The Influence of Good Corporate Governance Mechanisms, Leverage, and Company Size on the Audit Quality of Banking Companies Listed on the Indonesian Stock Exchange in 2021-2022

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Abstract:
A This research aims to determine the influence of good corporate governance mechanisms, leverage, and company size on the audit quality of banking companies listed on the Indonesia Stock Exchange (BEI) in 2021-2022. Data collection techniques using literature study and documentation. The population in this research is all banking companies registered on the IDX for the 2021-2022 period, namely 44 companies. Data analysis using descriptive statistical tests, classical assumption tests (normality, multicollinearity, heteroscedasticity and autocorrelation), logistic regression tests and hypothesis tests (t test). The research results show that the size of the board of directors, leverage and company size have an effect on audit quality, while the size of the audit committee has no effect on audit quality. This indicates that the larger the size of the Board of Directors, the better the supervisory function. Thus, we will choose the Big Four KAP to guarantee audit quality. The smaller the company's leverage, the greater the company's opportunity to use Big Four KAP. Company size influences the company's decision to use Big Four KAP, while the size of the audit committee does not influence the company's decision to use Big Four or Non-Big Four KAP.

Keywords: Board of Directors Size, Audit Committee Size, Leverage, Company Size and Audit Quality

Introduction
Cases of accounting scandals provide further evidence of audit failures that have serious consequences for the business community. Such cases occurred with Enron, Global Crossing, Worldcom in the United States which caused a big uproar in the capital markets. Similar cases occurred in Indonesia such as PT Telkom and PT Kimia Farma. Although some of the misstatements that occurred were not necessarily related to fraud, risk factors related to fraud by management were proven to exist in
these cases. As an example, in Indonesia we can mention the case that occurred at PT Kimia Farma Tbk (PT KF). PT KF is a state-owned company whose shares are traded on the stock exchange. Audit quality can be influenced by good corporate governance, company size and leverage. Good corporate governance is definitively a system that regulates and controls companies that create added value for all stakeholders. Good corporate governance has finally become an important issue, because the many cases of violations committed by issuer companies in the capital market handled by the Capital Market Supervisory Agency (BAPEPAM) show the low quality of good corporate governance practices in Indonesia. According to Hilmi et.al. (2008) stated that a public accounting firm that has high quality will have better behavior and ethics than a small public accounting firm. So, a large-scale accounting firm will have a better reputation in preparing financial reports. However, the case of manipulation of financial reports that occurred at PT Bank Bukopin has provided evidence that the calculations carried out by large-scale accounting firms are not always better than those of small-scale accounting firms and can provide a measure of the emergence of earnings management practices. According to Gerayli (2011) audit quality can be measured using the size of big four KAPs and non-big four KAPs. According to Rusmin (2010) states that earnings management actions on company financial reports carried out by big four KAPs are smaller than non-big four KAPs.

According to Enofe et al. (2013) KAP size is an important element in determining audit quality. Large KAPs have better capabilities in conducting audits than small KAPs, so that large KAPs are able to produce higher audit quality. Large KAPs (Big Four) have professional staff of more than 400 people consisting of Pricewaterhouse Cooper (PwC), Deloitte, Ernst & Young and KPMG. These KAPs are foreign KAPs that collaborate with Indonesian KAPs in the form of networks or associations. Research conducted by Febrivanti et al. (2014) proves that KAP size has no effect on audit quality. The results of this research contradict the results of research conducted by Enofe et al. (2013) and (Paputungan et al., 2018) which prove that KAP size has an effect on audit quality.

Apart from good corporate governance, leverage and company size can also influence audit quality. Leverage is a comparison between total liabilities and total company assets. Leverage is used by investors to assess a company’s capabilities and risks. According to Brigham dan Houston (2010), companies that have a larger debt ratio will have greater expected returns when the economy is in normal conditions, but have a risk of loss when the economy experiences a recession. The leverage ratio can be a measure to see the manager’s behavior in carrying out earnings management. Leverage Research Results of Hadi et al. (2017) found that leverage has a positive effect on audit quality.

Apart from leverage and audit committee, company size can also influence audit quality. Company size is the size or size of a company which can be seen through the amount of equity, sales and total assets of the company. The increasing total assets of a company can indicate that the company has reached its maturity stage. If a company is at its maturity stage, the company already has positive cash flow and is expected to have profitable aspects over a relatively long period of time. The size of the total assets and capital used by a company is a reflection of the size of
the company. while the research results of Hadi et al. (2017) company size has no effect on audit quality.

