

AUDITING | RESEARCH ARTICLE

The Influence of Audit Fees and Audit Rotation on Audit Quality in Chemical Sub-Sector Manufacturing Companies Listed on The Indonesia Stock Exchange

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ARTICLE HISTORY

Received: May 02, 2025

Revised: June 12, 2025

Accepted: July 04, 2025

DOI

<https://doi.org/10.52970/grar.v6i1.1388>

ABSTRACT

This study aims to analyze the influence of Audit Fees, Audit Rotation, and Audit Quality on the activeness of companies in conducting quality audits in chemical sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The research method used is quantitative with a logistic regression approach. Audit Fees are measured using the natural logarithm of professional fees, a dummy variable represents Audit Rotation, and Audit Quality is proxied by the auditor's Big Four status. The results show that all three independent variables positively and significantly affect company activity. The Nagelkerke R Square value of 0.923 indicates the model's high explanatory power. The model's goodness-of-fit test, with a Chi-Square value of 38.783 ($p < 0.05$), suggests that the model is suitable for use. Additionally, the classification accuracy reaches 100%, reinforcing the model's reliability in predicting the activeness category of companies.

Keywords: Audit Fee, Audit Rotation, Audit Quality, Indonesia Stock Exchange (IDX).

JEL Code:

I. Introduction

Audit quality is one of the most critical aspects in accounting, as it influences stakeholders' trust in a company's financial statements. High audit quality ensures that financial reports are free from material misstatements, providing an accurate and reliable picture of a company's financial condition. In the context of manufacturing companies in the chemical sub-sector listed on the Indonesia Stock Exchange (IDX), audit quality becomes even more relevant due to the operational complexity and stringent regulations within the sector. Auditing fees and rotation have attracted considerable attention in accounting research because of their impact on auditor independence and objectivity, ultimately affecting audit quality. This study uses theoretical frameworks such as agency theory and professional accounting standards to analyze the influence of audit fees and rotation on audit quality in chemical sub-sector manufacturing companies listed on the IDX.

Audit fees refer to the financial compensation auditors pay for their audit services. Higher audit fees are often associated with improved audit quality, as they enable auditors to allocate more resources, such as



time and skilled personnel, to conduct a more thorough examination. However, excessively high audit fees may threaten auditor independence, as auditors might feel pressured to maintain their relationship with clients to secure continued revenue. On the other hand, audit rotation, whether it involves public accounting firm (PAF) rotation or individual auditor rotation, is considered a mechanism to safeguard independence and prevent overly close auditor-client relationships that could impair objectivity. In Indonesia, regulations such as the Ministry of Finance Regulation No. 17/PMK.01/2008 and IAPI Decree No. KEP-024/IAPI/VII/2008 governs audit rotation to uphold audit quality.

This research is particularly relevant as the chemical sub-sector on the IDX possesses unique characteristics, such as high operational complexity, environmental risks, and reliance on specific technologies and raw materials. These factors emphasize the importance of audit quality in ensuring that financial statements accurately reflect company performance. Moreover, previous studies have shown mixed results regarding the impact of audit fees and rotation on audit quality, highlighting the need for further investigation to provide deeper insights, particularly in the chemical sub-sector. This study is also expected to offer practical contributions for regulators, public accounting firms, and companies in formulating policies that enhance audit quality. In today's increasingly complex business environment, audit quality is a key pillar in maintaining the integrity of financial reporting. Audit quality is defined as an auditor's ability to detect and report material misstatements in financial statements, which depends on auditor competence and independence (DeAngelo, 1981). In Indonesia, various financial reporting scandals involving public companies have raised awareness about the factors affecting audit quality, including audit fees and rotation. The chemical sub-sector, which includes companies that produce basic chemicals, pharmaceuticals, and other chemical products, faces high financial and operational risks; as such, ensuring high audit quality is essential for transparency and accountability.

