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Determinants of Audit Quality in Food and Beverage Companies: The Role of Audit Tenure and Auditor Reputation

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ABSTRACT
This study examines the effect of audit tenure and auditor reputation on audit quality using panel data analysis. The study aims to provide empirical evidence on whether prolonged auditor-client relationships and auditor reputation influence audit outcomes. The findings reveal that audit tenure has a negative and significant effect on audit quality, indicating that longer auditor engagement may reduce independence and compromise audit quality. In contrast, auditor reputation shows no significant effect, suggesting that reputation alone does not guarantee higher audit quality. Simultaneously, both variables significantly influence audit quality, with the model explaining 57.95% of its variation. These results imply that regulators and firms should carefully consider auditor rotation policies to maintain auditor independence and improve audit quality. This study contributes to the audit literature by providing evidence from panel data analysis on the relative importance of auditor tenure and reputation in determining audit quality.

Keywords : Audit tenure, auditor reputation, audit quality, panel data regression, fixed effect model.

A. INTRODUCTION

Financial statements serve as the primary source of information for stakeholders such as investors, creditors, regulators, and management in assessing a company's performance and financial position. The information presented in financial statements must possess qualitative characteristics such as relevance, reliability, comparability, and freedom from material misstatement so that it can be used as a sound basis for economic decision-making. International accounting standards emphasize that transparency and high-quality financial reporting are essential to maintaining market confidence and ensuring efficient resource allocation (IASB, 2018).

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From an agency theory perspective, the relationship between company owners (principals) and management (agents) can give rise to conflicts of interest due to information asymmetry. Management has greater access to internal information than owners, which creates opportunities for earnings management or biased reporting. Therefore, the role of an independent and competent external auditor becomes crucial in providing reasonable assurance that financial statements are fairly presented in accordance with applicable standards (DeFond & Zhang, 2014).

Audit quality is a critical aspect of the financial statement examination process because it reflects the auditor's probability of detecting and reporting material misstatements. High-quality audits are characterized by compliance with auditing standards, auditor independence, and adequate professional competence. Research shows that audit quality enhances the credibility of financial reporting and reduces information risk for investors (Knechel et al., 2016).

One indicator frequently used in empirical studies to reflect audit quality is the audit opinion, particularly the unqualified opinion, as it represents the auditor's professional judgment that the financial statements are fairly presented in all material respects and reflect the entity's going concern condition (International Auditing and Assurance Standards Board, 2016).

In practice, audit quality is influenced by various factors originating from both the auditor and the client company's characteristics. One commonly examined factor is audit tenure, which refers to the length of the auditor–client relationship. Long-term engagements may create familiarity that threatens auditor independence and reduces professional skepticism. Several empirical studies find that excessively long audit tenure can negatively affect audit quality because auditors may become less objective (Velte & Loy, 2018; Fitriany et al., 2016). However, there is also an argument that longer tenure allows auditors to gain deeper knowledge of the client's business, potentially improving audit effectiveness.

In addition to audit tenure, auditor reputation is also believed to influence audit quality. Auditor reputation is generally proxied by the size of the Public Accounting Firm, namely Big Four and non-Big Four firms. Highly reputed auditors are assumed to have greater resources, stronger quality control systems, and stronger reputation incentives to maintain audit quality. Studies suggest that Big Four auditors tend to deliver higher audit quality compared to non-Big Four auditors (Lennox et al., 2016). Nevertheless, prior research findings remain mixed. Some studies report that auditor reputation significantly affects audit quality, while others find insignificant or inconsistent effects depending on industry context and regulatory environment (Sari & Susanto, 2018; Velte, 2020). These inconsistencies indicate a research gap that warrants further

investigation. Most previous studies focus on manufacturing, mining, or banking sectors, while research on the Food and Beverage (F&B) sector remains relatively limited, particularly in emerging markets such as Indonesia. In fact, the F&B sector is a strategic industry that contributes significantly to national economic growth and faces high demand volatility, competition, and operational risks, thereby requiring strong audit oversight (Ministry of Industry of the Republic of Indonesia, 2023).

Based on the above discussion, this study aims to analyze the effect of audit tenure and auditor reputation on audit quality in Food and Beverage sector companies listed on the Indonesia Stock Exchange for the period 2020-2024. This research is expected to provide empirical contributions to the auditing literature, particularly in the context of the F&B industry, and serve as a reference for regulators, auditors, and companies in maintaining and improving audit quality.