Methods
This research adopts a quantitative approach, which is a systematic method that uses statistical tools, mathematics, or computational techniques to collect and analyze data (Ogunbodede & Sawyerr-George, 2023). This approach is used to evaluate Audit Quality as a dependent variable, with independent variables including Board of Directors Size, Audit Committee Size, Leverage, and Company Size. The research focus is on banking companies listed on the Indonesia Stock Exchange. The data used is secondary and obtained from the official website www.idx.co.id. Sample selection applies to companies in the banking subsector that routinely publish financial reports that are not only complete but have also been audited and published during the specified research period.

Results
This research uses a quantitative approach to examine the relationship between certain variables and audit quality in banking companies listed on the Indonesia Stock Exchange. Secondary data, obtained from annual reports and other official sources, is used to analyze factors such as board size, audit committee size, leverage, and company size. The quantitative research design adopted allows researchers to statistically assess the influence of independent variables on the dependent variable, audit quality, through methods such as regression. The aim is to identify causal relationships and determine how significantly certain factors contribute to audit quality in the banking company.

Descriptive statistics
Table 1 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Quality</td>
<td>88</td>
<td>0</td>
<td>1</td>
<td>.56</td>
<td>.500</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>88</td>
<td>2</td>
<td>14</td>
<td>6.72</td>
<td>2.848</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>88</td>
<td>2</td>
<td>12</td>
<td>4.02</td>
<td>1.668</td>
</tr>
<tr>
<td>Leverage</td>
<td>88</td>
<td>.04</td>
<td>15.00</td>
<td>4.413</td>
<td>2.97751</td>
</tr>
<tr>
<td>Company Size</td>
<td>88</td>
<td>9</td>
<td>13</td>
<td>10.82</td>
<td>1.120</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>88</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed using IBM SPSS 25

The variable size of the board of directors (XI) with a total of 88 data (N) has the lowest value of 2, the highest value of 14, an average value of 6.72 and a standard deviation value of 2.848. The audit committee size variable (X2) with a total of 88 data (N) has the lowest ratio of 2, the highest ratio of 12, the average value of the ratio is 4.02 and the standard deviation value of the ratio is 1.668. The leverage variable (X3), with a total of 88 data (N) has the lowest ratio of 0.4, the highest ratio of 15, the average value of the ratio is 4.413 and the standard deviation value of the ratio is 2.977. The company size variable (X4) with a total of 88 data (N) has the lowest value of 9, the highest value of 13, the average ratio value is 10.82 and the standard deviation value is 1.120.

Classic assumption test
Testing linear regression assumptions aims to avoid the appearance of bias in data analysis and to avoid misspecification of the regression model used. A linear
regression model can be called a good model if the model meets several classical assumptions. The following are the results of the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test:

1. Normality Test
   Based on the normality test with One Sample Kolmogorov-Smirnov, the significance value (Asymp. Sig 2-tailed) is 0.054. Because this significance value is greater than the commonly used significance level, namely 0.05 (0.054 > 0.05), it can be concluded that the data is normally distributed. Thus, the assumption of normality for statistical analyzes that require it is considered to have been met.

2. Multicollinearity Test
   Tolerance value > 0.1 and Inflation Factor (VIF) < 10, it can be concluded that in the regression model there is no multicollinearity. The Tolerance and Variance Inflation Factor values are indicators used to detect multicollinearity in a regression model. Tolerance is the opposite of VIF and both function to assess how much influence linearity has between independent variables. Tolerance is calculated by 1 minus the R-squared from the regression of the independent variable against all other independent variables. A Tolerance value greater than 0.1 indicates that there is no strong correlation between independent variables, and thus, there is not a serious multicollinearity problem. So, if a regression model has a Tolerance value greater than 0.1 and a VIF less than 10, it can be concluded that the model does not have serious multicollinearity problems. However, it should be noted that the number “10” is only a rule of thumb and may sometimes need to be interpreted in the context of other variables in the regression model (O’Brien, 2007).

3. Heteroscedasticity Test
   Based on the results of the heteroscedasticity test, it is stated that the significance value (p-value) of the four independent variables—board of directors, audit committee size, leverage, and company size—is more than 0.05. In a statistical context, a significance value greater than 0.05 is generally used as the limit for accepting the null hypothesis. So, if the significance limit you use is 0.05 and the significance value of the test is higher than this, then you do not reject the null hypothesis which states that there is no heteroscedasticity in your data. In other words, these results show that there is not enough evidence to state that there is a heteroscedasticity problem in the model you tested.