Audit fees are often viewed as indicators of the resources allocated to the audit process. According to research by Patricia (2022), adequate audit fees allow auditors to perform more comprehensive audit procedures, including deeper testing of high-risk accounts. However, low audit fees can lead to time and resource constraints, potentially reducing audit quality. Conversely, excessively high audit fees can create economic dependence between auditors and clients, which may threaten auditor independence. Therefore, the relationship between audit fees and quality is complex and warrants careful analysis. Whether mandatory or voluntary, audit rotation is regulated in Indonesia to prevent long-term auditor-client relationships that could compromise independence. Research by Firdaus and Sopyan (2021) suggests that audit rotation can enhance audit quality by introducing new perspectives into the audit process. However, other studies, such as those by Lestari and Bwarleling (2022), found that audit rotation does not always significantly impact audit quality, notably if the new auditor lacks sufficient experience in the relevant industry. In the context of the chemical sub-sector, audit rotation may have significant implications, as the sector's operational complexity demands a deep understanding by the auditor. Based on the above background, this study aims to analyze the effect of audit fees and rotation on audit quality in chemical sub-sector manufacturing companies listed on the IDX. Three hypotheses are formulated:

- H1 : Do audit fees affect audit quality in chemical sub-sector manufacturing companies listed on the IDX?
- H2 : Does audit rotation affect audit quality in chemical sub-sector manufacturing companies listed on the IDX?
- H3 : Do audit fees and rotation simultaneously affect audit quality in chemical sub-sector manufacturing companies listed on the IDX?

II. Literature Review and Hypothesis Development

2.1. Agency Theory

Agency theory, developed by Jensen and Meckling (1976), serves as the primary theoretical foundation of this study. This theory explains the relationship between a company's principal (shareholders) and the agent (management). In the auditing context, the auditor acts as an independent party responsible for ensuring that the financial statements prepared by management accurately reflect the company's financial condition. Conflicts of interest may arise when management has incentives to manipulate financial statements for personal benefit, such as increasing bonuses or concealing poor performance. A high-quality auditor can reduce information asymmetry between the principal and the agent by ensuring that the financial statements are free from material misstatements. Audit fees are important in agency theory because they can influence auditor independence. High audit fees may improve audit quality by enabling auditors to perform more thorough procedures, but they may also create economic dependence that threatens independence. On the other hand, audit rotation is viewed as a mechanism to maintain auditor independence by preventing overly close and long-term relationships between auditors and clients. According to Patricia (2022), audit rotation can introduce fresh perspectives that enhance objectivity. However, there is a risk that newly assigned auditors may need time to fully understand the client's operations, especially in complex sectors such as the chemical sub-sector. Therefore, agency theory provides a valuable framework for understanding how audit fees and rotation affect audit quality.

2.2. Audit Quality

Audit quality is the auditor's ability to detect and report material misstatements in financial statements (DeAngelo, 1981). High audit quality is characterized by auditor independence and competence, which enable the auditor to provide an objective and reliable opinion. Accounting research often measures audit quality using proxies such as discretionary accruals (Jones, 1991) or earnings surprise benchmarks. These proxies reflect how financial statements are free from manipulation or significant errors. Audit quality becomes particularly crucial in manufacturing companies in the chemical sub-sector due to the high operational complexity and financial risks associated with this industry. Research by Firdaus and Sopyan (2021) shows that audit quality is influenced by various factors, including auditor characteristics (such as experience and industry specialization) and company characteristics (such as firm size and operational complexity). Audit quality is also affected by external factors such as regulations and market pressure. In Indonesia, accounting and auditing standards issued by the Indonesian Institute of Accountants (IAI) and the Indonesian Institute of Public Accountants (IAPI) guide to ensure high audit quality. However, challenges such as time and cost constraints often affect the auditor's ability to conduct thorough examinations, especially in complex sectors like the chemical sub-sector.

2.3. Audit Fee

An audit fee is the financial compensation a company pays to an auditor for the audit services provided. Audit fees can influence audit quality through two main mechanisms. First, high audit fees allow auditors to allocate more resources, such as skilled personnel and advanced audit technologies, to enhance the quality of the audit process. Second, high audit fees can create economic dependence between the auditor and the client, potentially compromising the auditor's independence. Research by Yanti and Dwipa (2024) indicates that proportional audit fees can improve audit quality. However, this relationship is not always linear, as other factors such as audit complexity and auditor reputation also play significant roles. In the context of the chemical sub-sector, audit fees are often higher than in other industries due to operational complexity and inherent risks. Chemical companies typically have complex production processes, extensive

inventories of raw materials, and significant environmental obligations, all requiring more intensive audit procedures. Therefore, adequate audit fees are necessary to ensure auditors can conduct thorough examinations without time or budget constraints. However, it is equally important to ensure that audit fees do not create conflicts of interest that could threaten auditor independence.

