Analysis Of The Effect Of Public Accounting Firms Reputation On Audit Quality

Agung Dinarjito, Luhur Febriansyah

ABSTRACT: The use of public accounting firms (KAP) that are not from Big Four members is often perceived that the audit quality is doubtful or there is even an indication that auditee's management has engineered financial statements. This perception made KAP members of the Big Four control the audit services market in most countries in the world. However, the reality is that the Big Four members have also failed several times in conducting audits. This is what the author wants to examine, which is to see whether the reputation of the KAP influences the quality of the audit conducted. This research is a quantitative study using logistic regression. The results of the study were that KAPs with a strong reputation did not provide superior quality audits compared to KAPs with a weaker reputation.

Keywords : audit reputation, audit quality, going concern opinion, public accountant, public accounting firm

1 INTRODUCTION
Lately, the financial statements of PT Garuda Indonesia Airways (GIAA) have become one of the interesting topics related to the chaotic financial reporting. Even the Ministry of Finance has given sanctions to Public Accountants who examine GIAA financial reports in 2018. In their statement (CNN Indonesia, 2019), the Public Accountant (AP) has violated the applicable audit standards. Also, there is an indication that GIAA deliberately appoints not the best auditor to engineer financial reports even though the GIAA has denied it (Wartaekonomi, 2019). Associated Public Accountants (AP) in a Public Accountant Office (KAP) provide audit services on company financial statements. KAP is a form of business entity that not only connects clients with APs but is also responsible for audits carried out by shaded APs. At present, there are four large KAPs that dominate the audit market in many countries. The four KAPs is known as The Big Four (Big 4). In 2011, up to 99% of companies included in the Financial Times Stock Exchange (FTSE) 100 list, and 96% of companies included in the FTSE 250 list on the London Stock Exchange used Big 4 financial statement audit services (Christudoulou, 2011). The situation at the New York Stock Exchange shows conditions that are not much different. Pakaluk (2017) found that 99% of the 500 companies included in the list of Standard & Poor's 500 (S & P 500), their financial statements were audited by Big 4. Of the 500 companies, PwC held the highest market share of 30.4%. Of all companies listed on the New York Stock Exchange, as of March 2015, Big 4 provided audit services to 86% of the total (Zhang, 2015). Not only in the United Kingdom and the United States, Big 4 income globally shows growth in line with the growth of the world's Gross Domestic Product (GDP) (Bacani, 2018).

The audit market conditions in Asia are not much different from those in the United Kingdom and the United States. Big 4 dominates up to 67% of the audit market share in Singapore (Tan, 2018). The audit market in Indonesia shows a more varied composition. Research conducted by Mardiana & Anggraita (2015) found that the audit services market in Indonesia is in the form of weak oligopoly, because Big 4 has less than 40% market share, except for the mining industry which includes strong oligopolies with a market share of more than 40%. One of the factors that led to Big 4's large market share in many countries was due to the perception of investors towards the Big 4 brand. Investors believed that Big 4 provided superior quality audits compared to second-tier KAPs (Boone, Khurana, & Raman, 2010), namely the multinational KAP which has the fifth and tenth-largest size. Perception of quality is an indication of the strong reputation that Big 4 has in the audit market. Pioneer audit studies found that large-size KAPs provided superior audit quality compared to smaller-size KAPs (DeAngelo, 1981; Davidson & Neu, 1993). This resulted in Big 4, which is the four largest size KAP, often associated with high audit quality. This perception is also proven by the many studies that measure the audit quality of sample companies using dummy variables by looking at whether financial statements are audited by Big 4 or non-Big 4 (Hay, 2013). Then, the researcher gives a higher value for the audited financial statements by Big 4. This makes the perception held by investors that Big 4 provides better quality audits compared to non-Big 4 KAP Chaney, Jeter, & Shivakumar, 2004 ; Ireland & Lennox, 2002; Lee, 1996). In fact, the audits carried out by Big 4 did not escape failure. There have been several failures that have taken place by the Big 4 such as in 2017, the audit failure scandal befell British Telecom and Pwc as auditors of financial statements (Priantar, 2017). In 2015, the financial report audit scandal struck KPMG as the auditor of Quindell in the 2013 reporting year (Morrison, 2018). The audit failure scandal also afflicted EY and Deloitte in Indonesia in 2018. EY was assessed as failing to conduct an audit of Bank Bukopin's financial statements which were found to inflate income from fictitious credit cards (Banjarnahor, 2018). The reputation and quality of the audit need to be maintained not only by KAP but also by the auditee itself. Reputation can be defined as the estimation of the consistency over time of an entity's attributes, such as price, quality, or marketing ability (Herbig & Milewicz, 1993). The estimation is made based on the desire and ability of the entity to do activities repeatedly in the same way. Herbig & Milewicz (1993) define credibility separately from reputation. A company can have high credibility with a bad reputation. Credibility is a level of trust at this time, while reputation is...
created in a relatively long time. Given that the audit service business relies heavily on reputation and credibility, KAP is obliged to maintain the quality of the audits carried out. Assurance services provided by public accountants for financial statement information can be viewed as an economic good, so audit quality is influenced by consumer demand (clients) and producer supply (KAP) (Simunic, 1980). Quality audit services are audit services that can guarantee the credibility of financial statements prepared by management. Based on the above problems that occur in the Big 4 and non-big 4, the authors are interested in examining the influence of KAP reputation on audit quality by using the going concern opinion (GCO) issued by the auditor as a proxy for audit quality. The purpose of this study is to determine whether the reputation of KAP influences audit quality.

