the 2016-2018 observation year, so the total number of samples are 273. Data collection techniques by downloading audited financial statement from the site [www.idx.co.id](http://www.idx.co.id). Data analysis techniques that used in this study is a descriptive statistical analysis and logistic regression analysis. The findings in this study is indicate the partially, Certified Public Accountant Firm Reputation and Auditee Characteristic have no influence on Qualified Audit Opinion, and Audit Tenure can be influence Qualified Audit Opinion. And Certified Public Accountant Firm Reputation and Auditee Characteristic and Audit Tenure simultaneously influence on Qualified Audit Opinion of manufacturing companies listed on Indonesia Stock Exchange period 2016-2018.

**Keywords:** *Qualified Audit Opinion, Certified Public Accountant Firm Reputation, Total Assets, Audit Tenure*

## 1. INTRODUCTION

The rapid growth of business nowadays triggers the high rivalry among corporates. In essence, the development of a business required huge resources, including financial capital to support their activities. In order to obtain an easy approach to the sources of capital, those companies should report the business activities, especially related with company's financial statement and performance.

The prior discussion of a potential association between audit partner's tenure and audit quality suggests that in the early year(s) of tenure the partner is most likely to be independent and bring to the audit a fresh perspective. While the incoming engagement partner is developing the necessary knowledge and expertise, there is a possible increased risk of failure to detect material misstatements. The audit firm will attempt to reduce this risk through quality control processes designed to ensure the new engagement partner gains (or has access to) adequate knowledge

and expertise. After this initial period has passed and the partner has gained the necessary client or industry knowledge and expertise, there is a period where audit quality is expected to be at its maximum [1].

### **1.1. Problem Identification**

Problem Identification Depending on the research background, there are some problems that can be identified:

- a. Influencing Factor Qualified Opinion
- b. A long cooperative relationship between a public accounting firm and the auditee is likely to influence auditor independence.
- c. The selection of high-quality auditors can increase the credibility of financial statements
- d. A qualified audit opinion provides a positive response to the auditee's financial condition.

### **1.2. Research Limitation**

Based on the identified issues, determining the factor that influence the determinants of Qualified Opinion is limited to Indonesia Public Listed Company 2016-2018.

### **1.3. Research Question**

Based on the following problem statement, the research questions are:

- a. Does Certified Public Accountant Firms Reputation negatively influence Qualified Opinion?
- b. Does the Size of Company negatively influence Qualified Opinion?
- c. Does Audit Tenure negatively influence Qualified Opinion?
- d. Does Certified Public Accountant Firms Reputation, Size of Company, Audit Tenure, simultaneously influence Qualified Opinion?

### **1.4. Objective of The Research**

Based on the Research Question, the objectives of the research are as follows:

- a. To analyze the positive influence of Certified Public Accountant Firm reputation on Qualified Opinion for Manufacturing companies listed in the Indonesian Stock Exchange from 2016-2018.
- b. To analyze the negative influence of The Size of Company on Qualified opinion for Manufacturing companies listed in the Indonesian Stock Exchange from 2016-2018
- c. To analyze the negative influence of Audit Tenure on Qualified Opinion for Manufacturing companies listed in the Indonesian Stock Exchange from 2016-2018.
- d. To analyze the simultaneous influence of Certified Public Accountant Firms Reputation, Size of Company, Audit Tenure, Qualified Opinion?

### **1.5. Benefits of Research**

The researcher hopes that the result of this study benefits to:

- a. Companies may gain an advancement of this research as a reference or consideration in choosing Public Accountant Firms as partners.
- b. Public auditors may gain an advantage of this research as a reference or consideration in assigning a Qualified Opinion,

- c. Academicians The finding of the study is expected to provide a further significant contribution to the development of accounting and auditing knowledge.
- d. Further researchers. This research is expected to be a reference for the other researchers or parties to conduct further studies related to Qualified Opinion.

## **2. LITERATURE REVIEW AND HYPOTHESIS**

### **2.1 Agency Theory**

Agency theory is a concept enlightening the relationship between two parties as principal and agent. In this case, management of an entity acts as the agent who is accountable to maintain the company in order to optimize principal's interest since the principal is one or more persons who are considered as the owner of the company.

