

Exploring the Financial Performance on Audit Quality: Insights from Automotive Companies on the Indonesia Stock Exchange

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Abstract

Audit quality is a fundamental element in ensuring the credibility of financial statements, particularly in Indonesia's automotive industry. Although important, empirical evidence examining specific financial factors that influence audit quality remains limited, especially in the context of this industry. This study addresses this gap by examining the impact of key financial ratios namely Return on Assets (ROA), Return on Equity (ROE), Current Ratio (CR), and Debt to Equity Ratio (DER) on audit quality at automotive companies listed on the Indonesia Stock Exchange between 2021 and 2024. Using a quantitative approach and logistic regression analysis via SPSS, this study utilizes secondary data collected from annual reports and audited financial statements. This study employed a purposive sampling method and included 10 companies that met specific criteria such as currency usage, sector classification, and data availability. The findings indicate that among the four independent variables tested, only the Debt to Equity Ratio had a statistically significant effect on audit quality, with an odds ratio indicating a strong positive effect. Conversely, ROA, ROE, and CR did not show significant effects, likely due to multicollinearity or sample-specific limitations. These results suggest that high leverage increases the likelihood of improved audit quality, likely due to stricter oversight by auditors.

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Keywords: ROA, ROE, Current Ratio, Debt Equity Ratio, Audit Quality.

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1. Introduction

Audit quality, a cornerstone of financial reporting integrity, plays a crucial role in ensuring the reliability and credibility of financial statements, thereby fostering investor confidence and efficient capital allocation (Goenner, 2024). Audit quality can be viewed as the probability that an auditor will detect and report material misstatements or breaches in a client's accounting system (Amara et al., 2025). The automotive industry, a significant contributor to the Indonesian economy, is characterized by complex operations, substantial capital investments, and intricate financial structures, making it particularly susceptible to financial misstatements and requiring rigorous audit scrutiny (Tarigan & Juliogracia, 2024). The quality of an audit is highly trusted by users, because the audited financial statements and services are provided to them. Financial statements must meet several characteristics to function optimally in accordance with the purpose of their preparation (Fauziyah & Meirini, 2023)

Several factors can influence audit quality, including the auditor's competence, independence, and ethical standards, as well as the client's financial health and corporate governance practices. The motivation behind this is the relationship between audit quality and the provision of services (Akhori et al., 2023). Auditor competence encompasses the technical expertise, industry knowledge, and professional skepticism necessary to conduct a thorough and objective audit (Egbunike et al., 2023). Auditor independence, both in fact and in appearance, is paramount to ensuring unbiased judgment and preventing conflicts of interest. Ethical standards, as codified in professional codes of conduct, guide auditors' behavior and promote integrity, objectivity, and due care in the performance of their duties. This research delves into the impact of key financial ratios, namely Return on Assets, Return on Equity, Current Ratio, and Debt to Equity Ratio, on audit quality within Indonesian automotive companies listed on the Indonesia Stock Exchange during the period 2020-2024.

Financial ratios, such as Return on Assets, Return on Equity, Current Ratio, and Debt to Equity Ratio, provide valuable insights into a company's financial performance and risk profile, and may influence the scope and intensity of audit procedures (Sari et al., 2023). A high-quality external audit is expected to provide better-quality accounting information. These ratios can be influenced by internal factors, external factors, and various market conditions (Rose et al., 2022). Return on Assets measures a company's profitability relative to its total assets, indicating how efficiently management is utilizing assets to generate earnings.

2. Literature Review

2.1 Agency Theory

Jensen and Meckling's agency theory explains that there is a working relationship between agents (management) and principals (investors) and states that management as agents are required to provide reports on company performance to principals, namely investors as a form of agent accountability. The agent is the party given the task of managing funds and the authority to make decisions by the principal (Jensen & Meckling, 1976). However, differences in interests between agents and principals often occur in practice. The difference is based on the fact that principals and agents have their respective interests, namely, principals or shareholders want to maximise the benefits they will receive after the investment they make, while agents want to get large remuneration, facilities and incentives as feedback for the successful management and development of the company.

