



Audit Quality, Leverage, and Financial Statement Quality: Evidence from the Consumer Cyclical Sector

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Article Info:

Article history:

Received: Maret 12, 2026

Revised: April 11, 2026

Accepted: April 13, 2026

Keywords:

financial statement quality; audit
quality; discretionary accruals;
leverage.

Abstract

Background: Financial reporting scandals in Indonesia have intensified scrutiny of audit quality as a safeguard for reporting integrity. Despite extensive audit reforms and mandatory rotation policies, empirical evidence on whether audit quality proxies such as tenure, delay, fees, and auditor specialization translate into higher financial statement quality remains inconclusive.

Objective: This research was conducted to evaluate the influence of audit quality, as proxied by audit tenure, audit delay, audit fees, and auditor specialization, on the financial statement quality proxied by discretionary accruals, as well as to investigate whether leverage plays a moderating role in this relationship.

Methods: The research sample comprises companies of the Consumer Cyclical sector listed on the Indonesia Stock Exchange during the period 2022–2024. A total of fifty-three companies were selected using purposive sampling, representing 159 firm-year observations. A panel data regression method was employed using EViews 12 software.

Results: The findings revealed that there is no effect of any independent variable on the quality of financial statement, both with and without leverage as a moderating variable. These results indicate that audit quality does not necessarily improve the quality of financial statement. The study uncovers many detrimental scenarios, implying that a strengthening of corporate governance and internal control systems should be viewed as necessary preconditions for reliable financial statement.

Conclusion: The improvement of the quality of financial statement is not only determined by the quality of audits and the level of leverage, but also by the effectiveness of corporate governance and internal control systems.

To cite this article: Khairani, N., Lukman, H., & Tanusdjaja, H. (2026). Audit Quality, Leverage, and Financial Statement Quality: Evidence from the Consumer Cyclical Sector. *INKUBIS: Jurnal Ekonomi dan Bisnis*, 8(1), 232-243. <https://doi.org/10.59261/inkubis.v8i1.174>

INTRODUCTION

Financial statements are the main source of information for investors, creditors, and stakeholders in economic decision-making (Meihana et al., 2021; Meiryani et al., 2020; Widjaya & Sisdiyanto, 2024). Therefore, the quality of financial statements is a crucial aspect that reflects the relevance, reliability, and transparency of the information presented by the company. Although financial statements have gone through an audit process by independent auditors, the various cases of reporting irregularities that have come to light in recent years, such as in some large companies in Indonesia, show that the quality of statements still faces significant challenges. This phenomenon raises questions about the effectiveness of audit quality in maintaining the quality of financial statements. Indonesia's corporate landscape has witnessed several high-profile financial irregularities that underscore this challenge. The alleged manipulation of financial statements at PT Waskita Karya (Persero) Tbk reportedly ongoing since 2016 and the financial

restatement controversies involving several companies in the manufacturing and construction sectors have eroded investor confidence and triggered regulatory scrutiny (Safitri et al., 2025). These cases illustrate that the mere presence of an independent audit does not guarantee financial statement quality, raising fundamental questions about the conditions under which audit quality mechanisms effectively constrain opportunistic reporting behavior.

Several factors that are considered to affect the quality of financial statements have been widely studied in the accounting literature. One of the most associated factors is audit quality, considering that auditors play the role of an independent party as well as a supervisory mechanism that can increase the credibility of the information presented by the company. In this study, audit quality was measured using several variables, namely audit tenure, audit delay, audit fee, and auditor specialization. Previous research on these variables still shows inconsistent results. In the context of audit tenure, several studies have shown that a longer auditor engagement period has a positive effect on the quality of financial statements because auditors have a better understanding of the client's business characteristics (Kalabeke et al., 2019; Soroushyar, 2023). However, another study found that too long an engagement period can actually reduce auditor independence, negatively impacting the quality of financial statements, while other studies found no significant effect (Sadiq et al., 2023).

