THE EFFECT OF THE AUDIT TENURE, AUDIT COMMITTEE, AND INDUSTRY AUDITOR SPECIALIZATION ON INTEGRATED FINANCIAL REPORTING

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ABSTRACT

This study aims to test and prove empirically related to the effect of audit tenure, audit committee, and auditor industry specialization on the integrity of financial reporting. The population in this study are property and real estate companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020. The sample used in this study is the purposive sampling method. Based on this method, 18 companies were obtained. This study uses a quantitative method that is processed using software version 9 views to test the hypothesis. The results of this study indicate that partially audit tenure and auditor industry specialization have no effect on the integrity of financial reporting. The audit committee partially affects the integrity of the financial reporting. Meanwhile, simultaneously, audit tenure, audit committee, and auditor industry specialization affect the integrity of financial reporting.

Keywords: Audit tenure; audit committee; auditor industry specialization; and integrity of financial reporting

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1.INTRODUCTION

Financial reporting are a medium of communication between company management and investors regarding the company's financial picture, therefore in the process of making financial reporting, they must be made correctly and presented honestly to users of financial reporting to reveal actual facts and be useful for the interests of many parties. Thus, financial reporting must be presented with high integrity to be useful for users of financial reporting in making decisions for financial reporting. Information in financial reporting with integrity can be proxied by conservatism. In order to achieve the integrity of financial reporting, companies need to apply good corporate governance. Good corporate governance is a way to ensure that management acts in the best interests of stakeholders. In this case, there are several factors that affect the integrity of financial reporting, including audit tenure, audit committee, and auditor industry specialization.

The phenomenon that occurs in Indonesia relating to the integrity of financial reporting can be seen from the case of PT Garuda Indonesia, where unpaid receivables are recorded as income by PT Garuda Indonesia. The incident began with the 2018 financial report of PT Garuda Indonesia which recorded a net profit of USD 809 or Rp. 11 billion, but the financial report resulted in a polemic where the Garuda Indonesia Commissioners, namely Chairal Tanjung and Dony Oskaria (currently no longer in office). The case in this financial report also drags down the name of the company Mahata Aero Teknologi, which was just founded in 2017 which has a debt to Garuda Indonesia of USD 809 or Rp. 11 billion for the installation of free WiFi on board for this airline. After a long journey, finally Garuda Indonesia was subject to sanctions from various parties. In addition to Garuda, the sanctions were also received by the auditors of Garuda Indonesia's financial reporting, namely Public Accountant (AP) Kasner Sirumapea and Public Accounting Firm (KAP) Tanubrata, Sutanto, Fahmi, Bambang & Partners, auditors of financial reporting of PT Garuda Indonesia (Persero) Tbk (GIAA).) and Subsidiaries for Financial Year 2018.

The first factor that affects the integrity of financial reporting is audit tenure. The length of the auditor's engagement with the client is often related to the independence of the auditor. Audit quality in assessing financial reporting is influenced by the independence of the auditor towards the client. The second factor that can affect the integrity of financial reporting is by forming an independent audit committee to carry out the company's supervisory function. In addition to the two factors above, there are other factors that can affect the integrity of financial reporting, namely the specialization of the auditor industry. The auditor industry specialization carried out by KAP aims to improve their competence in providing higher quality audit services, so that the audit results are more accurate.

2.LITERATURE REVIEW

Theoretical Foundation
Agency Theory

Agency theory or what is called agency theory explains the relationship between two parties, namely the principal (principal) and the agent (agent).
The relationship between shareholders and management in a company as mentioned above, is often also referred to as an agency relationship.

This kind of relationship arises when the principal pays someone (the agent) in relation to representing the interests of the principal. In a situation like this, it is not

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uncommon for a difference of interest to occur between the principal and the agent who represents the principal's interests. This conflict of interest is called the agency problem. Thus the agency problem is the possibility of a conflict of interest between shareholders (stock holders) and management in acompany (Santoso, 2015: 6) in (L. I. A. Sundari, 2017).