2 LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

Boone, Khurana, and Raman (2010) examined the differences in audit quality provided by Big 4 with the quality of audits provided by second-tier KAP to companies whose data was obtained through Compustat. They found that the quality of financial reporting audited by both Big 4 and second-tier KAPs generally did not show significant quality differences. Testing of audit quality carried out using the GCO proxy shows that Big 4 tend to issue GCO when the audit client experiences financial distress. This shows that Big 4 tends to be more independent in issuing audit opinions. Interference with auditor independence can cause Type-II errors, ie auditors issue fair opinions without modification, but the company goes bankrupt. Type-II errors can occur when the audit client puts pressure on the auditor not to issue opinions with modification, and the auditor is unable to maintain his position to be independent in conducting the audit. In other words, the disruption of auditor independence in conducting audits causes a decrease in audit quality. Meanwhile, the analysis of audit quality with the proxy of performance-adjusted abnormal accruals showed that there was no significant difference between the quality of the audit conducted by Big 4 compared to the audit conducted by the second-tier KAP. This shows that the audits carried out by both Big 4 and non-Big 4 did not significantly affect earnings management actions carried out by management. Lawrence, Minutti-Meza, and Zhang (2011) compare audit quality between Big 4 and non-Big 4 with a discretionary accruals (DAC) proxy. They found that companies audited by Big 4 had lower DAC compared to companies audited by non-Big 4. This shows that audits conducted by Big 4 were more effective in controlling earnings management actions carried out by audit clients, compared to audits conducted by non-Big 4 KAPs. Thus, the study concluded that the Big 4 audit provided superior quality compared to non-Big 4. In contrast to credibility, the formation of a positive reputation requires a relatively long time. To maintain a positive reputation and strong credibility, Big 4 must consistently deliver high-quality services (Herbig & Milewicz, 1993). The quality of services that are not in accordance with reputation and credibility can damage both, then result in losses to investments that have been made to build a positive reputation. Big 4 who already have a positive reputation will make every effort to maintain their reputation by providing high-quality audits. Previous research related to audit quality given by Big 4 and non-Big 4 found different results. Some studies using auditor opinion proxies to measure audit quality found that Big 4s were more independent and more likely to give opinions with modifications compared to non-Big 4 and second-tier KAPs (MohammadRezaei, Mohd-Saleh, & Ahmed, 2018; Boone, Khurana & Raman, 2010). With the existence of several failures and cases carried out by several KAPs, the authors propose the following hypotheses: Hypothesis 1. (H1): Reputation of KAP influences audit quality significantly.

3 METHOD

1. Data

The object of this research is that all companies that conducted an initial public offering (IPO) on the IDX up to 2012 with the observation period of this study covering the years 2013 to 2017. Restrictions on the year of IPO until 2012 even though the observation period began in 2013 due to calculations several variables for 2013 require audited financial data for 2012. The selection of observation periods starting in 2013 was conducted to avoid the effects of International Financial Reporting Standards (IFRS) adoption into the Statement of Financial Accounting Standards (PSAK). The research will be carried out using secondary data sourced from annual reports and financial reports issued by IDX issuers.

2. Population and sample

The sample was selected using the purposive sampling method. The selection of observation periods from 2013 to 2017 was carried out to avoid the effects of IFRS adoption into the PSAK that was completed in 2012 and because the latest audit standards specifically related to GCO were effective from 1 January 2013. The research sample to be tested in regression is chosen by eliminating the companies that meet the following criteria:

a. companies listed on the IDX after 2012. This criterion is intended to ensure the availability of data for the calculation of variables needed in the analysis. Calculation of several variables requires data obtained from the audited financial statements of the previous year;

b. companies that do not disclose financial data needed in full. This criterion is intended to ensure the availability of data needed to calculate variable values at five years of observation;

c. companies that report net sales and/or net inventory worth 0 (zero). This criterion is intended to avoid distortion of the results of the analysis because of the outlier data;

b. company engaged in the financial sector. Companies engaged in the financial sector are excluded from the sample because they have different characteristics from other sector companies, which generally do not have inventories and accounts receivable.