Mixed results are also apparent in the audit delay variable. Tanujaya & Nuriah (2023) demonstrated that the longer a company delayed submission of an audit report, the lower the quality of their financial statements, whereas Tanujaya et al. (2024) found that individuals used delays in obtaining tax returns to act as a further monitoring mechanism that could increase financial statement quality. According to Baaba Amanamah (2024), it was identified in the audit fee variable that there is a positive impact of audit fees on IFRS compliance as one indicator of financial statement quality. However, Sadiq et al. (2023) investigated the direct effect of audit fees on financial statement quality and found that those fees only matter when moderated by certain governance factors.

Auditor specialization was not immune from inconsistencies in the study results either. Auditor specialization has been found to have a positive effect on the quality of financial statements in some studies (Soroushyar, 2023), while others have indicated that auditor specialization relates to an increase in discretionary accruals, indicating deterioration in the quality of financial statements (Ananda, 2020). Lastly, findings on audit quality as specified through indicators such as auditor reputation, audit fees, and the size of public accounting firms also remained inconclusive (Selimefendigil, 2023). Thus, the purpose of this study is to measure audit quality using several indicators, such as audit tenure, audit delay, audit fee, and auditor specialization, so as to re-examine the relationship with financial statement quality.

Along with audit characteristics, the financial condition of the business can also influence financial statement quality. The level of reliance on external financing by a firm, measured through leverage (Ananda, 2020), is often associated with financial pressures that may influence reporting behavior. Nonetheless, empirical studies examining the impact of leverage on financial statement quality have not provided conclusive evidence either. While some studies reported a positive influence (Tanujaya et al., 2024), others found negative or insignificant relationships between leverage and financial statement quality (Baaba Amanamah, 2024; Kalabeke et al., 2019; Selimefendigil, 2023). Referring to these gaps, this study aims to re-examine the effect of audit quality that is proxied through audit tenure, audit delay, audit fees, and auditor specialization on the quality of financial statements, with leverage as a moderating variable, on Consumer Cyclical companies listed on the Indonesia Stock Exchange for the 2022–2024 period. It is hoped that this study will enhance the literature related to the association between audit quality and financial statement quality, as well as provide a deeper analysis of the role of leverage in terms of agency theory.

The persistent inconsistency across studies combined with the sectoral specificity of the Consumer Cyclical industry, where demand volatility creates heightened earnings management incentives during economic cycles motivates a contextualized re-examination of these relationships. The Consumer Cyclical sector's sensitivity to macroeconomic conditions means that companies in this sector face distinct reporting pressures that may interact differently with

audit quality mechanisms than those observed in manufacturing or financial services studies that dominate the existing Indonesian literature.

Agency theory outlines the principal-agent relationship based on a contract. Management, as an internal party, has access to more information than the owner does, and this gives rise to moral hazard and adverse selection (Jensen & Meckling, 1976). This condition can encourage opportunistic practices, including manipulation of financial statements, which ultimately increases agency costs. In this context, audits function as an independent monitoring mechanism to reduce information asymmetry and increase the credibility of financial statements. Auditors are expected to be able to detect and report material misstatements and minimize potential fraud in financial reporting (Han et al., 2023). Thus, the existence of quality audits is an important instrument in suppressing agency conflicts and increasing information transparency for stakeholders. Agency theory is applied in this study because it provides the most coherent theoretical foundation for explaining why audit quality matters and the conditions under which its effectiveness may vary. The four audit quality proxies examined here audit tenure, audit delay, audit fee, and auditor specialization are each theoretically linked to the agency problem through distinct mechanisms: tenure affects the depth of auditor knowledge versus the risk of independence compromise; delay signals audit complexity and reporting risk; fees reflect resource allocation and potential economic dependence; and specialization determines the auditor's capacity to detect sector-specific misrepresentations. Similarly, leverage serves as a proxy for heightened principal-agent conflict between management and creditors, making it theoretically relevant as a moderator of these audit quality mechanisms. Without agency theory as an organizing framework, the directional predictions for each hypothesis would lack coherent theoretical grounding.

The quality of financial statements refers to how well the information provided by a company is relevant, reliable, and capable of reasonably representing that company's economic conditions (Syarli, 2021). Quality financial statements must fulfill the aspects of relevance and faithful representation, as well as being prepared in accordance with applicable accounting standards, so that they can serve as a foundation for decision-making by investors, creditors, and other stakeholders (Pratiwi, 2022). Thus, financial statement quality is dependent on both adherence to standards and the integrity of the presentation of information, which must be free from material misstatement. In this study, discretionary accruals were used as the proxy for financial statement quality. This means that lower discretionary accruals indicate relatively higher-quality financial statements, as they reflect low levels of, or no, opportunistic interventions in the reporting process.