2.2 Audit Quality

Audit quality is a multifaceted concept encompassing various elements such as auditor competence, independence, and adherence to ethical standards (England, 2024). The goal of an audit is to assess the reliability and fairness of a company's financial statements (Hyatt et al., 2024). A high-quality audit enhances a firm's value and lowers debt cost. Higher audit quality can be defined as providing a greater assurance of high financial reporting quality. Auditors with extensive experience and specialized expertise are better equipped to identify and assess risks, detect material misstatements, and provide valuable insights to clients. Affiliation with international audit firms can enhance audit quality through access to global best practices, advanced technologies, and specialized expertise. The objectivity of the audit fundamentally relies on the independence of the audit team from the client's executives (Al-Hamadeen et al., 2021). In light of the importance of audit quality, it's imperative to continuously assess and improve audit practices to maintain the integrity of financial reporting and protect the interests of stakeholders (Johnson et al., 2023).

2.3 Return on Asset

Return on Assets serves as a crucial metric for evaluating a company's profitability relative to its total assets, offering insights into how efficiently management utilizes assets to generate earnings (Kautsar et al., 2023). Higher Return on Assets values may indicate stronger financial performance and reduced risk of financial distress, potentially leading auditors to perceive a lower audit risk and allocate fewer resources to the engagement. Conversely, lower Return on Assets values may signal financial difficulties and increased audit risk, prompting auditors to intensify their scrutiny and expand the scope of audit procedures. Auditors may be more likely to detect and report material misstatements when Return on Assets is low, as management may be under pressure to manipulate financial results to meet performance targets.

H1: Return on Asset has an effect on Audit Quality.

2.4 Return on Equity

The relationship between Return on Equity and audit quality is multifaceted, with influences flowing in both directions. As highlighted in the theory, a company's ROE can serve as an indicator of its overall performance and commitment to good governance, indirectly influencing audit quality. For instance, a company focused on improving ROE might prioritize sound corporate governance practices, leading to a more rigorous and effective audit (Hermansjah et al., 2021). Some studies even use ROE as a control variable when assessing audit quality, as the firm's performance, measured by ROE, can impact discretionary accruals, a proxy for audit quality (Mohapatra, 2022). Conversely, audit quality plays a crucial role in ensuring the reliability of financial information, including the reported ROE. Higher audit quality increases the integrity of financial reporting (Goddard & Schmidt, 2020), providing investors and stakeholders with a more accurate assessment of a company's performance (Abebe Zelalem et al., 2022). This is because audit quality is defined as the probability that an auditor will detect and report breaches in accounting practices, directly impacting the reliability of financial figures used to calculate ROE. Good corporate governance is essential to improve financial reporting through greater accountability.

H2: Return on Equity has an effect on Audit Quality.

2.5 Current Ratio

The Current Ratio assesses a company's ability to meet its short-term obligations with its current assets, providing insights into its liquidity position. A higher current ratio indicates a greater ability to meet short term obligations, potentially reducing the risk of financial distress and lowering audit risk (Egbunike et al., 2023). Conversely, a lower current ratio may signal liquidity problems and increased audit risk, prompting auditors to intensify their scrutiny of current assets and liabilities, and employ more thorough audit procedures. This heightened scrutiny is crucial because companies facing liquidity issues might be tempted to manipulate their financial statements to appear healthier than they are (Buchheit et al., 2020). Therefore, the auditor's role in independently assessing and verifying the accuracy of the current ratio becomes even more critical when a company's short-term financial health is in question (Rapley et al., 2021). However, it's also worth noting that an excessively high current ratio might indicate inefficient asset utilization, which could also raise concerns for auditors (Austin et al., 2021). Moreover, it has been observed that firms with larger cash holdings tend to receive more qualified audit opinions due to increased agency costs associated with free cash flow. Consequently, while the current ratio offers a snapshot of a company's short-term liquidity, its interpretation necessitates careful consideration of industry benchmarks, company-specific factors, and potential for manipulation, all of which influence the scope and rigor of the audit process (Jadallah et al., 2023).

H3: Current Ratio has an effect on Audit Quality.

2.6 Debt Equity Ratio

Debt equity ratio serves as a crucial metric for evaluating a company's financial leverage, offering insights into how efficiently management utilizes debt to generate earnings. Higher debt equity ratio values may indicate stronger financial performance and reduced risk of financial distress, potentially leading auditors to perceive a lower audit risk and allocate fewer resources to the engagement (Bui et al., 2023). Conversely, lower debt equity ratio values may signal financial difficulties and increased audit risk, prompting auditors to intensify their scrutiny and expand the scope of audit procedures. The greater the Debt to Equity Ratio shows the greater the assets of the company financed through debt resources (Soetjanto & Thamrin, 2020). A low debt-to-total assets ratio indicates a high level of financial independence from creditors, suggesting less dependence on debt (Deng et al., 2023).