Financial Report Integrity

The size of the integrity of financial reporting can also be divided into two, namely measured by conservatism and the existence of manipulation of financial reporting which is usually measured by earnings management. However, some auditors prefer conservative reporting. Conservatism in financial reports is useful for avoiding opportunistic management behavior related to contracts that use financial reporting as a contract medium so that both investors and other users are not deceived by high information (Watts in Fajaryani, 2015: 33-34) in (Yuniarti, 2017).

Audit Tenure

Audit tenure is the engagement period of the Public Accounting Firm (KAP) in providing audit services to its clients. The provisions regarding audit tenure have been explained in the Decree of the Minister of Finance of the Republic of Indonesia Number 359/KMK.06/2003 article 2, namely the term of office for KAP is a maximum of 5 consecutive years (Setiawan, 2016) in (Sari, 2018).

The issue that arises due to the length of audit tenure is the issue of auditor independence. (Knapp 1991 in Ocktavia 2013) in (Aditya, 2017) shows that the length of the relationship between the auditee and the auditor can interfere with the independence and accuracy of the auditor to carry out auditing duties.

Audit Committee

An audit committee was formed to assist in overseeing the Board of Directors and the Management Team, as well as ensuring the implementation of good corporate governance principles. Members and Chairman of the Audit Committee are independent or have no financial connection to the company. In addition, they also have no family or business relationship with members of the Board of Commissioners or Board of Directors or other majority shareholders (OJK, 2015) in (Khoirunisa, 2019).

The Audit Committee has an important role in the company to provide views or suggestions regarding financial reporting information presented by managers or financial reporting managers, thus the existence of an audit committee is an effort to find and prevent fraudulent accounting practices in financial reporting and internal control. To minimize conflicts or separations that will arise between company owners and company managers, an audit committee member is required in accordance with applicable regulations, namely at least one independent commissioner and two other independent members whose function is to provide views and suggestions for improvement as well as arbitrators that may occur regarding issues that may arise. related to the financial policies and internal control of a company.

Auditor Industry Specialties

Auditor industry specialization is an auditor who has a specific understanding and ability in a particular industry obtained from the experiences of auditors in auditing as well as special training regarding auditing a particular industry so as to improve audit quality (Rahadianto, 2012) in (L. Sundari, 2012). , 2017).

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Auditors who specialize in a particular industry, in addition to having an understanding of auditing and accounting, also have a deeper understanding of the client company's industry. This is very helpful, because it can produce audits of financial reporting that have high integrity.

3. RESEARCH METODH
Types of research
The type of research method used in this study is a quantitative descriptive method. According to Sukamadinata (2006:72) in (Rusmiawati, 2017), quantitative descriptive is a research method aimed at describing existing phenomena, both natural phenomena and man-made phenomena. The descriptive method in this study is intended to obtain an overview of audit tenure, audit committees and auditor industry specialization to then be processed into data so as to produce a conclusion.
Research Place
The secondary data used in this study are the financial reporting and annual reports of Property and Real Estate companies which have been published on the Indonesia Stock Exchange (IDX) website www.idx.co.id for 2016-2020.

Financial Report Integrity
Conservatism in this study was measured using net assets measure by using the market to book value of equity (Rusmiawati, 2017), which is the divisor between the stock market price and the stock book value. The formula for calculating the market to book ratio is:

$ILK_{it} = \dfrac{\text{Stock market price}}{\text{Book Value of Shares}}$

Description :
ILKit = Financial Reporting Integrity i in year t
Stock Market Price = Stock price on December 31
Book Value of Shares = Total equity divided by the number of shares outstanding

Audit Tenure
The audit tenure variable is calculated by adding up the total length of the audit engagement period with the client before the auditor moves, which is also used by Nicolin (2013) in (Aditya, 2017). The tenure of a KAP is determined by the management of the client. Clients can rotate KAP either voluntarily or because there is something that is mandatory (Effriyanti, 2020).