Audit quality plays a role in increasing the transparency of financial statements and reducing agency costs due to information asymmetry between management and stakeholders (Kurniawan, 2020). Audit quality reflects the auditor's ability to independently detect and report material misstatements according to professional standards (Yusuf, 2019). In this study, audit quality was proxied by audit tenure, audit delay, audit fees, and auditor specialization as indicators of audit quality that have the potential to affect the quality of financial statements. Audit tenure describes the length of the auditor-client relationship. A long engagement period can increase auditors' understanding of the client's business (learning effect), but also has the potential to reduce independence due to professional closeness (Gwala & Nomlala, 2021; Karno et al., 2022). Audit delay reflects the timeliness of audit completion, where delays can indicate higher reporting complexity or risk. Audit fees reflect the level of complexity and risk of audit assignments, but substantial fees can also create economic dependence between auditors and clients. Meanwhile, auditor specialization shows the level of auditor expertise in a particular industry that allows for more effective detection of misstatements. The four proxies represent the dimensions of independence, timeliness, audit effort, and industry competence in explaining audit quality.

Leverage reflects the level of debt utilization in a company's capital structure, which is generally measured through the ratio of total liabilities to total assets or equity (Ananda, 2020). A high level of leverage indicates a company's dependence on external funding and increases the company's obligations to creditors. Strategically, the use of debt can increase returns for shareholders but can also increase financial risks if not managed carefully (Baaba Amanamah,

2024).

Hypothesis Development

Agency theory suggests that the longer an auditor is engaged, the better they understand a client's business characteristics and provide effective fraud detection in terms of misstatement. Multiple studies reveal that audit tenure leads to improved quality of financial statements (Soroushyar, 2023). Nevertheless, long-term relationships can also weaken independence as they foster closeness with the client (Gwala & Nomlala, 2021). This study investigates how audit tenure affects financial statement quality according to these arguments.

H1: Audit Tenure have a positive effect on the quality of financial statements.

Lengthy audit delays can impair the relevance of information and signal heightened reporting risk. Research by Tanujaya et al. (2024) indicates that audit delays are negatively correlated with financial statement quality because they decrease information timeliness and reliability.

H2: Audit delays have a negative effect on the quality of financial statements.

Audit fees are a reflection of how complex or involved the audit is. Similarly, Baaba Amanamah (2024) reported a positive relationship between audit fees and the quality of financial statements due to enhanced compliance with IFRS. You can assume that a higher fee reflects an increase in effort and quality of the examination.

H3: Audit fees have a positive effect on the quality of financial statements.

Industry-specialized auditors are more familiar with the specific business sector risks. Soroushyar (2023) provide evidence of the positive relationship between auditor specialization, as reflected in lower discretionary accruals, and the quality of financial statements.

H4: Auditor specialization has a positive effect on the quality of financial statements.

From an agency theory perspective, a high level of leverage increases reporting pressure as well as potential conflicts of interest between management and creditors. This situation may lead to earnings management practices and lower quality of financial statements. Meanwhile, longer audit tenure can improve auditor knowledge of client characteristics but at the same time decrease independence, as there is a professional closeness in terms of number of years being in the lead role (Gwala & Nomlala, 2021; Soroushyar, 2023). In high-leverage firms, more management pressure can depress auditor independence, which allows the positive influence of audit tenure on financial statement quality to be diluted.

H5: Leverage weakens the positive influence of audit tenure on the quality of financial statements.

To recap, high leverage increases financial risk and creates pressure on management to continue generating an attractive performance. Companies with high leverage experience longer audit delays on average. Delays like these can cause financial statements to lose their timeliness and relevance. The negative effect of audit delay on the quality of financial statements is expected to be reinforced in the presence of leverage.

H6: Leverage reinforces the negative influence of audit delays on the quality of financial statements.

Due to reporting pressures and potential conflicts of interest, these companies are at higher audit risk (Gwala & Nomlala, 2021). Thus, in these circumstances, increased audit fees may indicate greater exertion and intensification of the audit Baaba Amanamah (2024). As a result, leverage will exacerbate the positive effect of audit fees on the quality of financial statements.