3. RESEARCH MODEL

The first research model was used to analyze the influence of KAP reputation on audit quality that is proxied by using GCO, hereinafter referred to as the GCO Model. The GCO model equation is as follows:

\[ \text{GCO} = \beta_0 + \beta_1 \text{KAP Reputation} + \epsilon \]

where GCO is the going concern opinion, KAP Reputation is the reputation of the KAP, and \( \beta_0 \) and \( \beta_1 \) are the coefficients to be estimated.
To measure audit quality based on input of the audit process (DeFond & Zhang, 2014), this study uses one independent variable, namely the Going Concern Opinion (GCO) model. The GCO model uses a sample that includes companies from the non-financial sector, regardless of whether or not the company experiences financial distress. Restricting the sample only to companies that experience financial distress alone can lead to a reduction in the generalization of research (DeFond & Zhang, 2014). Barnes & Renart (2013) stated that at the time of the 2007-2009 global financial crisis, many small-size companies and material doubts about the survival of auditors could survive the financial crisis. Meanwhile, many large-scale public companies experienced sudden bankruptcy during the financial crisis, even though the financial report auditor stated that there were no problems related to business continuity in the previous year. On the other hand, conditions that require auditors to issue material doubts about the survival of the company are not limited to the existence of material uncertainties in financial conditions alone (Arens, Elder, & Beasley, 2014). Other conditions such as litigation that can disrupt company operations, losses due to uninsured disasters, loss of key customers are conditions that are outside indications of financial distress (Platt & Platt, 2006). Several previous studies related to audit quality using this proxy were carried out by Andriani & Nursiam (2018); Basioudis, Papakonstantinou, & Geiger, (2008); Boone, Khurana, & Raman, 2010; Ryu & Roh (2007). GCO was applied as a dummy variable in this study. The sample will be worth 1 if the auditor issues a going concern statement on the financial statements or a value of 0 if the auditor does not issue a going concern statement on the financial statements.

b. Independent Variable

This study uses one independent variable, namely the reputation of KAP which is proxied in Big 4 or non-Big 4. This proxy has been widely used in previous studies (Pham, Duong, & Quang, 2017; Hartadi, 2012; Boone, Khurana, & Raman, 2010). Big 4 is assumed to have a positive reputation that is stronger than non-Big 4. The positive reputation of Big 4 is shown by the perception of investors that Big 4 provides audits with the superior quality compared to non-Big 4 (Boone, Khurana, & Raman, 2010) and the number of studies using audit classifications conducted by Big 4 and non-Big 4 as a proxy for audit quality. This proxy is a dummy variable that is worth 1 if the auditor of the company's financial statements is a KAP without affiliation with Big 4. A Big 4 affiliate, or worth 0 if the auditor's financial statements are KAP with a Big 4 affiliate, or worth 0 if the auditor's financial statements are KAP without affiliation with Big 4. This proxy is a dummy variable that is worth 1 if the auditor of the company's financial statements is a KAP without affiliation with Big 4. A Big 4 affiliate, or worth 0 if the auditor's financial statements are KAP with a Big 4 affiliate, or worth 0 if the auditor's financial statements are KAP without affiliation with Big 4. This proxy has been widely used in previous studies (Pham, Duong, & Quang, 2017; Hartadi, 2012; Boone, Khurana, & Raman, 2010).