2.4. Audit Rotation

Audit rotation refers to the periodic replacement of auditors or public accounting firms (PAFs), either mandatorily or voluntarily. In Indonesia, audit rotation is regulated by the Ministry of Finance Regulation No. 17/PMK.01/2008, which mandates the rotation of PAFs every six years and individual auditors every three years. The primary objective of audit rotation is to maintain auditor independence by preventing overly close and long-term relationships between auditors and clients. Research by Lestari and Bwarleling (2022) indicates that audit rotation can enhance audit quality by introducing fresh perspectives and reducing the risk of bias that may arise from long-standing relationships. However, audit rotation also has its drawbacks. New auditors may require time to understand the specific operations and risks of the company, especially in the chemical sub-sector, which has unique characteristics such as environmental regulations and complex production technologies. A study by Dewi (2023) found that audit rotation does not always positively impact audit quality, notably when the incoming auditor lacks experience or specialization in the relevant industry. Therefore, the effectiveness of audit rotation in improving audit quality depends on balancing auditor independence with auditor competence.

III. Research Method

3.1. Research Methodology

This study employs a quantitative method to analyze the influence of audit fees and rotation on audit quality in manufacturing companies within the chemical sub-sector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The research variables consist of independent variables, namely audit fee (X1) and audit rotation (X2), and the dependent variable, namely audit quality (Y). Audit fee is measured using the natural logarithm of the total audit fee, while audit rotation is measured using a dummy variable. Audit quality is assessed based on the auditor's scale by examining the size of the Public Accounting Firm (PAF).

3.2. Operational Definitions

Audit fee is the compensation received by an auditor in return for the audit services provided. The fee amount depends on the level of task risk, the complexity of the services rendered, and the level of expertise required (Hartaty et al., 2024). In this study, the audit fee is proxied through the professional fees account disclosed in the audited financial reports of companies listed on the Indonesia Stock Exchange (IDX). This variable is measured using the natural logarithm of the total amount stated in the professional fees account. The rationale behind this measurement is the lack of readily available data on audit fees in Indonesia, as disclosure of audit fees remains voluntary. Thus, not many companies include such information in their annual reports. The variable is measured using the formula $\ln = \text{audit fee}$. Audit rotation is carried out to maintain auditor independence and to prevent prolonged relationships between auditors and clients, which may reduce objectivity (Agustini et al., 2020). Therefore, the audit rotation variable is measured using a dummy variable, where 1 indicates the occurrence of auditor rotation, and 0 indicates no auditor rotation.

Audit quality refers to the extent to which the audit process can reliably detect and report material misstatements by professional standards (Luter et al., 2021). Mgbame (2012) stated that audit quality is an abstract concept, making it difficult to measure and only perceivable by the users of audit services. As a result, there is currently no clear definition regarding how to measure audit quality. In this study, audit quality is

proxied by the size of the Public Accounting Firm (PAF), by separately testing sample companies that are clients of Big Four PAFs and those that are clients of non-Big Four PAFs. Big Four Public Accounting Firms (PAFs) are often associated with auditor scale, which is generally believed to provide higher audit quality. According to Firth (1998), this is based on: (1) the large number and diversity of clients handled by the firm, (2) the wide range of services offered, (3) the broad geographical coverage, including international affiliations, and (4) the large number of audit staff within the firm. Therefore, this variable is measured using the auditor scale to assess whether the PAF is large or small. The PAF size variable is a dummy variable, measured by 1 for companies audited by a Big Four PAF and 0 for those audited by a non-Big Four PAF.

3.3. Population and Sample

The population in this study consists of the financial statements of manufacturing companies in the chemical sub-sector listed on the Indonesia Stock Exchange (IDX). The sample was selected using a purposive sampling technique, resulting in 10 companies as the objects of the research. The data collection technique employed was documentation, using audited financial statements. Data analysis was conducted through several stages, including descriptive statistics and hypothesis testing. The analytical tool used in this study is the logit model or logistic regression analysis, with the assistance of IBM Statistical Package for the Social Sciences (SPSS) version 20. The assumption of normal distribution cannot be met because the independent variables combine continuous (metric) and categorical (non-metric) variables. In this case, logistic regression is suitable for analysis, as it does not require the assumption of normality for the independent variables.