4. Autocorrelation Test
   In statistical analysis, if you use the Durbin-Watson test to detect the presence of autocorrelation in the residuals from a regression analysis, this method gives you a single value called the Durbin-Watson value. This value is used to determine whether there is positive or negative autocorrelation in the residuals. With a sample size (n) of 88 and a number of independent variables (k) of 4, the Durbin-Watson value was 1.7493. The Durbin-Watson threshold for decision making usually ranges from 0 to 4. If the DU value is close to 2, there is no evidence of autocorrelation; if the DU value is close to 0, there is evidence of positive autocorrelation; and if the DU value is close to 4, there is evidence of negative autocorrelation. With n=88 and k=4, the DU value is 1.7493 and because 1.7493 < 2.100 < 4 – 1.7493. These two conditions indicate that there is no significant evidence of autocorrelation in the residuals of the regression model. Therefore, it can be concluded that there is no correlation problem in the analyzed regression model.

**Logistic Regression Test**
Table 2. Logistic Regression Test Results

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1(^a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Quality</td>
<td>.457</td>
<td>.130</td>
<td>12.413</td>
<td>1</td>
<td>.000</td>
<td>1.579</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>-.022</td>
<td>.241</td>
<td>.008</td>
<td>1</td>
<td>.928</td>
<td>.978</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>-.224</td>
<td>.097</td>
<td>5.339</td>
<td>1</td>
<td>.021</td>
<td>.800</td>
</tr>
<tr>
<td>Leverage</td>
<td>-.582</td>
<td>.247</td>
<td>5.537</td>
<td>1</td>
<td>.019</td>
<td>.559</td>
</tr>
<tr>
<td>Constant</td>
<td>4.653</td>
<td>2.767</td>
<td>2.827</td>
<td>1</td>
<td>.093</td>
<td>104.880</td>
</tr>
</tbody>
</table>

\(^a\) Variable(s) entered on step 1: Board_of_Directors, Audit_Committee, Leverage, Company_Size.

Source: Processed using IBM SPSS 25

1. The influence of the size of the board of directors on audit quality

   The test results provide empirical evidence that the size of the board of directors plays an important role in improving audit quality. The regression coefficient of 0.457 provides quantitative evidence that there is a positive linear relationship. This means that for every one unit increase in the size of the board of directors, an increase of 0.457 units in audit quality is expected, assuming other variables remain constant. A significance level of 0.000 is crucial in the interpretation of these results. In statistical research, the significance level is usually set with a certain threshold (for example 0.05 or 0.01) to determine whether the results obtained are coincidental or indeed have a strong statistical basis. In this case, a significance of 0.000 indicates that the result is highly statistically significant and the probability of this result occurring by chance is very small.

   With the significance threshold established, we can conclude that there is strong evidence to support the hypothesis that the size of the board of directors has a significant influence on audit quality. This indicates that companies with larger boards of directors can, through various mechanisms, strengthen their internal and external audit functions, which in turn increases the credibility and quality of financial information reported to stakeholders. Therefore, based on this empirical evidence, the first hypothesis (H1) in this study can be accepted, namely that the size of the board of directors has a positive effect on audit quality. These results have practical implications for stakeholders in companies and are an important point of information for regulators and investors who may consider the size of the board of directors as an indicator in assessing the governance and quality of internal supervision of a company. The implications of these results are quite broad because they concern governance and accountability in an organization. Given evidence that larger boards of directors are associated with higher audit quality, companies may be motivated to evaluate the composition of their boards. A larger board of directors can offer a variety of perspectives and expertise, which can contribute to more effective oversight of the audit process. Additionally, with a wider variety of experiences, a large board of directors may be more adept at dealing with complex issues and providing constructive challenges to management and auditors.

2. The effect of audit committee size on audit quality

   Based on the test results, it shows that the audit committee size variable has a negative regression coefficient of 0.022 with a significance level of 0.928 which is greater than 0.05. Based on this, it can be concluded that the audit committee size
variable has no effect on audit quality or in other words, $H_2$ is rejected. The negative regression coefficient of -0.022 on the audit committee size variable indicates that theoretically, there is a tendency for audit quality to decrease as the size of the audit committee increases. However, in a statistical context, this coefficient is not considered significant because its significance level, as measured by the $p$-value, is 0.928. A $p$-value greater than the standard confidence threshold (generally 0.05) indicates that the probability of observing this (or more extreme) outcome due to chance is quite high, if there is actually no true effect in the population. In scientific research, a high level of significance like this usually indicates that the independent variable (audit committee size, in this case) does not have a strong enough impact on the dependent variable (audit quality) to be considered a determining factor.

