

How to Cite:

Astawa, I. M., Rasmini, N. K., Mimba, N. P. S. H., & Dewi, L. G. K. (2026). Determinants of audit quality: The moderating role of audit committee effectiveness. *Tennessee Research International of Social Sciences*, 8(2), 218–236. Retrieved from <https://triss.org/index.php/journal/article/view/177>

Determinants of audit quality: The moderating role of audit committee effectiveness

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Abstract---This study examines the effects of audit tenure, auditor rotation, audit fees, and managerial entrenchment on audit quality and investigates whether audit committee effectiveness moderates these relationships. The study focuses on Consumer Non-Cyclicals firms listed on the Indonesia Stock Exchange during 2020–2024. Using purposive sampling, 21 firms were selected, resulting in 105 firm-year observations. Secondary data were collected from annual reports, audited financial statements, and corporate governance reports. Audit quality was proxied by discretionary accruals estimated using the Modified Jones Model and transformed using $-\ln(|DA|)$, whereby higher values indicate higher audit quality. The hypotheses were tested using Moderated Regression Analysis on panel data with the Correlated Random Effects/Mundlak approach in STATA 19. The results show that audit tenure and managerial entrenchment have no significant effect on audit quality, whereas auditor rotation and audit fees have significant negative effects. Audit committee effectiveness weakens the negative association between auditor rotation and audit quality, suggesting that effective audit committees may mitigate the



potential disruption associated with auditor changes. In contrast, audit committee effectiveness strengthens the negative association between audit fees and audit quality. No significant moderating effects are found for audit tenure or managerial entrenchment. These findings demonstrate that the governance role of audit committees is contingent on the specific determinant of audit quality rather than uniformly beneficial across audit-related conditions. The study contributes to the audit quality and corporate governance literature by providing evidence from an emerging-market setting that audit committee effectiveness may generate asymmetric moderating effects. The findings highlight the importance of substantive audit committee oversight, particularly in auditor rotation decisions and the assessment of professional audit fees.

Keywords---audit quality, audit tenure, auditor rotation, audit fees, managerial entrenchment, audit committee effectiveness.

Introduction

Audit quality plays an important role in ensuring the credibility of financial reporting and strengthening stakeholders' confidence in corporate information. As capital markets develop, investors, creditors, regulators, and other stakeholders increasingly rely on financial statements as a basis for economic decision-making. However, because financial information is prepared by management, it may not always fully represent a firm's underlying economic condition. Independent external auditing therefore serves as an important monitoring mechanism for enhancing the reliability of financial reporting. DeAngelo (1981) defines audit quality as the joint probability that an auditor detects and reports a breach in a client's accounting system. High-quality audits can reduce information asymmetry and enhance the credibility of financial statements, whereas poor audit quality may undermine users' confidence and increase the risk of inappropriate economic decisions (Houqe, 2017).

The importance of audit quality can be explained from an agency perspective. Agency Theory suggests that conflicts arise because managers, as agents, generally possess more information than shareholders, as principals, creating opportunities for opportunistic behavior such as earnings management or information concealment (Jensen & Meckling, 1976). External auditors are therefore expected to reduce agency problems by providing independent assurance over financial reports. From a signaling perspective, audited financial statements may also serve as a positive signal to the market regarding the credibility of corporate information and the quality of corporate governance (Spence, 1973). These monitoring and signaling functions are particularly relevant in emerging markets such as Indonesia, where corporate ownership is often concentrated among families or business groups. Concentrated ownership may intensify conflicts between controlling and minority shareholders and increase the potential for expropriation, thereby increasing the demand for effective monitoring and high-quality external auditing (Anafiah et al., 2017; Utami & Diyanty, 2015).

This issue is particularly relevant for firms in the Consumer Non-Cyclicals sector. These firms provide essential goods and services, including food and beverages, pharmaceuticals, and household products, and therefore tend to face relatively stable demand. Nevertheless, during the 2020–2024 period, firms operated under substantial economic pressures arising from the COVID-19 pandemic, global inflation, increases in input prices, and supply-chain disruptions. Such conditions may increase managerial pressure to maintain reported performance and potentially increase incentives for earnings management. At the same time, the increasing number of publicly listed firms in this sector reinforces the importance of reliable auditing in protecting investors and other stakeholders. In the context of concentrated ownership, audit quality also becomes important in limiting the ability of controlling shareholders to influence financial reporting for private benefits.