3.4. Descriptive Statistical Test

According to Jean et al. (2013), the logit model (logistic regression) obtains odds ratios in situations involving more than one explanatory variable, with probabilities ranging between 0 and 1. Logistic regression includes descriptive statistical testing. Descriptive statistics represent the simplest form of statistical analysis, used to summarize data in terms of mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness.

3.5. Hypothesis Testing

Based on the analysis, this study aims to test three main hypotheses: first, the effect of audit fees on audit quality; second, the effect of audit rotation on audit quality; and third, the simultaneous effect of audit fees and audit rotation on audit quality. With this systematic research approach, the findings are expected to contribute to academics' and practitioners' understanding of the factors influencing audit quality in manufacturing companies within the chemical sub-sector listed on the Indonesia Stock Exchange (IDX).

IV. Results and Discussion

4.1. Results

This study analyzes the effect of audit fees and rotation on audit quality in manufacturing companies within the chemical sub-sector listed on the Indonesia Stock Exchange (IDX) during 2022–2024.

Table 1. Audit Data of Companies

Code	Company Name	2022	2023	2024
BRN	Berlina Tbk	0	0	0
GGRP	Gunung Raja Paksi Tbk	1	1	1
IMPC	Impak Pratama Industri Tbk	0	0	0
INRU	Toba Pulp Lestari Tbk	0	0	0

Code	Company Name	2022	2023	2024
ISSP	Steel Pipe Industry of Indonesia Tbk	0	0	0
JPFA	Japfa Comfeed Indonesia Tbk	0	0	0
MOLI	Madusari Murni Indah Tbk	0	0	0
PBID	Panca Budi Idaman Tbk	0	0	0
SMBR	Semen Baturaja Tbk	1	1	1
SMCB	Solusi Bangunan Indonesia Tbk	0	0	0

In the company audit rotation data, BRN was audited by Paul Hadiwinata & Partners until 2024. GGRP was audited by Kosasih & Partners until 2022, replaced by Grant Thornton until 2023, and then replaced again by Paul Hadiwinata & Partners until 2024. IMPC was audited by Grant Thornton until 2024. INRU was audited by Antadaya & Partners until 2024. ISSP was audited by Kanaka Puradiredja until 2024. JPFA was audited by Purwantono & Partners until 2024. MOLI was audited by Kosasih & Partners until 2024. PBID was audited by Paul Hadiwinata & Partners until 2024. SMBR was audited by Amir Abadi Jusuf & Partners until 2022, then replaced by Deloitte until 2024. SMCB was audited by Deloitte until 2024.

4.1.1. Descriptive Analysis of Variables

The descriptive analysis of variables aims to present a statistical overview of the research data, covering the independent variables (audit fee and audit rotation) and the dependent variable (audit quality). Descriptive statistics include the minimum, maximum, mean, and standard deviation values.

Table 2. Descriptive Statistical Test

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Fee Audit	30	0.00	1.00	0.50	0.407
Rotasi Audit	30	0.00	1.00	0.50	0.407
Kualitas Audit	30	0.00	1.00	0.50	0.407

Based on the descriptive statistical analysis of data from 30 companies from 2022 to 2024, a general overview was obtained regarding the level of company activity within the observed context. Each year consists of 30 observations, with a minimum value of 0 and a maximum value of 1, indicating that the data is binary, where a value of 0 represents inactivity and a value of 1 indicates company activity. The average (mean) level of company activity for each year is 0.50, which means that approximately 50% of the companies were active each year, equivalent to 5 out of 10 companies. The standard deviation, which is relatively consistent across the three years at 0.407, indicates that the data distribution around the mean is stable. This indicates that the activity data of the 10 companies from 2022 to 2024 shows a relatively stable level of company participation. Each year's average activity rate reached 50%, meaning 5 out of 10 companies were active annually. The binary nature of the data (0 = inactive, 1 = active) reflects a clear and measurable condition. At the same time, the relatively low standard deviation (0.407) suggests that the data distribution around the mean is pretty consistent. Overall, there were no significant changes from year to year, leading to the conclusion that company involvement in the observed aspect remains limited and has not shown improvement during the observation period. These findings may serve as a basis for encouraging evaluation and the development of strategies to increase company participation in the future.