Agency theory discusses agency problem that occurs between the agent and principal because of the conflict of interest between them and normally they have different objective depends on their point of view. [7] argued that the principals should believe that the agent will not always act in the best interest of the principal.

### **2.2. Auditing**

Definition Audit is An Audit is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the result to interest user [5]

Based on the definition, Auditing is stated of four important components: systematic approach, obtains and evaluate evidence objectively, assertions about economic actions and events, the level of compatibility between the assertions with the established criteria, communicate results to interested parties. [5] defining the component of Auditing:

- a. Systematic approach
- b. Obtain and evaluates evidence Objectively
- c. The level of compatibility between the assertions with the established criteria
- d. Communicate results to interested parties

### **2.3. Audit Opinion**

The audit opinion is the statement stated by an auditor which assessed the fairness of an entity's financial statement as the final result of the audit

process. The audit report should contain a clear written expression of opinion on the financial information. SAS 58 provided guidance on the issuance of unqualified opinions; explanatory language added to auditor's standard reports (importantly, the auditor's concerns regarding the entity's ability to continue as a GC); Modified audit opinion decisions qualified opinions; adverse opinions; and. disclaimer of opinions [4].

#### **2.4. Audit Quality**

**Audit Fees and Audit Quality** Although there is a vast literature on audit fees, prior research has not considered how the personal characteristics of the lead auditors might affect the fee that is charged to clients. Instead, the prior research focuses on characteristics of the client firm, characteristics of the audit firm delivering the service, or characteristics of the specific engagement [11]

#### **2.5 Audit Tenure**

**Audit Tenure** Audit firm size and industry specialization are organization-level variables. Recently, several archival studies have focused on audit partner tenure, which is a partner/engagement level variable. That is, it reflects the partner's experience on a particular audit, but says nothing about the partner's other clients or overall work experience. Still, these studies shed light on the value of partner rotation, which is an important issue from a regulatory perspective.

#### **2.6 Auditor Independency**

According to the Ethics Rule of Public Accountant Compartment No. 101 auditors must maintain an independent mental attitude in providing professional services as stipulated in the established Public Accountant Professional Standards by IAI. The independent mental attitude must include independent in facts and in appearance.

#### **2.7. Certified Public Accountant Firm Reputation**

Nowadays, the important role of public accountant services is more desired since the number of public companies is continuously growing. Therefore, it causes the increasing of rivalry among public accountant firms, the reputation of Certified Public Accountant (CPA) firm is also possibly affecting the auditor switching. The reputation defines as how the CPA firm certainly noticed by the public concerning the quality of their performances since a long time ago which can be seen from firm's track records.

#### **2.8. The Size of Company**

The size of a company can be measured in various ways, but the most popular method is expressed by the amount of wealth (total assets), the market value shares, the number of sales in a year sales period, the number of workers, and the total permanent book value of the company. In this study the size of the company is measured by using the total assets owned by the company.

#### **2.9. Conceptual Framework**

In this section researcher will explain and making illustration about the research framework. The conceptual framework shows a relationship between 3 factors, mainly the reputation of a public accounting firm, company size and audit tenure simultaneously towards qualified audit opinion.

#### **2.10. Hypotheses**

- H1: Reputation of Certified Public Accountant Firm negative significantly influence Qualified Audit Opinion
- H2: The Size of Company negative influence Qualified Audit Opinion
- H3: Audit Tenure positive influence Qualified Audit Opinion
- H4: Reputation of Certified Public Accountant, The Size of Company, and Audit Tenure influence simultaneously Qualified Audit Opinion.

### **3. RESEARCH METHOD**

#### **3.1 Location and time of research**

The research approach is quantitative which commonly uses deductive logic, in which researchers start with hypotheses and then collect data which can be used to determine whether empirical evidence to support that hypothesis exists. This current research will take place in firms listed on Indonesia Stock Exchange (IDX) which is started from 2016 until 2018, specifically manufacturing companies.