H7: Leverage strengthens the positive influence of audit fees on the quality of financial statements.

All of this means that a higher leverage level makes reporting risk more complex. External auditors with industry specialization have a higher capacity to grasp the firm-level features and liquidity risks in any sector. The maintenance of reporting quality also places greater demands on expert auditors under conditions of high leverage. Hence, leverage is proposed to enhance the positive impact of auditor specialization on financial statement quality.

H8: Leverage reinforces the positive influence of auditor specialization on the quality of financial statements.

Accordingly, drawing on the gaps in existing literature noted above and the theoretical framework of agency theory, this research has three primary objectives: first, to investigate empirically the direct effects of four proxies for audit quality specifically audit tenure, audit delay,

audit fee, and auditor specialization on financial statement quality measured by discretionary accruals in companies listed in the Consumer Cyclical sector on the Indonesia Stock Exchange during 2022–2024; second, to test whether leverage significantly moderates each of these relationships between dimensions of audit quality and financial statement quality; and third, to provide evidence-based managerial implications for regulators, auditors, and corporate governance practitioners regarding conditions under which auditing mechanisms constrain opportunistic behavior and enhance financial statement quality.

Figure 1 shows the research framework of this study, including the proposed relationships between independent variables (audit tenure, audit delay, audit fee, and auditor specialization), one dependent variable (financial statement quality proxied by discretionary accruals), and one moderating variable (leverage). The conceptual framework of this study is as shown in Figure 1.

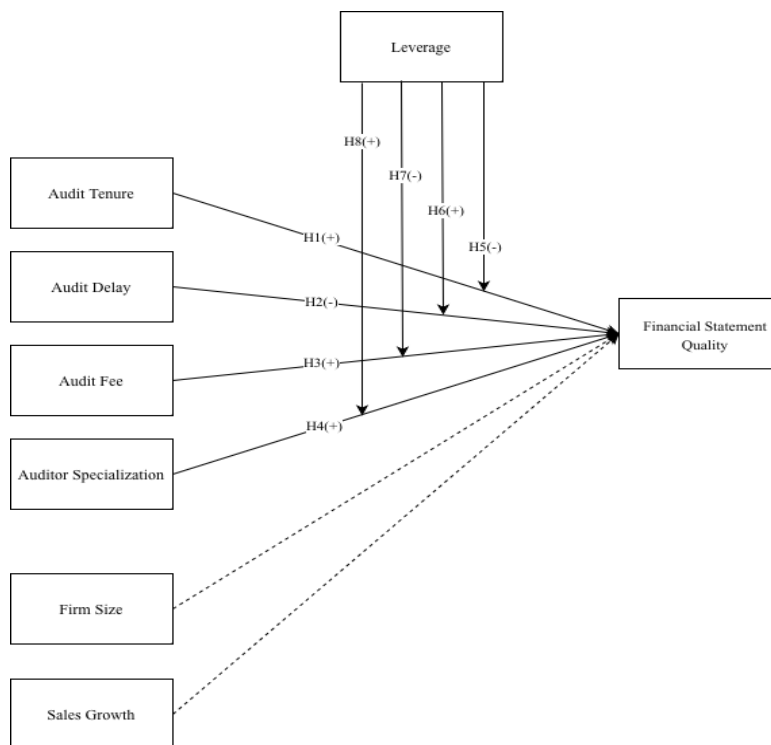


Figure 1. Frame of Mind

METHOD

This study employed a quantitative method with a causal research design and aimed to examine the effect of audit quality on financial statement quality, as well as the moderating role of leverage. The data used were secondary data in the form of annual financial statements of companies in the Consumer Cyclical sector listed on the Indonesia Stock Exchange (IDX) during the period 2022–2024. Sampling was conducted using purposive sampling with the following criteria: (1) the company had completed its IPO before 2022; (2) it provided complete financial statements and audit data for the research period; and (3) there was no negative equity. Based on these criteria, a sample of 53 companies (159 firm-year observations) was obtained.