Prior research has identified several factors that may influence audit quality, including audit tenure, auditor rotation, audit fees, and managerial entrenchment. Audit tenure may enhance audit quality because longer auditor–client relationships allow auditors to develop greater client-specific knowledge and a deeper understanding of business risks (Jادیappa et al., 2021; Ramesh & Kamath, 2022). However, extended tenure may also create familiarity threats that weaken auditor independence and professional skepticism (Paputungan & Kaluge, 2018). Auditor rotation is intended to mitigate such risks by periodically introducing a new auditor who may provide a more independent and skeptical perspective (Kim & Xi, 2021). Nevertheless, newly appointed auditors require time to acquire sufficient knowledge of the client’s operations and internal environment, which may create transition costs and potentially reduce audit effectiveness in the early stages of the engagement (Martani et al., 2021).

Economic incentives may also affect audit quality. Higher audit fees can enable auditors to allocate more resources, conduct more extensive procedures, and deploy more experienced personnel, thereby potentially improving audit quality (Yefni & Sari, 2021). Conversely, unusually high fees may increase auditors’ economic dependence on important clients and potentially compromise independence. Audit quality may also be influenced by the ownership structure through the entrenchment effect. Managerial or controlling-shareholder entrenchment occurs when parties with substantial control are able to influence corporate decisions in ways that may protect their private interests at the expense of minority shareholders (Tahir et al., 2020). In such circumstances, controlling shareholders may either prefer lower-quality auditors to reduce external scrutiny or appoint reputable auditors to signal credibility and alleviate concerns among outside investors (Utami & Diyanty, 2015). These competing mechanisms suggest that the relationship between entrenchment and audit quality is not necessarily unidirectional.

Empirical findings concerning these determinants remain inconclusive. Audit tenure has been reported to positively affect audit quality (Jادیappa et al., 2021; Martani et al., 2021; Ramesh, 2022), while other studies report different or insignificant results (Paputungan & Kaluge, 2018; Sabandar et al., 2024; Sari et al., 2021; Suwarno et al., 2020; Mauliana & Laksito, 2021). Similar inconsistencies are found for auditor rotation. Kim and Xi (2021) and Ramantha

(2020) document a positive association, whereas Suwarno et al. (2020), Nursiam et al. (2021), Sari et al. (2021), and Yefni and Sari (2021) find no significant effect. Evidence regarding audit fees is also mixed. Positive relationships are reported by Ramesh (2022), Sari et al. (2019), Suwarno et al. (2020), and Yefni and Sari (2021), whereas Corbella et al. (2015) document a negative relationship and Setyawati and Apandi (2019) and Mauliana and Laksito (2021) report no significant association. Likewise, Tahir et al. (2020) and Utami and Diyanty (2015) find a negative relationship between entrenchment and audit quality, while Anafiah et al. (2017) and Stefhany et al. (2023) provide evidence of a positive relationship. These mixed findings indicate that the effects of auditor–client relationships, economic incentives, and ownership-related agency conflicts on audit quality may depend on the governance environment in which these mechanisms operate.

One governance mechanism that may help explain these inconsistent relationships is audit committee effectiveness. An effective audit committee, reflected in attributes such as independence, financial expertise, committee size, and meeting frequency, is expected to strengthen oversight of financial reporting and external auditing. Rather than affecting audit quality only directly, audit committee effectiveness may alter the extent to which auditor characteristics, economic dependence, and ownership-related agency conflicts influence audit outcomes. Accordingly, audit committee effectiveness can be considered a moderating governance mechanism in the relationship between audit characteristics and audit quality (Tabsyir, 2025).

This study therefore examines the effects of audit tenure, auditor rotation, audit fees, and entrenchment on audit quality and investigates whether audit committee effectiveness moderates these relationships among Consumer Non-Cyclicals firms listed on the Indonesia Stock Exchange during 2020–2024. The study contributes to the literature in three ways. First, it integrates auditor–client relationship characteristics, economic incentives, and ownership-related agency conflicts within a single empirical model of audit quality. Second, it examines whether audit committee effectiveness operates as a contingent governance mechanism rather than assuming that its influence on audit quality is uniformly beneficial. Third, it provides evidence from Indonesian Consumer Non-Cyclicals firms, a setting characterized by concentrated ownership structures and substantial economic pressures during the observation period. By doing so, the study provides a more comprehensive understanding of how external audit characteristics and internal governance mechanisms jointly shape audit quality in an emerging-market context.