Audit Committee
The measurement of the audit committee variable used in this study uses the proportion of the number of audit committees calculated from the number of audit committee members in the company in the current year (Khoirunisa, 2019).

Auditor Industry Specialties
The auditor's ability to perform an effective and efficient audit depends on the auditor's ability within the client's industry, as well as knowledge of the client. If auditors have skills in the client's industry, they will relatively provide higher audit quality, thus increasing earnings quality. the independent variable of auditor industry specialization is measured by the following formula:

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SIA= ∑Companies audited by KAP in one industry
          ∑ Companies in the industry

Description :
SIA = Auditor Industry Specialization

Population and Sample
Population

The population in this study amounted to 40 (forty) property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2016 – 2020.

Sample

Purposive sampling method, which is a type of non-random sample selection whose information is obtained using certain considerations or criteria (Sari, 2018). By using a sample selected on the basis of the suitability of characteristics, the selected sample is a sample that is adjusted to the predetermined criteria. The sample in this study amounted to 90 property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2016 – 2020.

Data collection technique

The data used in this study is secondary data in the form of financial reporting of manufacturing companies in the basic and chemical industrial sectors listed on the Indonesia Stock Exchange (IDX) for 2016 to 2020, so the data collection technique used in this study is documentation technique. Where the financial reporting are accessed through the IDX website, namely www.idx.co.id. For other literature needed by researchers, obtained from books, research journals, theses, articles and news.

Data Analysis Techniques

Data analysis technique in this research is to use quantitative analysis technique. Quantitative analysis is done by analyzing a problem that is realized quantitatively. Quantitative analysis in this study was carried out by quantifying research data so as to produce the information needed in the analysis. The analytical tools used in this research are panel data regression analysis, classical assumption test, and hypothesis testing with the help of eviews 9.

4. RESULT AND DISCUSSION

Descriptive Statistics Test

Based on the results of descriptive statistical tests, 90 property and real estate company observation data were obtained from the multiplication between the research period (5 years, from 2016 to 2020) with a sample of 18 companies. The following are the results of descriptive statistical tests using Eviews version 9:

Table 4.2 : Descriptive Statistics Test

	ILK	AT	KA	SIA
Mean	33958.23	0.400000	3.100000	0.077249

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Median	107.7626	0.000000	3.000000	0.095238
Maximum	752699.1	1.000000	4.000000	0.119048
Minimum	0.684719	0.000000	3.000000	0.023810
Std. Dev.	124084.5	0.492642	0.301681	0.033919
Skewness	4.339724	0.408248	2.666667	-0.507156
Kurtosis	22.08903	1.166667	8.111111	1.842267
Jarque-Bera	1648.965	15.10417	204.6296	8.884405
Probability	0.000000	0.000525	0.000000	0.011770
Sum	3056240.	36.00000	279.0000	6.952381
Sum Sq. Dev.	1.37E+12	21.60000	8.100000	0.102394
Observations	90	90	90	90

Source : Self Proceed

Panel Data Regression Model Test

Table 4.3 Common Effect Model (CEM) Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-256065.7	127077.3	-2.015040	0.0470
AT	-54456.49	24961.44	-2.181624	0.0319
KA	80676.38	42448.10	1.900589	0.0607
SIA	798845.9	377748.3	2.114757	0.0373

Source : Self Proceed

Table 4.4 : Fixed Effects Model (FEM) Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-191633.6	130366.6	-1.469960	0.1461
AT	2334.530	15965.28	0.146225	0.8842
KA	79024.43	38778.42	2.037845	0.0454
SIA	-263016.3	569594.1	-0.461761	0.6457

Source :Self Proceed

Table 4.5 : Random Effects Model (REM) Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-455228.6	89531.05	-5.084589	0.0000
AT	55.28829	13063.36	0.004232	0.9966
KA	156565.5	27909.27	5.609803	0.0000
D(SIA)	103106.4	462531.1	0.222918	0.8243

Source :Self Proceed

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Chow Test Results

The results of the chow test carried out in this study are as follows:

Table 4.6 : Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	14.806047	(17,69)	**0.0000**

Source :Self Proceed

Table 4.6 shows that the probability of cross-section F is 0.0000 < 0.05. It can be concluded that in this model Ha is accepted and Ho is rejected. Thus, the fixed effect model is more appropriate to use than the common effect model.