B. THEORITICAL

Audit Quality and Its Determinants

Audit quality is defined as the probability that an auditor will detect and report material misstatements in a client's financial statements. This concept emphasizes two main aspects, namely the auditor's competence in detecting errors and independence in reporting findings objectively. High audit quality plays a crucial role in enhancing the credibility of financial statements, reducing information asymmetry, and strengthening corporate governance mechanisms (DeFond & Zhang, 2014; Knechel et al., 2016).

In empirical research, audit quality is commonly proxied by indicators such as discretionary accruals, audit opinions, and financial restatements. Lower levels of earnings management and fewer restatements generally indicate higher audit quality (Francis, 2011; Velte, 2020). Given its importance, audit quality is often analyzed in relation to auditor-specific characteristics, particularly those that may influence independence and competence, such as audit tenure and auditor reputation.

Audit Tenure and Audit Quality

Audit tenure refers to the length of the relationship between an auditor and its client. From an agency theory perspective, audit tenure is closely related to auditor independence. A prolonged relationship may create familiarity threats, reducing professional skepticism and objectivity, which in turn can negatively affect audit quality (Velte & Loy, 2018). Several studies support this view, suggesting that longer audit tenure may lead to lower audit quality due to increased tolerance toward aggressive financial reporting practices.

An alternative perspective argues that longer audit tenure can enhance audit quality. Over time, auditors develop a deeper understanding of the client's

business, internal controls, and risk environment, which may improve audit effectiveness. Empirical findings remain mixed, with studies reporting positive, negative, or insignificant relationships between audit tenure and audit quality (Fitriany et al., 2016; Jackson et al., 2018). These inconsistencies indicate that the effect of audit tenure is context-dependent and influenced by regulatory frameworks and monitoring mechanisms.

Auditor Reputation and Audit Quality

Auditor reputation reflects the perceived credibility and reliability of audit services, commonly proxied by the distinction between Big Four and non-Big Four audit firms. Highly reputable auditors are generally expected to provide higher audit quality due to better resources, standardized audit procedures, and stricter quality control systems (Lennox et al., 2016).

From a theoretical perspective, reputable auditors have stronger incentives to maintain audit quality in order to protect their brand and avoid reputational damage or litigation risk. In addition, larger audit firms tend to be more independent because they are less economically dependent on individual clients, allowing them to issue more objective audit opinions. Empirical evidence shows that the effect of auditor reputation on audit quality is not always significant, particularly in emerging markets where institutional quality and regulatory enforcement may vary (Velte, 2020; Sari & Susanto, 2018). This suggests that auditor reputation alone may not be sufficient to ensure high audit quality without strong institutional support.

Hypothesis Development

Based on agency theory, audit tenure has the potential to affect auditor independence. A long-term relationship between an auditor and a client can create a familiarity threat that reduces objectivity and professional skepticism, potentially lowering audit quality. While there are arguments that longer tenure can improve the auditor's understanding of the client's business, the majority of the literature indicates that the risk of reduced independence is more dominant.

H1: Audit tenure negatively affects audit quality.

Auditor reputation reflects the level of credibility and quality of audit services provided. Auditors with high reputations, such as the Big Four, have a greater incentive to maintain audit quality to protect their reputation and avoid litigation risk. Therefore, auditors with high reputations are expected to produce better audit quality.

H2: Auditor reputation positively affects audit quality.

Simultaneously, audit tenure and auditor reputation are auditor characteristics that can influence audit quality through both independence and

competence. The combination of the two is expected to significantly influence audit quality.

H3: Audit tenure and auditor reputation simultaneously affect audit quality.

C. METHODOLOGY

This study employs a quantitative research approach aimed at examining the effect of audit tenure and auditor reputation on audit quality in Food and Beverage sector companies listed on the Indonesia Stock Exchange during the period 2020–2024. The quantitative approach is used to test causal relationships among variables through statistical analysis. Panel data regression is applied because it combines cross-sectional and time-series data, allowing for more robust estimation by capturing both individual firm characteristics and time dynamics. Data processing and analysis are conducted using EViews version 12 to ensure accurate estimation and hypothesis testing.

The study utilizes secondary data obtained from annual financial statements and independent auditor reports of Food and Beverage companies over the observation period. These data are collected from the official stock exchange website and each company's official website. The population consists of all Food and Beverage companies listed during 2020-2024. The sample is determined using purposive sampling based on the following criteria: (1) companies consistently listed during the observation period, (2) companies publishing complete annual reports, and (3) companies providing independent auditor reports with clearly disclosed audit opinions. Based on these criteria, 13 companies are selected, resulting in 65 firm-year observations.