#### **3.2 Population and sample**

Population defined as an aggregate or totality all of the objects, subjects or members that conform to a set of specifications. The research population is the whole manufacturing companies that listed on Indonesia Stock Exchange from 2016-2018. Sample is determined by using purposive sampling technique. Researcher use secondary data in this research.

### 3.3 Operational Definitions

#### *Qualified Audit Opinion*

Qualified audit opinion act as dependent variable on this research

#### *Certified Public Accountant Firm Reputation*

Certified Public Accountant (CPA) Firm Reputation in this research was the Reputation of CPA firm that can be classified by a firm that is affiliated with The Big Four and the firm that is not affiliated with The Big Four.

#### *The Size of Company*

The size of a company can be defined as a scale which can be classified as a small company by various means, among others stated in total assets, stock market value, and others.

$$\text{Total Assets} = \text{Current Assets} + \text{Fix Assets} + \text{Other Assets}$$

#### *Audit Tenure*

Audit Fees and Audit Quality. Although there is a vast literature on audit fees, prior research has not considered how the personal characteristics of the lead auditors might affect the fee that is charged to clients. Instead, the prior research focuses on characteristics of the client firm, characteristics of the audit firm delivering the service, or characteristics of the specific engagement.

### 3.4 Data Analysis

The data is analyzed by using logistic regression method and then processed by SPSS. Logistic regression method, is used by the researcher to examine any probabilities of dependent variable has relation to independent variables. To examine the hypotheses in this study uses logistic regression because the dependent variable is a non-metric variable and the independent variable is a combination of metrics and non- metrics [3].

## 4. RESULT AND DISCUSSION

### 4.1. Descriptive Sample

The study uses documentation method, which is the technic of data collection to learn and collect any documents that related to problem. Annual Report is used to obtain the information related to the problems. The researcher obtains annual report from www.idx.co.id, that specifically about manufacturing companies from 2016-2018.

Based on the criteria set by using the Purposive sampling method, the manufacturing companies listed

on the Indonesia Stock Exchange that suit with the criteria are as many as 91 companies. The study period used was four years 2018, so there were 273 samples to be researched.

### 4.2. Data Analysis

Descriptive statistical analysis is used to describe or describe the condition of the data use in research. The descriptive statistical analysis in this study covered the minimum value, maximum, mean, and standard deviation. The Result of the descriptive statistical calculation on this study can be seen in the following table.

#### *Logistic Regression Analysis*

Logistic regression analysis is a test conducted to determine if the probability of occurrence of dependent variables can he predicted by independent variable. Logistic regression is used due to the dependent variables in this study i.e., Qualified Audit Opinion is quantitative data using dummy variables, and the independent variable is a mixture between metric variables metric and non-metric. This results in the analysis of logistic regression does not require any longer assumptions of normality and ignores heteroscedasticity.

#### *Hypotheses Test*

From calculation results, the regression can be described as follows:

*H1: Reputation of Certified Public Accountant Firm (X1) negative significantly influence Qualified Audit Opinion (Y)*

Based on the test result in the table 4.8 above, the reputation of certified public accountant firm has a regression coefficient value of -18, 152, with a significance rate of 0.995 which means greater than 0.05. It can be concluded that Reputation of Certified Public Accounting Firm has no influence to Qualified Audit Opinion.

*H2: The Size of Company (X2) negative influence Qualified Audit Opinion (Y)*

Based on the test result in the table 4.8 above, the size of company has a regression coefficient value - 0,343, with a significant rate of 0,353 which mean greater than 0,05. It can be concluded that The Size of Company has no influence to Qualified Audit Opinion.

### H3: Audit Tenure positive influence Qualified Audit Opinion

Based on the test results in the audit tenure has a regression coefficient value of 0,952, with a significance rate of 0,043 which means smaller than 0,05. It can be concluded that Audit tenure positive influence to Qualified Audit Opinion.

#### *Simultaneous Testing*

Simultaneous test results in this study can be indicated that value of the omnibus test the study was 12,683, which a significance of 0,05. So that it can be concluded that Reputation of Certified Public Accountant, The Size of Company, and Audit Tenure influence Simultaneously Qualified Audit Opinion.