Since the $p$-value is greater than 0.05, we do not reject the null hypothesis, which in this case can be formulated as "There is no significant effect of audit committee size on audit quality." Because the alternative hypothesis ($H_2$) states that there is this influence, we can conclude that $H_2$ is rejected based on the data that has been analyzed. This means that, based on the sample analyzed, audit committee size is not statistically proven to influence audit quality, so there is no basis to suggest that committee size has a meaningful effect in the context studied.

It should be emphasized that this denial does not automatically mean that there is no relationship at all. More specifically, in regression analysis, there are several assumptions that must be met for the results to be valid, including linearity of the relationship between independent and dependent variables, homoscedasticity of the residuals, absence of multicollinearity, and absence of autocorrelation in the residuals. If these assumptions are not met, then interpretation of the regression coefficients and their significance needs to be done with great caution. In the context of management decisions or policy settings, these findings may suggest that audit committee size alone is not a reliable indicator for assessing audit quality. Instead, other factors such as the expertise of audit committee members, frequency of meetings, or other aspects of corporate governance may be more important to explore.

3. The effect of leverage on audit quality

Based on the test results, it shows that the leverage variable has a negative regression coefficient of -0.224 with a significance level of 0.021 which is smaller than 0.05. Based on this, it can be concluded that the variable size of the board of directors has an effect on audit quality or in other words, $H_3$ is accepted. Based on the test results, the leverage variable (which measures the relationship between a company's debt and equity) has a negative regression coefficient of -0.224, and a significance level of 0.021. This level of significance is smaller than the 0.05 that is conventionally used as the cutoff for determining whether a result is statistically significant. Therefore, it can be concluded that this variable has a significant negative influence on audit quality. This means that the higher the company's leverage, the greater the likelihood that its audit quality will decrease. The third hypothesis ($H_3$), which may state that there is a significant influence between the size of the board of directors on audit quality, is accepted based on these results. However, remember that audit quality also depends on many other factors, including company characteristics and financial reporting systems (DeFond & Zhang, 2014).
4. The influence of company size on audit quality

Based on the test results, it shows that the company size variable has a negative regression coefficient of \(-0.582\) with a significance level of 0.019 which is smaller than 0.05. Based on this, it can be concluded that the company size variable has an effect on audit quality or in other words, H4 is accepted.

The regression coefficient of \(-0.582\) indicates that for every one unit increase in company size, a decrease of 0.582 units in audit quality is expected, assuming other variables in the model remain constant. Furthermore, the significance level of 0.019 is the p-value which functions to evaluate the null hypothesis. We generally use a cutoff value of 0.05 as the criterion for statistical significance. If the p-value is less than 0.05, we will reject the null hypothesis. In this context, a p-value of 0.019 which is smaller than 0.05 indicates sufficient evidence to reject the null hypothesis (which generally states that there is no effect or relationship). Therefore, it can be concluded that the alternative hypothesis (H4) which states that there is a negative influence of company size on audit quality is accepted. In practice, these findings could have important implications for auditors, financial report users, regulators and other stakeholders. For example, it could be that larger companies have more complex structures and higher audit risks, or that they may use more aggressive financial reporting strategies that can lower audit quality. Therefore, special measures and attention may be required when conducting and evaluating audits of larger companies.

These results also add to the literature on factors influencing audit quality and could guide audit practices to consider company size as one of the important audit risk factors that needs to be managed and controlled well to ensure a high level of audit quality. In addition, this negative regression coefficient may reflect the tendency that larger companies may pose more significant challenges in terms of internal control and operational management that affect audits. Company size is often associated with transaction complexity and organizational structure, which can make it difficult for auditors to conduct risk assessments and determine the nature, timing and scope of required audit testing.

Conclusion

This research confirms that good corporate governance (GCG) as measured by the size of the board of directors has an effect on audit quality, while good corporate governance (GCG) as measured by the size of the audit committee has no effect on audit quality. leverage and company size have a significant effect on audit quality. This means that companies with good corporate governance (GCG) as measured by a large board of directors size variable prefer Big Four KAPs to non-Big Four KAPs in ensuring audit quality. Meanwhile, good corporate governance (GCG) as measured by the audit committee size variable does not influence companies in choosing Big Four or Non-Big Four KAPs in ensuring the quality of their audits. The smaller the company's leverage, the greater the company's opportunity to use Big Four KAPs and the size of the company influences the company's decision to use Big Four or Non-Big Four KAPs in ensuring audit quality.

Suggestion

This research is not free from limitations, namely that it only considers banking companies listed on the Indonesia Stock Exchange (BEI) throughout 2021-
2022. Future researchers should increase the research period to strengthen the research results, increase the research sample or compare all sectors on the Indonesian Stock Exchange and then it is hoped that they will add other independent variables that can influence audit quality such as audit time limits, company age, audit fees and so on.

References