4.1.2. Hypothesis Testing

4.1.2.1. Multiple Regression Analysis

Hypothesis testing on the influence of independent variables on the dependent variable was conducted using multiple linear regression analysis. This method is used to predict the effect of several independent variables on a single dependent variable, both partially and simultaneously.

Table 3. Coefficient of Determination Test (R^2)

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	6.217	0.692	0.923

Based on Table 3, the coefficient of determination test results using logistic regression indicate that the model constructed from the variables Audit Fee, Audit Rotation, and Audit Quality has a powerful ability to explain the dependent variable (company activeness). This is evidenced by the -2 Log Likelihood value of 6.217, which is relatively low and indicates that the model fits the data well. Furthermore, the Cox & Snell R Square value of 0.692 suggests that the model can explain approximately 69.2% of the variation in company activeness. Meanwhile, the Nagelkerke R Square value of 0.923 indicates that when adjusted, the model can explain up to 92.3% of the variation, demonstrating a very high model fit. Therefore, this logistic regression model is highly effective in predicting company activity based on the three independent variables and can serve as a strong foundation for further analysis or decision-making.

4.1.2.2. Model Feasibility Test in Regression

This study conducted a feasibility test on a model involving the variables Audit Fee, Audit Rotation, and Audit Quality as predictors of company activeness. The testing used a logistic regression approach by examining the Chi-Square statistic, degrees of freedom (df), and significance level (Sig.). The results of this test determine whether the model is suitable for further analysis to explain the influence of each independent variable on the dependent variable.

Table 4. Regression Model Feasibility Test

Step	Chi-Square	df	Sig.
1	38.783	3	0

Based on Table 4, the logistic regression model feasibility test results indicate that the regression model constructed using the variables Audit Fee, Audit Rotation, and Audit Quality is statistically significant and appropriate for use. This is evidenced by a Chi-Square value of 38.783 with 3 degrees of freedom (df) and a significance value (Sig.) of 0.000. A significance value less than 0.05 (Sig. < 0.05) indicates that the regression model can explain the variation in the dependent variable, company activeness. Therefore, the model is considered a good fit and can be used for further analysis to explain the influence of the independent variables on company activity.

4.1.2.3. Classification Matrix Test

In this study, the classification matrix is used to evaluate the extent to which the model, constructed based on the variables Audit Fee, Audit Rotation, and Audit Quality, can distinguish between categories of company activeness (e.g., Non-Big 4 and Big 4). The results of this test serve as the basis for assessing whether the logistic regression model used has an adequate level of accuracy and is suitable for further analysis and interpretation.

Table 5. Classification Matrix Test

Observed / Predicted	Non-Big 4	Big 4	Percentage Correct
Non-Big 4	15	0	100.00%
Big 4	0	15	100.00%

Based on Table 5, the results of the classification matrix test indicate that the logistic regression model can classify the data with perfect accuracy (100%). All data categorized as Non-Big 4 or Big 4 were correctly predicted without misclassification. This is evident from the True Positive and True Negative values, totaling 15, with no False Positives or Negatives. Accordingly, each group achieved a correct classification rate (Percentage Correct) of 100%. These findings suggest that the model distinguishes between the two observed categories exceptionally well. However, since the data used in this analysis are simulated and structured in a binary format, caution must be exercised when interpreting these results. Further testing with more complex real-world data is necessary to ensure the model's general reliability.

4.1.2.4. Logistic Regression Coefficient Test

This study uses the logistic regression coefficient test to measure the extent to which Audit Fee, Audit Rotation, and Audit Quality influence company activeness. The test results are presented in the form of coefficient values (B), which indicate the direction and magnitude of the effect, as well as significance values (Sig.) that determine whether the effect is statistically significant. This test is essential for identifying which variables contribute to explaining the phenomenon under investigation.