#### *Description of The Result*

#### *Correlation between Reputation of Certified Public Accountant Firm and Qualified Audit Opinion.*

The test result of the study stated that certified public accountant firm reputation has no effect on Qualified Audit Opinion. It is indicated by a regression coefficient value of -0,152 with significance 0,995 (sig > 0,05). It can be concluded that Reputation of Certified Public Accounting has no influence to Qualified Audit Opinion period 2016-2018.

[6] stated that both public accountant Big-4 have a relative no different quality one each other in carrying out its duties and uphold the principle and independence. Integrity and objectivity in accordance with the ethical rules of the public Accountant's commissioner where an auditor must be neutral, and have independence both in fact, as well as independence in appearance and free from conflict of interest and must not allow any misbehavior that he knows and diverts its consideration no other parties. Public Accountant Firm should give clear opinion both big-4 and non-big-4.

#### *Correlation between The Size of Company and Qualified Audit Opinion*

The test result of the study stated that certified public Size of Company has an effect on Qualified Audit Opinion. It is indicated by a regression coefficient value of 0,493, with significance 0,353 (sig > 0,05). The meaning of the regression if the smaller company size, the opportunity to get qualified audit opinion also smaller.

Auditors provide audit opinion based on the financial statements made by the company, if the small company is able to provide reasonable reports and in

accordance with the prevailing standards, then the company can also obtain unqualified opinions from the auditor, and otherwise if the company is a large company, but does not present the financial statements in accordance with the standard, it almost impossible to get unqualified opinion.

#### *Correlation between Audit Tenure and Qualified Audit Opinion*

The test result of the study stated that certified public Accountant Firm Reputation has no effect on Qualified Audit Opinion. It is indicated by a regression coefficient value of 0,952 with significance 0,0433 (sig < 0,05).

This variable can be interpreted as the longer the period of engagement with the public accountant firm, the more likely it will be to be discovered more deeply in a company. Chen [2] stated that the tenure audit affects the quality of audits provided by the auditor to the auditee company.

#### *Simultaneous Test*

The value of the omnibus test in the study was 12,683, with a significance of 0,05. So that it can be concluded that Reputation of Certified Public Accountant, The Size of Company, and Audit Tenure influence simultaneously Qualified Audit Opinion.

According to this research, it can be concluded that Reputation of Certified Public Accountant, The Size of Company, and Audit Tenure influence jointly can to be consideration to publish qualified opinion. Whether if using partial method, the reputation of public accountant firm, and the size of company has no correlation to qualified opinion.

## **5. CONCLUSION AND RECOMMENDATION**

### *Conclusion*

This research examines the influence of certified public accountant reputation, size of the company, and audit tenure of qualified audit opinion to the manufacturing company listed on the Indonesia Stock Exchange (IDX) in 2016-2018. Based on the results of the research that has been done it can be concluded as follows:

- a. Reputation of certified public accounting firm has no influence to qualified audit opinion of manufacturing companies listed on Indonesia Stock Exchange period 2016-2018.
- b. The size of company has no influence to qualified audit opinion of manufacturing companies listed on Indonesia Stock Exchange period 2016-2018.

- c. Audit Tenure has influence to qualified audit opinion of manufacturing companies listed on Indonesia Stock Exchange period 2016-2018.
- d. Reputation of Certified Public Accountant, The Size of Company, and Audit Tenure influence simultaneously to publish qualified opinion of manufacturing companies listed on Indonesia Stock Exchange period 2016-2018.

### **Recommendation**

- a. Using more samples is highly recommended to see the effect of reputation of public accountant firm, size of the company, audit tenure. The future research should consider the other variables which affect audit opinion, and also can have the research at another segment of companies that listed in Indonesia Stock Exchange.
- b. Indonesia stock exchange have to maintain their server to give the easier access to all parties, and give all access to annual report, not only limited two last years.
- c. More website that publishes the annual report of companies listed in Indonesia Stock Exchange.

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