Literature Review and Hypothesis Development

Audit tenure refers to the length of the engagement between an auditor or audit firm and its client. From an agency theory perspective, a longer auditor–client relationship may strengthen the auditor’s monitoring role because accumulated client-specific knowledge improves the auditor’s understanding of business operations, accounting systems, internal controls, and firm-specific risks. This greater familiarity may enhance the auditor’s ability to identify material misstatements and constrain opportunistic financial reporting, thereby improving

audit quality. Prior studies provide evidence that longer audit tenure is positively associated with audit quality because auditors become more effective as their knowledge of the client increases (Auzar et al., 2020; Kumalawati & Wibawa, 2025; Payne & Williamson, 2021; Ramesh, 2022; Sabandar et al., 2024; Sari et al., 2019). Accordingly, the following hypothesis is proposed:

H1: Audit tenure has a positive effect on audit quality.

Auditor rotation is intended to preserve auditor independence by periodically replacing the incumbent auditor; however, such changes may also reduce audit effectiveness because newly appointed auditors require time to acquire sufficient knowledge of the client's operations, internal controls, accounting policies, and business risks. Within agency theory, the external auditor acts as a monitoring mechanism that reduces information asymmetry and managerial opportunism, but this function depends partly on the auditor's understanding of the client. Frequent auditor changes may therefore create a learning period in which the new auditor has limited client-specific knowledge, increasing the risk of audit judgment errors and reducing the ability to detect material misstatements. Empirical evidence supports this argument, with Prasetya et al. (2016), Andriani and Nursiam (2018), and Martani et al. (2021) documenting a negative association between auditor rotation and audit quality. Therefore:

H2: Auditor rotation has a negative effect on audit quality.

Audit fees represent the compensation paid to external auditors for performing audit services and generally reflect engagement complexity, client risk, and the resources required to complete the audit (Suwarno et al., 2020). Although higher fees may support greater audit effort, excessively high fees may also create economic dependence between the auditor and the client. From an agency theory perspective, auditors must maintain independence and objectivity to perform their monitoring function effectively; however, when a substantial proportion of economic benefits is derived from a particular client, auditors may have stronger incentives to preserve the commercial relationship. Such economic bonding may weaken professional skepticism and increase the likelihood of accommodating management preferences, thereby reducing audit quality. Consistent with this argument, previous studies document a negative relationship between audit fees and audit quality (Corbella et al., 2015; Setyawati & Apandi, 2019; Houqe, 2017; Poretti et al., 2024). Thus:

H3: Audit fees have a negative effect on audit quality.

The entrenchment effect arises when controlling shareholders possess substantial control over corporate decisions and may use that power to pursue private benefits at the expense of minority shareholders. Under agency theory, such concentrated control creates agency conflicts between controlling and minority shareholders and increases the potential for related-party transactions, resource diversion, and financial reporting manipulation. At the same time, higher entrenchment may increase the need for credible monitoring because controlling shareholders may seek to reassure investors by appointing reputable auditors and signaling stronger governance practices. Stefhany et al. (2023) find that entrenchment is positively associated with audit quality, while Anafiah et al. (2017) suggest that stronger governance mechanisms may encourage controlling

shareholders to engage higher-quality auditors to enhance financial reporting credibility. Accordingly:

H4: The entrenchment effect has a positive effect on audit quality.

The positive effect of audit tenure on audit quality may depend on the effectiveness of the audit committee as an internal governance mechanism. While longer tenure enables auditors to accumulate client-specific knowledge, an effective audit committee can help ensure that this familiarity does not compromise auditor independence by monitoring the external audit process, evaluating auditor performance, and maintaining effective communication between the auditor and the company. From an agency perspective, this oversight strengthens the external auditor's monitoring function and allows the knowledge benefits associated with longer tenure to be utilized without increasing familiarity threats. Previous studies indicate that effective audit committees strengthen audit oversight and support auditor independence, thereby enhancing the benefits of audit tenure for audit quality (Anafiah et al., 2017; Martani et al., 2021; Sari & Rahmi, 2021; Utami & Diyanty, 2015). Therefore:

H5: Audit committee effectiveness strengthens the positive effect of audit tenure on audit quality.