Data analysis is conducted using panel regression with the Fixed Effect Model (FEM), which is considered appropriate for controlling unobserved heterogeneity across firms and over time. This model helps reduce omitted variable bias and improves the reliability of coefficient estimates. The analysis focuses on testing whether audit tenure and auditor reputation significantly influence audit quality, with audit opinion used as a proxy for audit quality. The results are expected to provide empirical evidence regarding the determinants of audit quality in the Food and Beverage industry.

Table 1. Operational definitions of variables

Variable	Type	Proxy / Measurement	Description
Audit Quality (Y)	Dependent	Dummy variable: 1 = Unqualified Opinion (WTP), 0 = Other opinions	Reflects whether the company receives a clean audit opinion as an indicator of audit quality
Audit Tenure (X1)	Independent	Number of consecutive years the same auditor audits the firm	Measures the length of auditor–client relationship
Auditor Reputation (X2)	Independent	1 = Big Four audit firm, 0 = Non-Big Four	Indicates the reputation level of the audit firm

D. RESULTS AND DISCUSSION

Panel Data Regression Model Selection

Before conducting hypothesis testing, this study first determined the most appropriate panel data regression model using the Chow test and Hausman test to ensure the robustness of the estimation results.

a. Chow Test

Table 1. chow test results

Effects Test	Statistic	Prob.
Cross-section F	5.939058	0.0000
Cross-section Chi-square	57.58907	0.0000

The Chow test is used to select between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The results show that the probability value of Cross-section F is 0.0000, which is lower than the significance level of 5% (0.05). Therefore, the null hypothesis is rejected, indicating that the Fixed Effect Model is more appropriate than the Common Effect Model.

b. Hausman Test

Table 2. Hausman Test Results

Test Summary	Chi-Square Statistic	df	Prob.
Cross-section random	8.279102	2	0.0159

The Hausman test is conducted to determine whether the Fixed Effect Model or Random Effect Model is more suitable. The probability value of 0.0159 is less than 0.05, indicating that the Random Effect Model is rejected and the Fixed Effect Model is preferred for further analysis.

Panel Data Regression Results (Fixed Effect Model)

Table 3. Fixed effect model estimation results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant (C)	125.6430	9.250390	13.58245	0.0000
Audit Tenure (X1)	-5.677729	1.216553	-4.667062	0.0000
Auditor Reputation (X2)	-4.338865	11.89903	-0.364640	0.7169

Tabel 4. Model Statistics

Indicator	Value
R-squared	0.671515
Adjusted R-squared	0.579539
F-statistic	7.301003
Prob(F-statistic)	0.000000

Hypothesis Testing Results

a. Partial Test (t-test)

The t-test results indicate that audit tenure has a significant effect on audit quality, as evidenced by a probability value of 0.0000 (< 0.05). The negative coefficient suggests that longer auditor–client relationships are associated with lower audit quality, indicating potential independence concerns. Meanwhile, auditor reputation does not have a significant effect on audit quality, as shown by a probability value of 0.7169 (> 0.05). This finding implies that being audited by a Big Four firm does not necessarily guarantee higher audit quality in the observed sample.

b. Simultaneous Test (F-test)

The F-test results show that audit tenure and auditor reputation jointly have a significant effect on audit quality, as indicated by the Prob(F-statistic) value of 0.0000 (< 0.05). This suggests that the model as a whole is statistically significant and capable of explaining variations in audit quality.

c. Coefficient of Determination

The Adjusted R-squared value of 0.5795 indicates that approximately 57.95% of the variation in audit quality can be explained by audit tenure and auditor reputation. The remaining 42.05% is influenced by other variables not included in the model, such as firm size, leverage, profitability, audit fees, or corporate governance factors..

DISCUSSION

The Effect of Audit Tenure on Audit Quality

The empirical results indicate that audit tenure has a negative and statistically significant effect on audit quality. The negative coefficient suggests that longer auditor–client relationships tend to reduce audit quality. This finding supports the agency theory perspective, which argues that prolonged engagement between auditors and clients may create familiarity threats, thereby reducing auditor independence and professional skepticism. When auditors become too familiar with management, their objectivity may decline, increasing the risk of tolerating aggressive accounting practices. This result aligns with the findings of Velte and Loy (2018), who document that extended audit tenure may impair auditor independence and consequently reduce audit quality. Similarly, Jackson,

Moldrich, and Roebuck (2018) find evidence that mandatory audit rotation can enhance audit quality by mitigating familiarity risks.