H4: Debt Equity Ratio has an effect on Audit Quality.

2.7 Conceptual Framework

A conceptual framework is a conceptual structure that illustrates the relationships among concepts or variables in a study. In this study, the conceptual framework consists of X1 through X4 (ROA, ROE, Current Ratio, Debt-to-Equity Ratio), which are related to Y (Audit Quality).

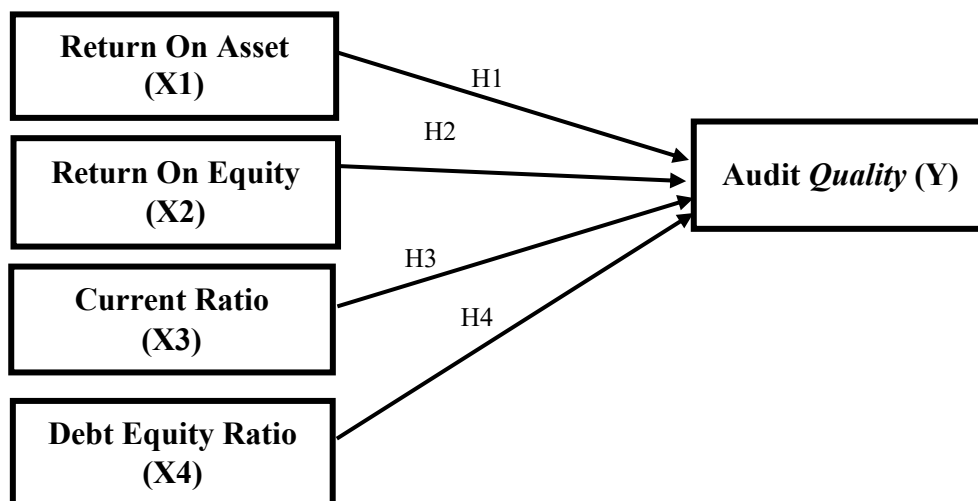


Figure 1: Conceptual Framework

3. Research Method

3.1 Data Collection

This study employs a quantitative research design using secondary data from financial reports and audit reports of automotive companies listed on the Indonesia Stock Exchange (IDX). The research applies a panel data regression analysis to examine the relationship between financial performance (independent variable) and audit quality (dependent variable) (Goundar, 2012). Data was meticulously gathered from annual reports, financial statements, and other reliable sources, ensuring accuracy and consistency. The population used in this study were automotive sector companies listed on the Indonesia Stock Exchange with a population of 23 companies. The sampling technique in this study used Non-probability sampling technique, namely sampling techniques that do not provide equal opportunities or opportunities for each element (member) of the population to be selected as sample members. The sample technique used in this study is purposive sampling, which is a sampling technique with certain characteristics. This study uses documentation techniques in collecting data. The following sample criteria will be studied, namely:

1. Automotive companies listed on the Indonesia Stock Exchange for the 2021-2024 period.
2. Automotive sector companies for the period that publish financial statements during the 2021-2024 period.
3. Automotive sector companies that use Rupiah Currency (Rp).

The total number of companies that fit the criteria is 10 companies. After collecting data, data analysis is carried out with eviews test tools, namely the descriptive test, hausman test after that the classic assumption test, and finally hypothesis testing.

3.2 Data Analysis

The data analysis technique used in this study is logistic regression analysis using SPSS for Windows. The stages of logistic regression analysis include: testing the suitability of the regression model (Hosmer and LameSHOW test), assessing the suitability of the model (Overall Model Fit), testing the coefficient of determination (Nagelkerke R Square), testing the clarification matrix, and testing the regression coefficient by Wald test (Ali, 2020). The data analysis method used to test the hypothesis in this study is descriptive statistics, which is used to provide an overview of the variables in the study. The study employs logistic regression analysis using SPSS for Windows to analyze the data. Logistic regression is employed to model the probability of a certain outcome based on predictor variables. The logistic regression analysis model is formulated using the following equation:

$$\text{Log} \frac{P(Y_{it}=1)}{1-P(Y_{it}=1)} = \beta_0 + \beta_1 \text{ROA}_{it} + \beta_2 \text{ROE}_{it} + \beta_3 \text{CR}_{it} + \beta_4 \text{DER}_{it} + \varepsilon_{it}$$

Description:

Y = Audit Quality (Audit Reputation)

β = Coefficient Regresion

X_1 = Return on Asset

X_2 = Return on Equity

X_3 = Current Ratio

X_4 = Debt Equity Ratio

e = error

a = Constanta

4. Result

4.1 Statistic Descriptive

Before further analysing the research data, descriptive statistical analysis should be carried out to provide an overview of the research data. In descriptive statistical analysis there are minimum, maximum, average and standard deviation values. The following are the results of descriptive statistical analysis to describe the variables in this study.