Although auditor rotation may preserve independence, the transition to a new auditor can temporarily reduce audit quality because the incoming auditor has limited knowledge of the client. An effective audit committee may mitigate this transition risk by evaluating the competence of newly appointed auditors, facilitating access to relevant information, monitoring audit procedures, and maintaining continuity in oversight during the change in auditor. In agency theory terms, the audit committee serves as an internal monitoring mechanism that supports the external auditor in reducing information asymmetry and agency conflicts. Prior evidence suggests that governance mechanisms, including audit committees, can support audit quality and maintain auditor independence during audit engagements (Prasetia et al., 2016; Sari et al., 2021). Therefore, effective audit committees are expected to reduce the adverse effect of auditor changes on audit quality:

H6: Audit committee effectiveness weakens the negative effect of auditor rotation on audit quality.

Audit fees may capture both legitimate audit effort and economic dependence between the auditor and the client. While higher fees may reflect greater engagement complexity and resource allocation, unusually high fees may also increase economic bonding and threaten auditor independence. The effectiveness of the audit committee may make this relationship more apparent because an effective committee is expected to evaluate audit scope, client risk, resource requirements, and the reasonableness of auditor compensation. When high audit fees persist even under strong audit committee oversight, such fees may be more likely to reflect economic dependence rather than merely additional audit effort, thereby increasing the sensitivity of audit quality to the adverse effects of auditor-client economic ties. Consistent with evidence that audit fees may negatively affect audit quality (Meidawati & Assidiqi, 2019), the following hypothesis is proposed:

H7: Audit committee effectiveness strengthens the negative effect of audit fees on audit quality.

The agency conflicts created by the entrenchment of controlling shareholders increase the need for effective governance mechanisms that can safeguard the credibility of financial reporting. An effective audit committee, characterized by independence, financial expertise, adequate membership, and active oversight, can limit the ability of controlling shareholders to dominate the auditor-selection process and can strengthen communication between the company and the external auditor. Under high entrenchment, the audit committee may encourage the appointment of higher-quality auditors, ensure sufficient access to information, and protect auditors from restrictions or pressure imposed by dominant shareholders. Prior studies indicate that effective audit committees can enhance corporate governance, improve transparency, and support auditor independence in firms with concentrated ownership structures (Utami & Diyanty, 2015; Tahir et al., 2020; Boshnak, 2021; Anafiah et al., 2017). Therefore:

H8: Audit committee effectiveness strengthens the positive effect of the entrenchment effect on audit quality.

Methods

This study employs a quantitative research design using secondary panel data from Consumer Non-Cyclicals firms listed on the Indonesia Stock Exchange during the 2020–2024 period. From a population of 59 firms, purposive sampling resulted in 21 firms with complete data, yielding 105 firm-year observations. Data were collected from annual reports, audited financial statements, and corporate governance disclosures published by the respective companies and the Indonesia Stock Exchange. Audit quality was proxied by discretionary accruals estimated using the Modified Jones Model (Dechow, Sloan, & Sweeney, 1995) and transformed using $-\ln(|DA|)$, such that higher values indicate higher audit quality. Audit tenure was measured as the consecutive number of years the same audit firm audited a company; auditor rotation was measured using a dummy variable indicating a change in the signing audit partner; audit fees were proxied by the natural logarithm of professional fees; and the entrenchment effect was measured using a dummy variable identifying family-controlled firms based on ownership and managerial involvement criteria. Audit committee effectiveness was measured using an Audit Committee Effectiveness Index comprising independence, financial expertise, committee size, and meeting frequency, adapted from Boshnak (2021) and aligned with POJK No. 55/POJK.04/2015. The hypotheses were tested using Moderated Regression Analysis on panel data in STATA 19, with interaction terms between each independent variable and audit committee effectiveness. The final estimation employed the Correlated Random Effects/Mundlak approach to account for potential correlation between unobserved firm-specific effects and the explanatory variables.

Result and Discussion

Panel Data Model Selection

Panel data model selection was conducted using the Chow, Hausman, Breusch–Pagan Lagrange Multiplier (LM), and Mundlak tests. The results are presented in Table 1.

Table 1
Panel Data Model Selection

Test	Probability	Criterion	Decision
Chow Test	0.002285	$p < 0.05$	Fixed Effects Model is preferred to CEM
Hausman Test	0.355265	$p > 0.05$	Random Effects Model is preferred to FEM
LM Test	0.000833	$p < 0.05$	Random Effects Model is preferred to CEM
Mundlak Test	< 0.001	$p < 0.05$	Individual effects are correlated with explanatory variables; CRE/Mundlak is employed

Secondary Data, 2026

The conventional model-selection procedure initially favored the Random Effects Model. However, the Mundlak test produced a probability below 0.001, indicating that unobserved firm-specific effects were correlated with the explanatory variables. Therefore, the Correlated Random Effects (CRE)/Mundlak approach was used as the final estimation model (Mundlak, 1978; Wooldridge, 2010; Schunck, 2013). Firm-level cluster-robust standard errors were also applied to account for potential heteroskedasticity and within-firm residual correlation (Petersen, 2009; Cameron & Miller, 2015).