Hausman Test Results

The results of the Hausman test conducted in this study are as follows:

Table 4.7 : Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.847366	3	**0.1833**

Source : Self Proceed

Table 4.7 shows that the probability of a random cross-section is 0.1833 > 0.05. It can be concluded that in this model Ha is rejected and Ho is accepted. Thus, the random effect model is more appropriate to use than the fixed effect model.

Lagrange Multiplier Test Results

The results of the Lagrange multiplier test carried out in this study are as follows:

Table 4.8 : Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	81.84222	2.453429	84.29565
	(0.0000)	(0.1173)	(**0.0000**)

Source :Self Proceed

Table 4.8 shows that the probability of Breusch-Pagan is 0.0000 < 0.05. It can be concluded that in this model Ha is accepted and Ho is rejected. Thus the random effect model is more appropriate to use than the common effect model.

Normality Test Results

The following are the results of the normality test conducted in this study:

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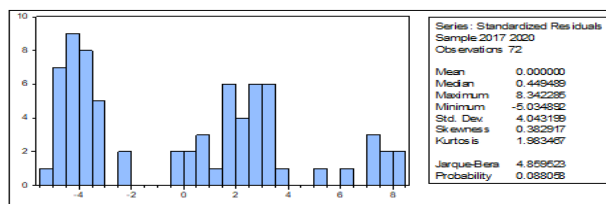
Figure 1 : Normality Test Results
Source :Self Proceed

Based on Figure 4.1, it can be seen that the probability value is 0.088058 which means that the probability value is more than 0.05 (0.088058 > 0.05). This means that it shows that the distribution of the data is normal.

Multicollinearity Test Results

The following are the results of the multicollinearity test conducted in this study:

Table 4.9 : Multicollinearity Test Results

	AT	KA	SIA
AT	1.000000	0.030241	-0.044828
KA	0.030241	1.000000	0.282355
SIA	-0.044828	0.282355	1.000000

Source :Self Proceed

Based on Table 4.9 above, it can be seen that the coefficient value between the independent variables is < 0.80 so it can be concluded that the data used in this study is free from the problem of multicollinearity.

Heteroscedasticity Test Results

The following are the results of the heteroscedasticity test conducted in this study:

Table 4.10 : Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.208877	0.574240	5.588038	0.0000
AT	0.105096	0.158799	0.661818	**0.5103**
D(KA)	0.684295	0.411517	1.662861	**0.1009**
SIA	3.565913	5.659074	0.630123	**0.5307**

Source :Self Proceed

Based on table 4.10 the results of the heteroscedasticity test show that all the probability values of the independent variables are greater than 0.05 so it can be concluded that there is no heteroscedasticity problem.

Autocorrelation Test Results

The following are the results of the autocorrelation test conducted in this study:

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Table 4.11 : Autocorrelation Test Results

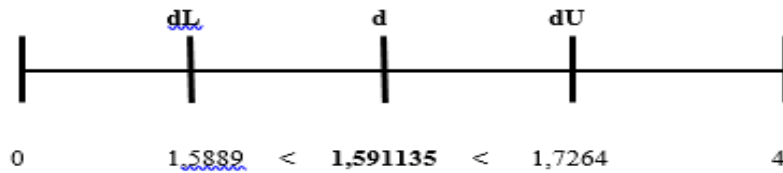| Weighted Statistics			
R-squared	0.061087	Mean dependent var	8674.923
Adjusted R-squared	0.028334	S.D. dependent var	61472.19
S.E. of regression	60595.05	Sum squared resid	3.16E+11
F-statistic	1.865095	Durbin-Watson stat	**1.591135**

Source :Self Proceed

Figure 4.2 : DW Table Test Graph
Source :Self Proceed

Based on Figure 4.2 with the results of the autocorrelation test, Durbin-Watson shows a value of 1.591135. While the value of the DW table (d) for observation data (n) is 90 and there are 3 independent variables (k) in the Durbin-Watson table, the upper limit value (dU) is 1.7264 and the lower limit value (dL) is 1.5889 . To determine the presence or absence of autocorrelation, the formula dL < d < dU is 1.5889 < 1.591135 < 1.7264 so it can be concluded that there is no negative autocorrelation and there is no autocorrelation problem.