c. Control Variable

This study uses one dependent variable, namely audit quality. Research in the audit field generally measures audit quality in two ways, based on the audit process output and based on the input of the audit process (DeFond & Zhang, 2014). Audit quality measurement based on the audit process output can be done by observing the opinions issued by the auditor and the quality of the audit client's financial statements. Audit quality measurement based on the audit process output can be done by observing the size of KAP and audit costs. Several proxies can be used to measure audit quality. The four most common proxies used to measure audit quality and present each of the advantages and disadvantages are a material misstatement, auditor communication, financial reporting quality characteristics, and perceptual based measurements (DeFond & Zhang, 2014). In this study, the audit quality proxy that will be used is auditor communication and financial reporting quality characteristics. Auditor communication as a proxy for audit quality is operated by looking at the auditor's tendency to issue a going concern opinion. The GCO is used by auditors to communicate material uncertainties related to the continuity of the audit client's business to shareholders (DeFond & Zhang, 2014). When the auditor concludes that there is material uncertainty about the business continuity of the audit client, the auditor must state this in a special paragraph in the independent auditor's report, without regard to disclosures related to the doubtful conditions in the financial statements (Arens, Elder, & Beasley, 2014).
This study uses several control variables to measure audit quality. Control variables are variables that are controlled or made constant, so those independent variables can influence the dependent variable without being influenced by other factors not examined (Sugiyono, 2012). This study will examine the relationship between KAP reputation and audit quality with the GCO proxy (GCO Model). The control variables used in the GCO Model are AUDCHG, SIZE, LEV, LOSS, AGE, CURR, INVEST, CFTA, and YEARDUM. AUDCHG is a dummy variable that is worth 1 if there is an auditor change from the previous period, and is worth 0 if there is no change in the auditor. Chan et al., (2006) found that auditor turnover positively and significantly affected the audit opinion issued by the auditor. SIZE is measured using the natural logarithm of the total audit client assets. The larger the size of the company, the greater the company's ability to maintain the sustainability of its business, because of the availability of sufficient capital and the existence of market share (Boone, Khurana, & Raman, 2010). LEV and LOSS are controlled because companies that are in financial distress tend to get GCO from auditors (Boone, Khurana, & Raman, 2010). LEV is measured by dividing the audit client's long-term debt with total assets. The LOSS is a dummy variable that is worth 1 if the audit client records a net income that is negative or worth 0 if the audit client records positive net income. AGE is measured by counting the years since the company was established until the audit year. Boone, Khurana, & Raman (2010) state that companies with a relatively young age are more likely to go bankrupt. Companies with a high current ratio (CURR) have several current assets that are greater than their current liabilities, so they have no difficulty in fulfilling their short-term liabilities. Ryu & Roh (2007) found that companies with a low current ratio were more likely to not get GCO from auditors. Likewise with INVEST and CFTA. The greater the company's ability to increase the amount of cash and/or cash flow from operating activities, the lower the risk of default. Boone, Khurana, & Raman (2010) found that companies with large investment values and cash flows from operating activities were more likely to not get GCO from auditors. YEARDUM is a control variable used to control differences in the timing of events regarding audit quality or audit costs that occur during the year of the study period.

5. ANALYSIS TECHNIQUES
The first step taken in testing the GCO Model is to do descriptive statistical analysis to present a picture of the processed data so that it is more easily understood and explored. After that, the GCO Model test was analyzed using logistic regression analysis. In addition to conducting descriptive statistical analysis, Widarjono (2010) explains that there are three stages in evaluating the results of logistic regression, namely:
1) Test overall model fit
2) Test the goodness of the regression model (goodness of fit)
3) Test the significance of the parameters individually.

6. RESULT OF SAMPLE SELECTION
This study uses a purposive sampling method in selecting samples from all companies listed on the IDX. With this method, the sample that will be used for analysis is a sample that meets the criteria for determining the sample set. Based on data per February 2019, there are 625 companies listed on the IDX. The first criteria for selecting samples are companies that have been listed on the IDX or have carried out an initial public offering (IPO) on the IDX in 2012. The selection of these criteria is done because the calculation of several variables used in this study used the previous year's data. This criterion eliminates 185 companies that conduct IPOs after 2012, leaving 440 sample companies. The second sample selection criteria is a company whose annual reports and/or financial statements cannot be obtained or can be obtained, but the required data cannot be extracted because of an error in the file. This criterion eliminates 29 companies, leaving 411 sample companies. The third sample selection criteria is a company that reports net sales value and/or net inventory of 0 (zero) in the observation period. This criterion needs to be applied because data obtained from companies with these criteria have anomalies which can lead to bias in the analysis. This criterion eliminates 13 companies, leaving 398 sample companies. The fourth sample selection criteria is a company engaged in the financial sector. This criterion eliminated 66 companies, leaving 332 sample companies. The GCO model uses 332 selected samples with an observation period of five years so that it has a total of 1,660 observations. A summary of the sample selection criteria is presented in Table 1.

### Table 1
Selection of Research Samples

<table>
<thead>
<tr>
<th>No</th>
<th>Criteria</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Companies listed on the IDX as of February 2019</td>
<td>625</td>
</tr>
<tr>
<td>B</td>
<td>Companies listed on the IDX after 2012</td>
<td>185</td>
</tr>
<tr>
<td>C</td>
<td>Companies whose financial statements and/or annual reports cannot be obtained</td>
<td>29</td>
</tr>
<tr>
<td>D</td>
<td>Companies with incomplete financial data</td>
<td>13</td>
</tr>
<tr>
<td>E</td>
<td>Companies engaged in the financial sector</td>
<td>66</td>
</tr>
<tr>
<td>F</td>
<td>Number of GCO Model samples</td>
<td>332</td>
</tr>
</tbody>
</table>