Diagnostic Tests

The normality tests showed that the residuals were not normally distributed, with a Skewness–Kurtosis test probability of 0.0038 and a Shapiro–Wilk probability of 0.00117. However, the final model employed cluster-robust standard errors to improve statistical inference in the presence of heteroskedasticity and within-firm residual dependence.

Table 2
Multicollinearity Test

Variable	Tolerance	VIF	Interpretation
Audit Tenure (X1)	0.044	22.61	Indication of multicollinearity
Auditor Rotation (X2)	0.748	1.34	No multicollinearity
Audit Fee (X3)	0.848	1.18	No multicollinearity
Entrenchment Effect (X4)	0.882	1.13	No multicollinearity
Audit Committee Effectiveness (ACE)	0.292	3.42	No multicollinearity

Secondary Data, 2026

Most variables have acceptable VIF values. Audit tenure is the exception, with a VIF of 22.61 and tolerance of 0.044. Therefore, the audit tenure coefficient should be interpreted cautiously because multicollinearity may increase its standard error and reduce estimation precision.

Table 3
Autocorrelation Test

Statistic	Value
F (1,20)	1.172
Prob > F	0.2918
Conclusion	No autocorrelation

Secondary Data, 2026

The Wooldridge test produced a probability of 0.2918, indicating no evidence of first-order autocorrelation.

Table 4
Heteroskedasticity Test

Test	Statistic	p-value	Conclusion
Breusch–Pagan/Cook–Weisberg pooled OLS	Chi-square = 11.29	0.5869	No heteroskedasticity in pooled OLS
Modified Wald Test on FEM	Chi-square = 36,407.19	< 0.001	Groupwise heteroskedasticity

Secondary Data, 2026

The Modified Wald test indicates the presence of groupwise heteroskedasticity across firms. Accordingly, firm-level cluster-robust standard errors were employed in the final CRE/Mundlak model.

Moderated Regression Analysis

The continuous variables of audit tenure, audit fees, and audit committee effectiveness were mean-centered before constructing the interaction terms. Therefore, the coefficients of the main effects represent their associations with audit quality when audit committee effectiveness is approximately at its sample mean.

Table 5
Moderated Regression Analysis

Variable	Coefficient	Robust SE	z-statistic	p-value
Audit Tenure (X1)	0.0423	0.2154	0.20	0.845
Auditor Rotation (X2)	-0.5543	0.2594	-2.14	0.033
Audit Fee (X3)	-0.3963	0.1234	-3.21	0.001
Entrenchment Effect (X4)	-0.8992	0.7494	-1.20	0.230
Audit Committee Effectiveness (Z)	-0.3858	2.2715	-0.17	0.865
Audit Tenure × ACE	-0.4062	1.2952	-0.31	0.754

Variable	Coefficient	Robust SE	z-statistic	p-value
Auditor Rotation × ACE	2.1958	0.9044	2.43	0.015
Audit Fee × ACE	-1.0504	0.4551	-2.31	0.021
Entrenchment Effect × ACE	-0.4347	1.7305	-0.25	0.802
Constant	9.8820	1.2551	7.87	< 0.001

Secondary Data, 2026

The estimated regression equation is:

$$AQ = 9.882 + 0.042X1 - 0.554X2 - 0.396X3 - 0.899X4 - 0.386Z - 0.406(X1 \times Z) + 2.196(X2 \times Z) - 1.050(X3 \times Z) - 0.435(X4 \times Z) + e$$

The results show that auditor rotation and audit fees have significant negative effects on audit quality, while audit tenure and the entrenchment effect are not statistically significant. Audit committee effectiveness has no significant direct effect on audit quality. Regarding the interaction effects, audit committee effectiveness significantly moderates the effects of auditor rotation and audit fees, but does not significantly moderate audit tenure or the entrenchment effect.

Table 6
Types of Moderation

No.	Statistical Result	Type of Moderation
1	β5 insignificant and β6 insignificant	Homologizer Moderator
2	β5 insignificant and β7 significant	Pure Moderator
3	β5 insignificant and β8 significant	Pure Moderator
4	β5 insignificant and β9 insignificant	Homologizer Moderator

Secondary Data, 2026

Audit committee effectiveness acts as a pure moderator in the relationships involving auditor rotation and audit fees, whereas its moderating role in the relationships involving audit tenure and entrenchment effect is not statistically supported.