Table 1: Descriptive Statistic Test

Variable	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation	Variance
ROA	40	0.0006635	0.3996737	0.06856109	0.01264209	0.07995558	0.006
ROE	40	0.0006635	0.3996737	0.06549821	0.01257375	0.07952335	0.006
CR	40	0.5412828	4.1657984	1.85803001	0.12303927	0.77816866	0.606
DER	40	0.0258665	0.6442309	0.37322864	0.02486786	0.15727813	0.025
Valid N (listwise)	40						

The table presents descriptive statistics for four financial variables (ROA, ROE, CR, and DER) based on a sample size of 40 observations. Return on Assets (ROA) ranges from a minimum of 0.0006635 to a maximum of 0.3996737, with a mean of 0.068561090 and a standard deviation of 0.0799555813. Similarly, Return on Equity (ROE) has the same minimum and maximum values as ROA, with a slightly lower mean of 0.065498213 and a standard deviation of 0.0795233526. The Current Ratio (CR) shows a wider range, from 0.5412828 to 4.1657984, with a mean of 1.858030014 and a higher standard deviation of 0.7781686644. The Debt-to-Equity

Ratio (DER) ranges from 0.0258665 to 0.6442309, with a mean of 0.373226642 and a standard deviation of 0.1572781311. The variances for ROA, ROE, CR, and DER are 0.006, 0.006, 0.606, and 0.025, respectively, indicating varying levels of dispersion around the mean for each variable. The "Valid N (listwise)" confirms that all 40 observations are complete for the analysis.

4.2 Hosmer and Lameshow Test

The Hosmer Lemeshow test is a statistical test for assessing the goodness of fit of a logistic regression model. It specifically checks whether the observed event rates match the predicted probabilities in subgroups of the data. The following are the results of Hosmer Lemeshow test.

Table 2: Model Feasibility Hosmer Lemeshow test

Step	Chi-square	df	Sig.
1	4.265	8	0.832

The test results indicate a chi-square value of 4.265 with 8 degrees of freedom and a significance level (Sig.) of 0.832. This high p-value (greater than 0.05) suggests that the model fits the data well, as there is no significant difference between the observed and predicted values. In other words, the test fails to reject the null hypothesis, supporting the goodness-of-fit for the logistic regression model at Step 1.

4.3 Omnibus Test

The purpose of the Omnibus Tests of Model Coefficients is to evaluate whether the logistic regression model, as a whole, is statistically significant. Specifically, it tests the null hypothesis that all regression coefficients in the model are zero, the predictors have no effect on the outcome.

Table 3: Omnibus Test of Model Coefficients

	Chi-square	df	Sig.	
Step 1	Step	11.277	4	0.024
	Block	11.277	4	0.024
	Model	11.277	4	0.024

The Omnibus Tests of Model Coefficients provide an overall assessment of the logistic regression model's significance. The results show a chi-square value of 11.277 with 4 degrees of freedom and a significance level (Sig.) of 0.024 for Step 1, as well as for the Block and Model categories. Since the p-value (0.024) is less than 0.05, the null hypothesis that all regression coefficients are zero is rejected, indicating that the model is statistically significant and that at least one predictor

variable has a meaningful effect on the outcome. This suggests that the model as a whole performs better than a model with no predictors.

4.4 Overall Model Fit Test

The main purpose of measuring iteration history in logistic regression is to evaluate the convergence process of the model and ensure that the coefficient estimates have reached optimal stability. By monitoring changes in -2 Log Likelihood and coefficient values at each iteration, we can assess whether the model has found the best solution in predicting the dependent variable based on the independent variables. The following are the results of overall model fit test.