Panel Data Multiple Linear Regression Test Results
The following are the results of the Panel Data Multiple Linear Regression Test conducted in this study:

Table 4.12 : Panel Data Multiple Linear Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	**-455228.6**	89531.05	-5.084589	0.0000
AT	**55.28829**	13063.36	**0.004232**	**0.9966**
KA	**156565.5**	27909.27	**5.609803**	**0.0000**
D(SIA)	**103106.4**	462531.1	**0.222918**	**0.8243**
Weighted Statistics				
R-squared	0.295169	Mean dependent var		8430.577
Adjusted R-squared	**0.264074**	S.D. dependent var		52582.67
S.E. of regression	45108.64	Sum squared resid		1.38E+11
F-statistic	**9.492353**	Durbin-Watson stat		1.080779
Prob(F-statistic)	**0.000026**			

Source :Self Proceed

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F Statistic Test (Simultaneous)
Based on table 4.12, it can be concluded between the audit committee variables on the integrity of the financial reporting as seen from tcount < t table or 0.222918 < 1.66256 and the probability value is 0.8243 where the value is 0.8243 > 0.05. Thus, it can be concluded that the specialization of the auditor industry does not partially affect the integrity of the financial reporting.

Partial Statistical Test (t)
The effect of audit tenure on the integrity of financial reporting
Based on table 4.12, it can be concluded that the audit tenure variable on the integrity of financial reporting is seen from tcount < ttable or 0.004232 < 1.66256 and the probability value is 0.9966 where the value is 0.9966 > 0.05.

The influence of the audit committee on the integrity of financial reporting
Based on table 4.12, it can be concluded between the audit committee variables on the integrity of the financial reporting as seen from tcount > ttable or 5.609803 > 1.66256 and the probability value is 0.0000 where the value is 0.0000 <0.05.

The effect of auditor industry specialization on the integrity of financial reporting
Based on table 4.12, it can be concluded between the audit committee variables on the integrity of the financial reporting as seen from tcount < t table or 0.222918 < 1.66256 and the probability value is 0.8243 where the value is 0.8243 > 0.05.

5. CONCLUSION
Based on the research conducted, several conclusions can be drawn as follows the audit tenure does not partially affect the integrity of the financial reporting. The results of this study support the research conducted by (Qoyyimah et al., 2015) and (Sari, 2018)) which show that the absence of a significant effect of audit tenure reflects the independence of KAP on the integrity of financial reporting, indicating that the company does not view the KAP engagement period as longer. Audit committee has a partial effect on the integrity of the financial reporting. The results of this study support research conducted by (Saputra, 2017) which shows that the large number of audit committees in a company when making decisions for the future has a great influence on financial reporting with integrity (true and honest). The specialization of the auditor industry does not partially affect the integrity of the financial reporting. The results of this study support the research conducted by (Yulinda, 2016) which states that auditor industry specialization has no significant effect on the integrity of financial reporting because it is considered a function of increasing agency costs. Audit tenure, audit committee, and auditor industry specialization simultaneously affect the integrity of financial reporting. The results of this study support research conducted by (Yulinda, 2016) which states that auditor industry specialization has no significant effect on the integrity of financial reporting because it is considered a function of increasing agency costs. And research from (Sundari, 2017) which shows the integrity of financial reporting is not affected by auditors who have industry specializations in the client field, because this occurs due to the presence of external auditors who cannot monitor and assess management policies in compiling information in financial reporting.

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