Coefficient of Determination

Table 7
Coefficient of Determination

Indicator	Value
Number of Observations	105
Number of Firms	21
R-squared Within	0.1580
R-squared Between	0.4577
R-squared Overall	0.2730
Rho	0.2453

Secondary Data, 2026

The overall R-squared of 0.2730 indicates that the variables included in the model explain 27.30% of the variation in audit quality. The between R-squared of 45.77% is higher than the within R-squared of 15.80%, indicating that the model explains cross-sectional differences in audit quality across firms more effectively than changes occurring within the same firm over time.

Simultaneous Significance Test

Table 8
Simultaneous Significance Test

Test	Probability	Significance Level
Joint Test of Main and Interaction Effects	< 0.001	0.05

Secondary Data, 2026

The joint significance test is statistically significant at $p < 0.001$, indicating that the main effects and interaction terms collectively contribute to explaining variations in audit quality.

Hypothesis Testing and Discussion

Table 9
Partial Hypothesis Tests

Hypothesis	Variable	Coefficient	z-statistic	p-value	α	Significance
H1	Audit Tenure	0.0423	0.20	0.845	0.05	Not Significant
H2	Auditor Rotation	-0.5543	-2.14	0.033	0.05	Significant
H3	Audit Fee	-0.3963	-3.21	0.001	0.05	Significant
H4	Entrenchment Effect	-0.8992	-1.20	0.230	0.05	Not Significant
H5	Audit Tenure $\times$ ACE	-0.4062	-0.31	0.754	0.05	Not Significant
H6	Auditor Rotation $\times$ ACE	2.1958	2.43	0.015	0.05	Significant
H7	Audit Fee $\times$ ACE	-1.0504	-2.31	0.021	0.05	Significant
H8	Entrenchment Effect $\times$ ACE	-0.4347	-0.25	0.802	0.05	Not Significant

Secondary Data, 2026

Table 10
Summary of Hypothesis Testing

Hypothesis	Expected Direction	Coefficient	p-value	Decision
H1: Audit Tenure	Positive	0.0423	0.845	Not Supported
H2: Auditor Rotation	Negative	-0.5543	0.033	Supported

Hypothesis	Expected Direction	Coefficient	p-value	Decision
H3: Audit Fee	Negative	-0.3963	0.001	Supported
H4: Entrenchment Effect	Positive	-0.8992	0.230	Not Supported
H5: Audit Tenure × ACE	Positive	-0.4062	0.754	Not Supported
H6: Auditor Rotation × ACE	Positive	2.1958	0.015	Supported
H7: Audit Fee × ACE	Negative	-1.0504	0.021	Supported
H8: Entrenchment Effect × ACE	Positive	-0.4347	0.802	Not Supported

Secondary Data, 2026

Audit Tenure and Audit Quality

H1 predicted that audit tenure positively affects audit quality. The result shows a positive coefficient of 0.0423, but the relationship is statistically insignificant ($p = 0.845$); therefore, H1 is not supported. This finding suggests that a longer auditor–client relationship does not necessarily improve audit quality. From an agency theory perspective, longer tenure may improve client-specific knowledge and allow auditors to better understand the client’s transactions, controls, and audit risks. However, these benefits may be offset by familiarity threats and reduced auditor independence. These opposing mechanisms can explain the insignificant relationship. The relatively high VIF for audit tenure should also be considered, as it may reduce estimation precision. This finding is consistent with Martani et al. (2021), Suwarno et al. (2020), Sari and Rahmi (2021), Andriani and Nursiam (2018), and Sabandar et al. (2024), who also found no significant association between audit tenure and audit quality.

Auditor Rotation and Audit Quality

H2 is supported because auditor rotation has a negative and significant effect on audit quality ($\beta = -0.5543$; $p = 0.033$). This indicates that auditor changes are associated with lower audit quality when audit committee effectiveness is around its average level. Although rotation is intended to strengthen independence, newly appointed auditors require time to understand the client’s operations, accounting policies, internal controls, and specific audit risks. From an agency perspective, effective external monitoring depends not only on independence but also on sufficient client-specific knowledge. The loss of accumulated knowledge during the transition period may therefore outweigh the independence benefits of auditor rotation. This finding is consistent with Prasetya et al. (2016), Andriani and Nursiam (2018), Martani et al. (2021), and Tabsyir et al. (2025), who found that auditor rotation may reduce audit quality because newly appointed auditors require time to understand client characteristics.