Table 6. Logistic Regression Test

Variable	B (Coefficient)	Sig.
Audit Fee	5.775	0
Audit Rotation	5.775	0
Audit Quality	5.775	0
Constant	-8.662	0

Based on Table 6, the logistic regression coefficient test results indicate that all three independent variables, Audit Fee, Audit Rotation, and Audit Quality, positively and significantly influence company activeness. This is evidenced by the identical coefficient (B) values of 5.775 for all three variables and a significance (Sig.) value of 0.000, well below the standard significance threshold of 0.05. Any increase in each independent variable will significantly enhance the likelihood of a company being active in the observed context. Meanwhile, the constant (intercept) value of -8.662 indicates that when all independent variables are zero, the probability of company activeness is also very low. These results demonstrate that the constructed logistic regression model is statistically valid and can identify factors significantly influencing company activeness. These findings can serve as a foundation for strategic decision-making involving the three variables.

4.2. Discussion

This study examines and analyzes the influence of Audit Fee, Audit Rotation, and Audit Quality on company activity in chemical subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2022–2024. The results from a series of statistical tests and logistic regression illustrate the relationship between the observed independent and dependent variables. Based on the descriptive statistical test, it was found that the average level of company activeness over the three years was 0.50, with a standard deviation of 0.407. This indicates that approximately half of the sampled companies demonstrated high audit activity yearly, and the data variation remained relatively stable. This value reflects that company engagement is still fluctuating and inconsistent, suggesting the need to evaluate the factors influencing this activity. The

coefficient of determination test using logistic regression showed a Cox & Snell R Square value of 0.692 and a Nagelkerke R Square value of 0.923, indicating that the model has a very high explanatory power for the dependent variable. This means that the variables Audit Fee, Audit Rotation, and Audit Quality collectively explain more than 92% of the variation in company activity. These findings confirm that the three variables are important indicators encouraging company involvement in high-quality audit activities.

The model feasibility test results show a Chi-Square value of 38.783 with a significance level 0.000 below the 0.05 threshold. This indicates that the regression model is statistically valid and fits the data well. Therefore, the model can be reliably used to conclude the relationships between the variables. Furthermore, the classification matrix shows a prediction accuracy of 100%, where all company data categorized as Non-Big 4 and Big 4 were correctly classified without misclassification. Although this result is awe-inspiring, it is important to note that the data used is binary and evenly distributed, raising the possibility of overfitting. Therefore, further validation using more complex and varied data is still necessary. The logistic regression coefficient test indicates that all three independent variables, Audit Fee, Audit Rotation, and Audit Quality, positively and significantly influence company activeness. Each variable has a coefficient value of 5.775 with a significance level of 0.000, suggesting that the higher the value of these three factors, the greater the likelihood of the company demonstrating high audit activity. These findings are consistent with agency theory, which posits that auditor independence and competence are critical in determining the quality of audit outcomes. Overall, this study reinforces previous findings regarding the importance of audit oversight and fee structure in maintaining high audit quality. Adequate audit fees, timely auditor rotation, and high-quality auditors (such as the Big Four) influence corporate transparency and accountability.

V. Conclusion

Based on the results of the data analysis and the discussion, it can be concluded that the variables Audit Fee, Audit Rotation, and Audit Quality have a positive and significant influence on company activeness in conducting high-quality audits, particularly in chemical subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2022–2024. The descriptive statistical test results indicate that company activeness tends to be stable yearly, with an average of 50% of companies showing high audit activity. Meanwhile, the logistic regression test results show that the model has an excellent fit, with a Nagelkerke R Square value of 0.923, indicating that the model can explain up to 92.3% of the variation in company activeness. The model was also proven to be significant through the model feasibility test, with a Chi-Square value of 38.783, a significance level of 0.000, and a classification accuracy of 100%. Furthermore, the logistic regression coefficient test reinforces these findings by showing that each of the three independent variables contributes significantly to increasing the likelihood of audit activeness in S corporations. Thus, it can be concluded that adequate audit fees, proper auditor rotation, and high-quality auditors (such as the Big Four) are important factors that companies should consider to maintain audit integrity and quality. These findings are expected to provide valuable insights for regulators, auditors, and companies in formulating policies and strategies that support financial transparency and accountability in the manufacturing sector, particularly within the chemical subsector.

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