This finding contrasts with studies suggesting that longer audit tenure can enhance audit effectiveness due to improved client-specific knowledge. DeFond and Zhang (2014) argue that accumulated knowledge over time can improve auditors' ability to detect misstatements. Nonetheless, in the context of this study Food and Beverage companies in an emerging market the independence concern appears to outweigh the knowledge benefit. This may indicate that regulatory oversight and governance mechanisms in emerging markets play a crucial role in determining whether long tenure enhances or diminishes audit quality.

The Effect of Auditor Reputation on Audit Quality

The results show that auditor reputation does not have a statistically significant effect on audit quality. Although Big Four audit firms are generally perceived to provide higher-quality audits due to stronger methodologies, greater resources, and higher litigation risk exposure, this study finds no empirical support for such an effect within the sample observed. This suggests that the quality of audit outcomes in the Food and Beverage sector may not solely depend on whether the firm is audited by a Big Four or non-Big Four auditor. In emerging markets, regulatory standards and professional requirements may standardize audit practices to the extent that differences in reputation become less pronounced.

This finding is consistent with Velte (2020), who reports that the impact of Big Four auditors on audit quality is not always significant and may vary across regulatory environments. Similarly, Sari and Susanto (2018) find mixed evidence regarding the influence of auditor reputation on audit quality in developing countries. One possible explanation is that non-Big Four firms have improved their audit methodologies and quality control systems, reducing the gap between them and Big Four firms. Therefore, auditor reputation alone may not be a sufficient determinant of audit quality, particularly in industries with standardized reporting requirements.

The Simultaneous Effect of Audit Tenure and Auditor Reputation

Although auditor reputation does not show a significant individual effect, the simultaneous test (F-test) demonstrates that audit tenure and auditor reputation jointly influence audit quality. This suggests that audit quality is shaped by a combination of auditor characteristics rather than a single

determinant. The significant model indicates that audit tenure plays a dominant role, while auditor reputation may contribute indirectly when combined with other firm-specific or governance-related factors. This supports the multidimensional view of audit quality proposed by Knechel et al. (2016), who emphasize that audit quality is influenced by interactions between auditor competence, independence, and contextual factors.

The relatively high Adjusted R-squared value (57.95%) indicates that the model explains a substantial portion of audit quality variation, although other determinants remain relevant. Francis (2011) argues that audit quality is a complex construct affected by firm characteristics, audit firm attributes, regulatory frameworks, and economic incentives. Therefore, while audit tenure appears to be a critical factor in this study, future research could incorporate additional variables such as audit fees, firm size, leverage, or corporate governance mechanisms to provide a more comprehensive understanding of audit quality determinants.

E. CONCLUSION

This study aims to examine the effect of audit tenure and auditor reputation on audit quality in Food and Beverage sector companies during the observation period. The findings reveal that audit tenure has a negative and statistically significant effect on audit quality, indicating that longer auditor–client relationships tend to reduce audit quality, likely due to potential threats to auditor independence and reduced professional skepticism. This result highlights the importance of maintaining auditor objectivity and reinforces concerns regarding prolonged engagements between auditors and clients.

Auditor reputation, proxied by whether the company is audited by a Big Four or non-Big Four audit firm, is found to have no significant effect on audit quality. This suggests that in the observed context, audit quality may not be solely determined by the size or reputation of the audit firm, but rather by other factors such as compliance with auditing standards, internal quality control, and regulatory oversight. The finding also indicates that non-Big Four firms may be able to provide audit services with comparable quality, particularly within industries that operate under standardized reporting frameworks.

Audit tenure and auditor reputation are found to jointly influence audit quality, indicating that audit outcomes are shaped by multiple interacting factors rather than a single determinant. The model explains a substantial portion of the variation in audit quality, although other variables outside the model may also play an important role. The future research is encouraged to incorporate additional determinants such as firm size, leverage, corporate governance mechanisms, or audit fees to obtain a more comprehensive understanding of the

factors affecting audit quality. This study provides empirical evidence that can contribute to the development of auditing literature and offer insights for auditors, companies, and regulators in improving audit practices and safeguarding financial reporting credibility.

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