This study employed a secondary data collection method, with data derived solely from annual financial statements and auditor reports that were publicly available on the IDX official website (www.idx.co.id) and individual company websites. Specifically, data were collected through document analysis and systematic extraction of financial figures, audit report dates, disclosures of audit fees, and information on auditor identity. The data collection period covered fiscal years 2022, 2023, and 2024. To ensure comparability across years, all monetary variables were adjusted for inflation to constant prices using the appropriate annual Consumer Price Index.

Panel data regression analysis was carried out using EViews 12 software. Data were estimated across three model specifications: Model 1 (direct effects only): $DAccrual_{it} = \alpha + \beta_1 Tenure_{it} + \beta_2 Delay_{it} + \beta_3 Fee_{it} + \beta_4 Spec_{it} + \beta_5 Size_{it} + \beta_6 Growth_{it} + \varepsilon_{it}$; Model 2 (with leverage as a direct predictor): $DAccrual_{it} = \alpha + \beta_1 Tenure_{it} + \beta_2 Delay_{it} + \beta_3 Fee_{it} + \beta_4 Spec_{it} +$

$\beta_5LEV_{it} + \beta_6Size_{it} + \beta_7Growth_{it} + \epsilon_{it}$. Variable definitions are as follows: DAccrual = discretionary accruals (Modified Jones Model); LEV = leverage (DER = total liabilities / total equity); Size = natural logarithm of total assets (control variable); Growth = revenue growth rate (control variable). The interaction terms (Tenure \times LEV, Delay \times LEV, Fee \times LEV, Spec \times LEV) represented leverage's moderating effect on each audit quality-reporting quality relationship, in line with H5-H8. Panel data model selection was performed using the Chow test (Fixed vs. Pooled) and the Hausman test (Fixed vs. Random Effects). Classical assumption tests were conducted, covering normality (Jarque-Bera), multicollinearity (VIF < 10), and heteroscedasticity (White test), with remediation applied where necessary.

RESULTS AND DISCUSSION

Results

Classic Assumption Test

The classical assumption tests of normality, multicollinearity, and heteroscedasticity were conducted before running the regression model. The Jarque-Bera normality test indicates a probability value of 0.0000 (< 0.05); hence, the residuals are not normally distributed. However, with a total of 159 observations, according to the Central Limit Theorem, the asymptotic distribution of the regression estimators will be approximately normal even if the residuals are not normally distributed. The multicollinearity test, based on the VIF (Variance Inflation Factor) values, shows that all variables in this study had a Centered VIF value of less than 10, where the highest was found in the audit fee variable, amounting to 1.8401; thus, it can be concluded that there is no multicollinearity problem in the research models. In addition, the heteroscedasticity test using the Glejser test indicated that all variables had a probability value above 0.05, which indicates the absence of heteroscedasticity in the model. Consequently, the regression model fulfills the homoscedasticity assumption, implying that the estimated coefficients are efficient and suitable for subsequent analysis.

The results of the influence test (t-test) were performed after all the classical assumption tests met the requirements, and the results can be seen in Table 1.

Table 1. Panel Regression Test Results

Variable	Model 1		Model 2	
	Coeff	Prob.	Coeff	Prob.
C	-0.02116	0.86070	-0.06674	0.71670
AND	-0.00216	0.69240	-0.00935	0.21300
AD	0.00019	0.29960	-0.00016	0.67840
AF	0.00680	0.27840	0.01147	0.18560
US	-0.00810	0.53720	-0.00544	0.80980
LEV	-	-	0.14234	0.28110
AT_LEV	-	-	0.00918	0.13680
AD_LEV	-	-	0.00011	0.48510
AF_LEV	-	-	-0.00767	0.21490
AS_LEV	-	-	-0.00175	0.95140
FS	-0.00248	0.60620	-0.00309	0.54240
GR	0.00759	0.40720	0.00934	0.31050
Model Statistics				
	Model 1		Model 2	
R2	0.02258		0.07004	
Adj. R2	-0.01601		0.00045	
F-stat	0.58512		1.00646	
Prob(F-stat)	0.74182		0.44356	

Source: Raw data processed using Eviews.