The GCO model was analyzed using logistic regression because the dependent variable, namely the going concern auditor opinion, is binary. The number of observations used in the GCO Model is 1,643 observations because seventeen observations are outliers which can cause the distribution of data to be biased. Observation of outliers released from the test, namely: ASII as many as five observations, because it has a very high SIZE value compared to the average of all observations; GLOB and TRIO are two observations, and MAIN is one observation, because it has a very high LEV value compared to the average of all observations; CKRA has two observations, because it has a very high CURR and INVEST value compared to the average of all observations; LPLI and INTD as many as one observation, because it has a very high CURR value compared to the average of all observations; and ADES one observation because it has an INVEST value that is very low compared to the average observation.
7 RESULT AND DISCUSSION

1. Descriptive Statistic Analysis
The dependent variable tested in the GCO Model research is GCO which is a proxy for audit quality. Table 2 shows that the minimum and maximum values of the GCO variables are 0 and 1. The GCO variable is worth 1 if the financial statements get a GCO, and are worth 0 if the auditor states there are no business continuity problems. Table 2 shows that the GCO variable has a mean value of 0.1028. This shows that 10.28% of 1,643 research observations received GCO from the auditor. In other words, most of the company’s financial statements in Indonesia did not experience substantial business continuity problems, so they did not receive the GCO from the auditor.

![Table 2: Descriptive Statistics of the GCO Research Model](image)

Source: processed from the sample company’s financial statements.

Based on the data in Table 2, it is known that as much as 40.41% of companies are research observations audited by Big 4. This shows that when viewed based on the number of audit clients, the number of Big 4 audit clients reaches more than 40% of non-financial companies registered in Indonesia stock exchange.

2. Overall Fit Model Test
Logistic regression testing in this study was carried out using the IBM SPSS 25 application. As discussed in the previous chapter, the first overall model fit test was carried out by looking at the likelihood ratio. The test is done by comparing the value of $-2 \cdot $ possible logarithms ($-2\log L$) between the regression models which only consist of constants (block 0) with the value of $-2\log L$ model which includes constants and independent variables (block 1). The minimum value of $-2\log L$ is 0, so if the value of $-2\log L$ is 0, then the model can be said to be perfect. Thus, the smaller the value of $-2\log L$, the better the model used. Table IV.15 shows that when regression uses only constants, the value of $-2\log L$ is 1,088,728. Whereas if the regression includes free variables, the value of $-2\log L$ drops to 742,780. Thus, it can be concluded that the research model used is better than the model that uses only constants and fit research models for further testing. Besides, the test results show that the GCO Model has a higher prediction accuracy than the value in block 0 which is already high.

![Table 4: Overall Fit Test Results and GCO Model Prediction Accuracy](image)

Source: processed from IBM SPSS 25 application.

The next test is to do an omnibus test on the model coefficient. Omnibus test was conducted to find out whether the tested model was better at capturing variations in the dependent variable than the block 0 model. Table 5 presents the results of the omnibus test on the first research model. Based on the data in Table 5, it can be seen that the research model is significantly better than the block 0 model regression. The chi-square value of 345,949 from $-2\log L$ 1,088,728 can be interpreted that the research model has a higher likelihood ratio of up to 31.77% compared to models that use only constants.

![Table 5: GCO Model Omnibus Test Results](image)

Source: processed from IBM SPSS 25 application.

The final overall model fit test is to test the Hosmer and Lemeshow. The Hosmer and Lemeshow tests are conducted to measure whether the predicted probability is in accordance with the observed probabilities (Widarjono,
2010). The test was carried out by looking at the chi-square distribution test. As presented in Table 6, the model in this study has a significance value of 0.860. Thus, the model has a significant value that is not significant, so the model accepts H0, i.e., there is no difference between the model and the data. Based on the results of the Hosmer and Lemeshow test, it can be concluded that the model used is fit for regression.

Table 6
Hosmer and Lemeshow GCO Test Results

<table>
<thead>
<tr>
<th>Step</th>
<th>Chi-square</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3,964</td>
<td>8</td>
<td>0.860</td>
</tr>
</tbody>
</table>

Source: processed from IBM SPSS 25 application

3. Test of Goodness of Fit Model
The goodness of fit model test was carried out by looking at Cox & Snell r-squared coefficients and Nagelkerke r-squared coefficients. Cox & Snell r-squared is a measure that tries to mimic the size of r-squared in multiple regression based on the likelihood estimation technique with a maximum value of less than 1 (one), making it difficult to interpret (Ghozali & Ratmono, 2017). Instead, the interpretation can be based on the correlation matrix between independent variables in the GCO Model. Based on the results of the Hosmer and Lemeshow test, it can be concluded that the model used is fit for regression.