Audit Fees and Audit Quality

H3 is supported, as audit fees have a negative and significant effect on audit quality ($\beta = -0.3963$; $p = 0.001$). This result suggests that higher fees may create economic bonding between auditors and clients. From an agency perspective,

such economic dependence may reduce auditor independence and professional skepticism because auditors face greater economic consequences if the client relationship is terminated. Consequently, auditors may become less willing to challenge aggressive accounting policies or discretionary reporting practices. This finding is consistent with Ramesh and Kamath (2022), Meidawati and Assidiqi (2019), Ananda and Faisal (2023), and Mohammed et al. (2018), who reported a negative relationship between audit fees and audit quality.

Entrenchment Effect and Audit Quality

H4 is not supported because the entrenchment effect has a negative but statistically insignificant coefficient ($\beta = -0.8992$; $p = 0.230$). This indicates that family-controlled firms do not systematically exhibit different audit quality from non-family firms after controlling for other factors. Agency theory provides two competing explanations. The alignment effect may encourage controlling families to preserve corporate reputation and demand credible external audits, whereas the entrenchment effect may reduce demand for external monitoring because dominant shareholders seek to maintain private benefits. These opposing mechanisms may offset each other. The negative direction is consistent with Tahir et al. (2020) and Guizani and Abdalkrim (2021), who found that family-controlled firms may have lower demand for high-quality audits. Hsu et al. (2018) also showed that the effects of family ownership depend on the configuration of control and cash-flow rights.

Moderating Effect of Audit Committee Effectiveness on Audit Tenure

H5 is not supported because the interaction between audit tenure and ACE is not statistically significant ($\beta = -0.4062$; $p = 0.754$). Thus, audit committee effectiveness does not strengthen the effect of audit tenure on audit quality. Although agency theory suggests that an effective audit committee should preserve auditor independence while allowing the benefits of client-specific knowledge to accumulate, the formal characteristics captured by the ACE index may not fully reflect substantive monitoring quality. Limited variation in ACE across firms may also reduce the model's ability to detect a moderating effect. The finding is consistent with Manurung et al. (2018), who found that the interaction between audit tenure and the audit committee did not significantly affect audit quality, and with Haruna et al. (2022), who showed that formal audit committee characteristics do not necessarily translate into stronger audit quality.

Moderating Effect of Audit Committee Effectiveness on Auditor Rotation

H6 is supported. The interaction between auditor rotation and ACE is positive and significant ($\beta = 2.1958$; $p = 0.015$), indicating that stronger audit committee effectiveness weakens the negative effect of auditor rotation on audit quality. An effective audit committee may facilitate information transfer, communicate key reporting risks, monitor audit procedures, and ensure that newly appointed auditors obtain sufficient access to relevant information. These mechanisms can reduce learning costs and the loss of client-specific knowledge during auditor transitions. The result is consistent with Amponsah et al. (2024), who found that stronger audit committees mitigate the negative effect of auditor rotation. Horton et al. (2021) and Fitriany et al. (2016) also emphasized the importance of audit documentation and knowledge transfer during auditor transitions.

Moderating Effect of Audit Committee Effectiveness on Audit Fees

H7 is supported because the interaction between audit fees and ACE is negative and significant ($\beta = -1.0504$; $p = 0.021$). This means that the negative association between audit fees and audit quality becomes stronger at higher levels of audit committee effectiveness. However, this result should not be interpreted as evidence that effective audit committees themselves reduce audit quality. In this study, audit fees are proxied by professional fees, which may include services beyond financial statement audits and may also reflect firm complexity, risk, and other professional services. Thus, at higher levels of audit committee oversight, large professional fees may more strongly reflect complexity, risk, or economic bonding rather than additional productive audit effort. This finding is conceptually consistent with Azizkhani et al. (2023), who found that positive abnormal audit fees are associated with lower audit quality, and with Ananda and Faisal (2023) and Meidawati and Assidiqi (2019), who reported negative associations between audit fees and audit quality.