Tabel 4: Overall Model Fit Test

Iteration		-2 Log likelihood	Constant	ROA	ROE	CR	DER
Step 1	1	32,941	-241	12,146	-11,270	0,010	3,825
	2	31,081	-650	23,650	-20,965	-0,061	6,028
	3	30,878	-852	33,549	-29,521	-0,097	6,908
	4	30,856	-883	42,009	-37,777	-0,099	7,018
	5	30,849	-884	50,322	-46,088	-0,099	7,020
	6	30,846	-884	58,792	-54,557	-0,099	7,020
	7	30,845	-884	67,781	-63,546	-0,099	7,020
	8	30,843	-884	78,412	-74,178	-0,099	7,020
	9	30,844	-884	95,651	-91,417	-0,099	7,020
	10	30,843	-884	178,836	-174,601	-0,099	7,020
	11	25,945	-821	690329,704	-690326,394	-0,158	7,816
	12	25,833	-773	819912,704	-819909,960	-0,216	8,477
	13	25,825	-768	926398,076	-926395,353	-0,224	8,553
	14	25,823	-768	1030049,149	-1030046,425	-0,224	8,554
	15	25,822	-768	1133535,008	-1133532,285	-0,224	8,554
	16	25,821	-768	1236945,307	-1236942,584	-0,224	8,554
	17	25,821	-768	1340475,231	-1340472,507	-0,224	8,554
	18	25,821	-768	1443914,645	-1443911,922	-0,224	8,554
	19	25,821	-768	1546847,312	-1546844,589	-0,224	8,554
	20	25,821	-768	1647550,781	-1647548,057	-0,224	8,554

- a. Method: Enter
- b. Constant is included in the model
- c. Initial -2Log Likelihood: 37,098

The iteration history table shows the progression of a logistic regression model over 20 steps, with the method "Enter" used and constants included in the model. The initial -2 Log Likelihood was 37,098. In Step 1, the -2 Log Likelihood was 32,941, with coefficients for Constant (-.241), ROA (12,146), ROE (-11,270), CR (.010), and DER (3,825). Over subsequent steps, the -2 Log Likelihood decreased, indicating improved model fit, reaching 30,843 by Step 10, with coefficients stabilizing around -.884 for the Constant, while ROA and ROE coefficients grew

significantly (178,836 and -174,601 in Step 10). From Steps 11 to 20, the -2 Log Likelihood dropped further to 25,821, with the Constant stabilizing around -.768, ROA and ROE coefficients escalating dramatically (690329,704 and -690326,394 in Step 11, and 1647550,781 and -1647548,057 in Step 20), while CR and DER coefficients settled at -.224 and 8,554, respectively. The analysis of this test concludes that the regression model is suitable for further analysis, as there is no significant difference between the predicted clarification and the discussed classification.

4.5 Coefficient of Determination Test (Nagelkerke R Square)

The coefficient of determination is defined as a test used to understand the ability of independent variables in research, namely company size, audit rotation, and auditor specialization, to influence the dependent variable, namely audit quality. The results of the coefficient of determination test are described in the following table.

Table 5: Nagelkerke R-Square (*Model Summary*)

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	25,821	0,246	0,406

Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found.

The Model Summary provides key metrics for evaluating the logistic regression model's performance, where the -2 Log Likelihood (-2LL) value of 25,821 indicates the model's goodness-of-fit, with lower values suggesting a better fit to the data. The Cox & Snell R Square (0.246) and Nagelkerke R Square (0.406) are pseudo-R² measures that explain the proportion of variance in the dependent variable accounted for by the predictors, with Nagelkerke's value being more interpretable as it ranges up to 1.

5. Discussion

In this study, hypothesis testing uses the Regression Coefficient Test (Wald Test). The main purpose of this measurement in logistic regression is to evaluate the statistical significance of each independent variable coefficient individually, by determining whether a variable contributes significantly to predicting the dependent variable. The hypothesis testing in this study is to test the effect of Return on Assets, Return on Equity, Current Assets, and Debt Equity Ratio on Audit Quality using logistic regression, the results of which are shown in the table below.