Table 7
GCO Model Goodness of Fit Test Results

<table>
<thead>
<tr>
<th>Step</th>
<th>-2LogL</th>
<th>Cox &amp; Snell R-square</th>
<th>Nagelkerke R-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>742,780</td>
<td>0.190</td>
<td>0.392</td>
</tr>
</tbody>
</table>

Source: processed from IBM SPSS 25 application

4. Non-Multicollinearity Variable Assumption Test
The assumption of non-multicollinearity assumptions is done to ensure that the independent variables used in the research model do not have a high or perfect correlation with each other. Multicollinearity detection test can be done by observing the correlation matrix between independent variables. Table 8 presents data on the correlation between independent variables in the GCO Model. Based on the data in Table 8 it can be seen that the highest correlation relationship occurs between SIZE variables with BIG 4 variables with a correlation value of -0.262, so it can be concluded that the independent variables in this study did not have multicollinearity problems.

Table 8
GCO Model Correlation Matrix

<table>
<thead>
<tr>
<th>BI</th>
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<tr>
<td>G</td>
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<tr>
<td>4</td>
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</table>

<table>
<thead>
<tr>
<th>AUD</th>
<th>CHG</th>
<th>SIZ</th>
<th>E</th>
<th>LE</th>
<th>LO</th>
<th>AG</th>
<th>E</th>
<th>RR</th>
<th>EST</th>
<th>CF</th>
<th>TA</th>
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<tbody>
<tr>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.07</td>
<td>-</td>
<td>0.0</td>
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</tr>
<tr>
<td>0.0</td>
<td>0.028</td>
<td>0.2</td>
<td>48</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>5</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</table>

5. Test for Parameter Significance Individual
Partial significance tests in logistic regression pay attention to the logistic regression coefficient Exp (B) to determine the odds ratio. Odds ratio can be defined as the magnitude of the possibility of changes in the independent variable resulting in changes to the dependent variable. Table 9 presents the GCO Model logistic regression results. As explained earlier, to overcome the problem of endogeneity that occurs because of the company's selection bias in selecting financial statement auditors, this study conducted a regression using matched samples. Selection of matched samples is done by matching the value of the propensity score or the match value of each observation. Observations that do not have a partner are eliminated from research observations, so regression only involves observations that have the same level of compatibility. The selection of matched samples resulted in a reduction in the number of observations from 1,643 to 981 observations. The first hypothesis of this study is to examine the influence of KAP reputation on audit quality. The null hypothesis and the alternative hypothesis proposed are as follows: H0: Reputation of KAP does not significantly affect audit quality; H1: Reputation of KAP influences audit quality significantly. To find out whether the reputation of a KAP influences audit quality significantly, it is necessary to look at the effect of reputation variable KAP (BIG 4) on audit quality (GCO) through its significance value in the research model. Based on the data in Table 9, it is known that the BIG 4 variable has a B coefficient of -1.376, the coefficient of Exp (B) is 0.253, and the significance value is 0.000. The significance value is smaller than the α value of 0.05, so it can be concluded that the Big 4 variable negatively and significantly affects the decision to give GCO with an odds ratio of 0.253.

Table 9
Results of Logistic Regression Model GCO Variables

<table>
<thead>
<tr>
<th></th>
<th>Full sample (n=1.643)</th>
<th>Matched sample (n=981)</th>
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<tbody>
<tr>
<td></td>
<td>B</td>
<td>Sig.</td>
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<td></td>
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<tr>
<td>Notion</td>
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</table>