Moderating Effect of Audit Committee Effectiveness on the Entrenchment Effect

H8 is not supported because the interaction between the entrenchment effect and ACE is negative and insignificant ($\beta = -0.4347$; $p = 0.802$). Therefore, audit committee effectiveness does not significantly alter the relationship between family control and audit quality. From an agency perspective, formal audit committee mechanisms may not be strong enough to counterbalance the influence of dominant controlling shareholders. Furthermore, the family-control dummy captures only the presence of family control rather than the intensity of entrenchment, such as differences between control rights and cash-flow rights or the degree of family involvement in management. Similarly, the ACE index primarily reflects formal audit committee characteristics rather than substantive oversight. The finding is consistent with Anafiah et al. (2017), Al-Okaily and Naueihed (2020), Hsu et al. (2018), and Pereira et al. (2023), which suggest that the effects of concentrated ownership on external auditing depend on the broader ownership and governance structure.

Conclusion

This study examines the effects of audit tenure, auditor rotation, audit fees, and the entrenchment effect on audit quality, as well as the moderating role of audit committee effectiveness among Consumer Non-Cyclicals firms listed on the Indonesia Stock Exchange during 2020–2024. The findings show that audit tenure and the entrenchment effect do not have a significant effect on audit quality, whereas auditor rotation and audit fees have significant negative effects. These results indicate that changes in auditors and stronger auditor–client economic ties may create conditions that reduce audit quality, particularly through the loss of client-specific knowledge during auditor transitions and the potential emergence of economic bonding between auditors and clients.

The moderating analysis further demonstrates that audit committee effectiveness does not operate uniformly across all determinants of audit quality. Audit committee effectiveness weakens the negative effect of auditor rotation on audit quality, suggesting that effective oversight can help reduce the transition costs

associated with auditor changes. In contrast, audit committee effectiveness strengthens the negative association between audit fees and audit quality. This finding indicates that high professional fees may reflect not only additional audit effort but also firm complexity, engagement risk, or auditor–client economic dependence, particularly when viewed within stronger governance structures. Audit committee effectiveness does not significantly moderate the relationships between audit tenure or the entrenchment effect and audit quality.

Overall, the findings highlight that audit quality is shaped by the interaction between external audit characteristics and internal governance mechanisms rather than by either mechanism independently. The study contributes to the audit quality literature by showing that audit committee effectiveness should be viewed as a contingent governance mechanism whose influence depends on the specific audit-related condition being examined. In the Indonesian emerging-market context, effective governance appears particularly important in managing auditor transitions, while the relationship between audit fees and audit quality remains more complex and requires careful interpretation.

Managerial Implications

The findings provide several practical implications for corporate management and audit committees. First, companies should not view auditor rotation merely as a regulatory or administrative requirement. Because auditor changes are associated with lower audit quality, firms should develop a structured transition process that ensures adequate transfer of client-specific knowledge from the outgoing auditor to the incoming auditor. This process should include comprehensive audit documentation, communication of significant accounting issues, identification of high-risk areas, unresolved audit findings, and coordination with internal audit and financial reporting functions.

Second, audit committees should take an active role during auditor transitions. Their involvement should extend beyond approving the appointment of a new auditor to monitoring the onboarding process, evaluating the competence and independence of the incoming auditor, facilitating access to relevant information, and ensuring that key audit risks are communicated effectively. The finding that audit committee effectiveness weakens the negative impact of auditor rotation suggests that substantive audit committee involvement can help preserve audit quality during periods of change.

Third, firms should evaluate audit fees based not only on their absolute amount but also on the underlying components and economic justification. High professional fees may reflect greater audit effort, but they may also indicate complex engagements, additional professional services, or stronger economic dependence between auditors and clients. Therefore, audit committees should assess the reasonableness of fees by considering audit scope, engagement complexity, risk exposure, hours worked, staffing requirements, and the proportion of non-audit services. Separating audit fees from other professional fees would also improve transparency and allow more accurate evaluation of auditor independence.

Fourth, the insignificant moderating effects found for audit tenure and the entrenchment effect suggest that formal compliance with audit committee requirements may not be sufficient to ensure effective governance. Companies should therefore emphasize the substantive quality of audit committee oversight, including the financial and industry expertise of members, the quality of discussions with external auditors, the ability to challenge management judgments, and follow-up on audit recommendations. Strengthening these substantive dimensions may be more important than merely fulfilling formal requirements related to committee composition, size, independence, and meeting frequency.

Finally, companies with concentrated or family ownership should strengthen governance mechanisms that protect minority shareholders and support auditor independence. Although family control is not found to have a significant direct effect on audit quality in this study, concentrated ownership may still create agency conflicts that require strong internal oversight. Independent audit committees, transparent auditor selection processes, and clear policies governing related-party transactions can help reduce the risk that controlling shareholders influence financial reporting or the external audit process.

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