Table 6: Regression Coefficient Test (Wald Test). Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	ROA	1647550,781	77490641,39	0,000	1	0,983	.
	ROE	-1647548,057	77490641,39	0,000	1	0,983	0,000
	CR	-0,224	0,686	0,107	1	0,744	0,799
	DER	8,554	3,732	5,255	1	0,022	5188,507
	Constant	-0,768	1,822	0,178	1	0,673	0,464

a. Variable (s) entered on step 1: ROA, ROE, CR, DER

Based on the table above, the resulting logistic regression model is as follows:

$$\text{Log} \frac{P(Y_{it}=1)}{1-P(Y_{it}=1)} = -0,768 + 1647550\text{ROA}_{it} - 1647548\text{ROE}_{it} - 0,224\text{CR}_{it} + 8,554\text{DER}_{it} + \varepsilon_{it}$$

The logistic regression analysis aimed to explore the influence of four financial ratios Return on Assets (ROA), Return on Equity (ROE), Current Ratio (CR), and Debt to Equity Ratio (DER) on a categorical dependent variable. The findings indicate that only one variable, namely DER, demonstrated a statistically significant relationship with the dependent variable. Specifically, DER exhibited a coefficient (B) value of 8.554 with a standard error of 3.732, a Wald statistic of 5.255, and a significance level (p-value) of 0.022, which is below the conventional alpha threshold of 0.05. This result implies that DER has a significant positive effect on the outcome, meaning that for each one-unit increase in DER, the odds of the dependent event occurring increase dramatically as reflected by an coefficient value of 5,188.507. In other words, companies with higher levels of debt relative to equity are substantially more likely to experience the outcome being predicted in this model, which could reflect increased risk exposure or reliance on leverage as a financial strategy.

In contrast, the remaining three variables ROA, ROE, and CR did not show any statistically significant effects. ROA had an extremely large positive coefficient of 1,647,550.781, while ROE had a comparably large negative coefficient of -1,647,548.057, both with identical standard errors of 77,490,641.39 and significance values of 0.983. The unusual magnitude of these coefficients, combined with such high standard errors and non-significant p-values, suggests that the model may be affected by multicollinearity or data scaling issues, particularly since ROA and ROE are often highly correlated financial indicators. These inflated coefficients reduce the reliability of the estimated effects and indicate that these variables do not meaningfully contribute to the prediction of the dependent variable in this model. Furthermore, the CR (Current Ratio) had a coefficient of -0.224 with a standard error of 0.686, a Wald value of 0.107, and a p-value of 0.744. The odds ratio coefficient for CR was 0.799, suggesting a slight decrease in the odds of the outcome with an increase in CR. However, this relationship was not statistically

significant, meaning the current ratio, which measures short-term liquidity, does not play a substantial role in determining the likelihood of the outcome in this particular analysis.

The constant term in the regression model also lacked statistical significance ($B = -0.768$, $p = 0.673$), further reinforcing the conclusion that the base level of the dependent variable, in the absence of any predictors, is not significantly different from zero in terms of log-odds. Taken together, these results highlight DER as the only financial ratio among the four tested that significantly influences the predicted outcome. The lack of significance for ROA, ROE, and CR may be due to a number of factors, including sample size limitations, multicollinearity among predictors, or the possibility that these variables simply do not have a meaningful impact on the dependent variable within the context of this specific study.

The logistic regression analysis was conducted to examine the effects of Return on Assets (ROA), Return on Equity (ROE), Current Ratio (CR), and Debt to Equity Ratio (DER) on the dependent variable. The results revealed that among the four independent variables, only DER had a statistically significant effect, with a p-value of 0.022 and an $\text{Exp}(B)$ value of 5,188.507. This indicates that an increase in DER significantly increases the odds of the predicted outcome. In contrast, ROA and ROE showed extremely large coefficients but were not statistically significant, both with p-values of 0.983, suggesting no meaningful effect on the dependent variable. Similarly, CR had a negative coefficient but also lacked statistical significance ($p = 0.744$), implying that it does not significantly influence the outcome. The constant term was also not significant. Overall, the analysis highlights DER as the only significant predictor in the model, while ROA, ROE, and CR do not contribute meaningfully to the prediction.

6. Conclusion

This study was conducted to examine the effect of return on asset, return on equity, current asset, debt equity ratio on audit quality in automotive companies listed on the Indonesia Stock Exchange for the 2021-2024 period. Among the five variables tested, only DER has a statistically significant (positive) effect on Audit Quality, of the four hypotheses proposed, only one was accepted. The limitation of this study is that it only focuses on automotive companies listed on the Indonesia Stock Exchange (IDX). Therefore, the results of this study cannot be generalized to other sectors or companies that are not listed on the IDX. The sample limited to this sector may not reflect the variation in audit quality across all sectors. As such, future research might consider addressing potential multicollinearity, possibly by removing or transforming some variables, and also by expanding the sample size or including other relevant financial and nonfinancial predictors to obtain a more robust and comprehensive model.

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