Source: processed from IBM SPSS 25 application
Testing using matched samples shows results that are not much different. In testing using matched samples, the BIG 4 variable has a B coefficient value of -1,497, the coefficient of Exp (B) is 0.225, and the significance value is 0.000. Thus, it can be concluded that in testing using a matched sample, KAP reputation negatively and significantly affected the decision to give GCO with an odds ratio of 0.224. Thus, both testing with full sample and matched sample yield the same conclusion, that is, companies audited by Big 4 are statistically less likely to get GCO. Control variables in the research model that significantly influence the likelihood of receiving GCO based on regression tests with full samples are LEV, LOSS, CURR, INVEST, and CFTA. All variables that influence significantly have the direction of influence according to predictions. Meanwhile, AUDCHG, SIZE, and AGE proved to have no significant effect on the possibility of receiving GCO. The LEV variable affects the GCO variable positively and significantly at the 0.01 significance level and the odds ratio of 5.398. These results can be interpreted that an increase of 1 (one) unit leverage ratio will increase the likelihood ratio of receiving GCO by a factor of 5.398 times. LOSS variables affect the GCO variable negatively and is significant at the 0.01 significance level and the odds ratio of 0.114. These results can be interpreted that an increase of 1 (one) unit investment ratio of the company will reduce the likelihood ratio of receiving GCO by a factor of 0.114 times. Both results are in line with the results of a study conducted by Boone, Khurana, & Raman (2010) which found that companies with lower current assets are more likely to receive GCO. This can be caused by the low current ratio that illustrates the company's weak ability to generate cash, and can cause difficulties in fulfilling its short-term liabilities. The CFTA variable affects the GCO variable negatively and significantly at the 0.01 significance level and the odds ratio of 0.026. These results can be interpreted that an increase of 1 (one) unit of cash flow ratio from operational activities to total assets will decrease the likelihood ratio of receiving GCO by a factor of 0.026 times. These results are in line with the results of a study by Boone, Khurana, & Raman (2010) which found that companies with lower levels of cash flow from operating activities were more likely to receive GCO. This can be caused by companies with the ability to generate weak cash flows from operational activities that have a higher risk of difficulties in meeting their short-term liabilities.

### 6. Discussion of the Reputation Effect of KAP on GCO

One of the assumptions used in the presentation of financial statements is the business continuity assumption. The company is assumed to carry out operational activities up to an unspecified time unless the company is indeed established with the intention of being liquidated or terminated at a certain time. In addition to paying attention to the fairness of the application of generally accepted accounting standards in the audit client's financial statements, the auditor checks whether the company has prepared financial statements based on business continuity assumptions appropriately (Indonesian Public Accountants Association, 2018). In other words, the auditor tests the results of management's assessment regarding the use of business continuity assumptions in the preparation of financial statements. SA 570 concerning Business Continuity states that the auditor is responsible for obtaining sufficient and appropriate audit evidence regarding the accuracy of the use of business continuity assumptions by management in preparing and presenting financial statements, and concluding whether there is material uncertainty about the entity's ability to sustain its business. If the auditor obtains sufficient and appropriate evidence regarding the existence of material uncertainty in the presentation of financial statements, SA 570 requires the auditor to communicate it to shareholders through an independent auditor's report. GCO is not a form of audit opinion. In the event that management has disclosed the existence of material uncertainty adequately in the financial statements, the auditor can still provide fair opinions without modification by providing explanatory paragraphs or emphasis on the existence of such material uncertainty. However, in the event that disclosures made by management in financial statements are inadequate, SA 570 requires the auditor to express a fair opinion with modification or improper opinion. The auditor's decision to provide GCO or not is fully done subjectively based on the auditor's professional judgment. The auditor provides an opinion based on sufficient and appropriate evidence, but...
the adequacy and accuracy of the evidence to reveal the existence of material uncertainty is also something that is also done based on the professional judgment of the auditor. On the other hand, GCO can be detrimental to management because it can lead to losses such as decreasing stock prices (Jones FL, 1996), difficulties in finding loans (Firth, 1980), even accelerating bankruptcy (Mutchler, 1986; Hopwood, McKeown, & Mutchler 1989), so that management has an incentive to avoid any conditions that as much as possible suggests problems related to business continuity assumptions. One of the things that management can do to get a favorable opinion is to put pressure on the auditor (Barnes & Renart, 2013). This pressure can be especially massive when auditors come from relatively small KAPs that carry out audits of companies with very large size and/or influence. The large company can use its influence to put pressure on the auditor to provide an opinion that benefits management so that the auditor is not independent in conducting audits. The auditor’s ability to provide GCO when there is material uncertainty related to the business continuity of the audit client is evidence that the auditor is independent in conducting the audit. Auditor independence is one indicator of quality audit (Indonesian Institute of Certified Public Accountants, 2018). The results of the GCO Model testing of this study found that the reputation of the KAP influenced the decision to give GCO negatively and significantly. Testing using matched samples to handle selection bias problems also shows similar results. The regression results support the statement that the Big 4 KAP is more likely not to give GCO to the audited company. These findings indicate that on average, audits conducted by Big 4 in Indonesia do not have a higher level of independence compared to non-Big 4 KAPs. On the other hand, this shows that non-Big 4 KAPs have good independence in conducting audits, even with sizes not as big as Big 4 and/or when auditing companies with a large influence, such as BUMI, INKP, WSKT, LPKR, and BHIT. In other words, despite the perception in the eyes of investors that Big 4 provides superior quality audits, the results of this study prove that non-Big 4s provide audits that are not inferior to the Big 4. The results of the GCO Model testing of this study are in line with the results of research by Ryu & Roh (2007). They found that Big 4s were more likely not to give GCO. This can occur because Big 4 has a higher level of materiality compared to non-Big 4 (Messier, 1983). The results of the study which show that Big 4 are more likely to not give GCO can also occur because based on descriptive statistics described in the previous sub-chapter, companies audited by Big 4 have better financial and operational conditions than companies audited by non-Big 4. This condition is indicated by the following characteristics: i) greater average total assets (SIZE); ii) average assets greater than long-term debt (LEV); iii) better average operating period (LOSS); and iv) better average ability to generate cash flow (CFTA). The statement is supported by regression results which show that: i) LEV has a positive and significant effect on GCO; ii) LOSS has a positive and significant effect on GCO; iii) CFTA has a negative and significant effect on GCO. In other words, a company with a high total long-term debt, low total assets, a condition of loss in the current period, and the ability to generate cash flows from low operational activities are more likely to obtain GCO. The results of the GCO Model test must be carefully interpreted. Based on descriptive statistical analysis in the previous sub-chapter, Big 4’s tendency not to provide GCO cannot be directly interpreted that non-Big 4 provides higher quality audits. Even though on average the companies audited by Big 4 are more likely not to accept GCO, the decision could be due to the financial condition of Big 4 audit clients who on average are better than non-Big 4 audit clients, and variables - these variables significantly influence the decision to give GCO.

8 CONCLUSION, LIMITATIONS, AND CONTRIBUTIONS

1. Conclusion
Based on the results of the discussion above, it can be concluded that KAP with a strong reputation does not provide superior quality audits compared to KAP with a weaker reputation. The results of the GCO Model test show that the reputation of the KAP has a negative and significant effect on the tendency to provide GCO. In other words, KAPs with a strong reputation is more likely not to give GCO than KAP with a weaker reputation. The results need to be interpreted carefully because it is more likely not to provide a GCO does not mean that the auditor is not independent in conducting the audit. At least two guesses can explain the results. The first guess is that KAP with a strong reputation will have a high level of materiality assessment compared to non-Big 4 (Messier, 1983). The second guess is that the Big 4 audit client has an average financial condition that is better than non-Big 4. This is indicated by the results of descriptive statistical analysis which shows that the Big 4 audit client has an average level of materiality (SIZE ) greater, lower bankruptcy risk (LEV and LOSS), and better ability to generate cash flow from operations (CFTA). These variables other than SIZE proved to have a significant influence with the possibility of receiving GCO. On the other hand, the results of the GCO Model study show that KAPs with a weaker reputation are more likely to give GCO to their audit clients. The results of descriptive statistical analysis show that non-Big 4 audit clients have financial conditions that are on average not better than Big 4 audit clients, so the tendency to provide GCO is a positive signal. Although non-Big 4 has a size that is much different from Big 4, non-Big 4 can still maintain its independence when conducting audits. In fact, non-Big 4 also conduct audits of companies with a large size and influence.

2. Limitations
The dependent variable in the GCO Model in this study is GCO which proves the auditor’s independence in conducting audits. Auditor independence is one of the important aspects in a quality audit. However, the method of interpretation of the GCO regression results must be done carefully. KAP that issues GCO does not mean that the KAP has strong independence in conducting audits. Another possibility is that auditors are too conservative in conducting audits, thus influencing decisions taken based on professional judgment. Auditors who are too conservative show that the auditor is not merely conducting an audit for the benefit of the shareholders, but it is bringing the interests of KAP as a business entity that engages in
audit services with clients. On the other hand, the tendency not to give GCO does not mean that KAP has weak independence. Another possibility that can explain these results is because the audit client has a strong financial base and has no litigation problems. This study does not include companies engaged in the financial sector as a sample, because companies engaged in the sector generally do not have inventory and accounts receivable.

3. Contributions
After examining the influence of KAP reputation on audit quality, some suggestions that can be given are as follows:

a. Share Further Research
1) Further research can use independent variables that proxies litigation risk faced by audit clients as a factor in providing GCO, such as the level of disclosure in financial statements. As explained in the previous chapter, the decision to give a GCO can be due to substantial doubts about financial factors, such as consecutive losses, and working capital deficiencies. In addition, substantial doubts can also be caused by legal issues involving audit clients, such as the demand to stop the company’s operations due to alleged violations of the law.

2) Further research can use other KAP reputation proxies, such as comparing between Big 4 and KAP which are included in the second-tier KAP classification. Testing with the proxy is expected to provide answers to the question of whether second-tier accounting firms can be a good alternative to Big 4, to increase the level of competition in the audit services market in Indonesia.

b. For Shareholders
The results of the GCO Model analysis show that non-Big 4 accounting firms have good independence in conducting audits.

9 REFERENCES


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