A. F-Test

An F-test is performed to assess whether or not the independent variables simultaneously affect the quality of financial statements. Indeed, Model 1 generates an F-statistic value of 0.58512 and a probability of 0.74182 (>0.05) (see Table 1). These findings indicate that, collectively, the variables of audit tenure, audit delay, and audit fee, as well as auditor specialization, have no significant effect on financial statement quality. In Model 2, with leverage and moderation interaction variables, the F-statistic value was 1.00646, with its probability equal to 0.44356 (>0.05). These findings indicate that none of the variables in the moderation model simultaneously have a significant impact on financial statement quality.

B. The Broader Pattern

The uniform non-significance of all four audit quality proxies both in the direct effects model and the moderation model constitutes a substantively important finding rather than a mere absence of results. In the context of the Consumer Cyclical sector during 2022–2024, this pattern suggests that the conventional audit quality framework (as proxied through tenure, delay, fees, and specialization) may be capturing audit process dimensions that are, in this sector, decoupled from actual earnings quality outcomes. Three theoretical explanations deserve consideration. First, the sector's exposure to revenue recognition complexity particularly around warranty provisions, customer loyalty programs, and multi-element contracts may create reporting risks that standard audit quality proxies fail to capture. Second, the low R^2 of 2.26% in Model 1 indicates that the dominant drivers of financial statement quality in this sector lie outside the audit quality framework most plausibly in governance mechanisms, ownership concentration, and board composition. Third, the uniformly non-significant moderation results suggest that leverage, despite its theoretical role as an amplifier of agency conflicts, does not create measurable differential incentives for audit effectiveness in this specific sector-period combination. These insights collectively redirect attention toward corporate governance and internal control systems as the primary policy levers for improving financial statement quality in Indonesia's Consumer Cyclical market.

C. Coefficient of Determination (Adjusted R^2)

From Table 1, Model 1 has $R^2 = 0.02258$, which indicates that the independent variables explain 2.26% of the variation in financial statement quality, while other factors outside the research model account for 97.74%. However, the Adjusted R^2 is -0.01601 , which implies that very little of the variation is explained by the model. Model 2 shows an increased R^2 of 0.07004, representing an improvement of +7.00% from Model 1's baseline. Although it improved after adding the leverage variable and moderation interaction variables, with an Adjusted R^2 value of 0.00045, the model is still weak in explaining variation in financial statement quality.

D. T-Test

Referring to Table 1, results of the partial test in Model 1 indicate that all independent variables have probability values greater than 0.05, namely audit tenure (0.69240), audit delay (0.29960), audit fee (0.27840), and auditor specialization (0.53720). Firm size (0.60620) and growth (0.40720) are also control variables that have no significant effect on the quality of financial statements. After adding leverage and moderation interaction variables, the Model 2 results for all variables once again remained with probability values higher than 0.05, including leverage (0.28110) along with interaction variables AT_LEV (0.13680), AD_LEV (0.48510), AF_LEV (0.21490), and AS_LEV (0.95140). Therefore, the test results indicate that no significant variables affect the quality of financial statements in either research model.

Discussion

The Effect of Audit Tenure on the Quality of Financial Statements

The study finds that audit tenure does not improve financial statement quality. These findings are in accordance with the works of Sadiq et al. (2023), who indicated that a longer association of auditors with clients does not, by itself, increase the quality of financial statements. However, such conclusions are not consistent with the study of Kalabeke et al. (2019), which

showed that the quality of financial statements can be improved and profit management practices can be suppressed through longer audit tenure. The relevance of the effect of audit tenure in this study is explained by the sample characteristics showing limited variation in auditor engagement periods. The majority of companies in the sample did not switch Public Accounting Firms (PAFs) during the period of observation, so the audit tenure distribution was skewed toward a shorter time interval. This leads to restricted diversity in the audit tenure variable, impeding the variable from demonstrating differences in its impact on financial statement quality. According to agency theory, auditors serve as an independent monitoring mechanism meant to minimize agency costs arising from conflicts of interest between managers and shareholders. Theoretically, the longer auditors are engaged with reporting entities, the better they are expected to understand the underlying nature of those companies, thus hopefully leading to improved financial statement quality. However, long-term relationships also risk creating a degree of closeness that could threaten the independence of auditors. In the current research context, the generally low strength of this relationship is not significant enough to affect financial statement quality due to relatively short auditor engagement. A possible institutional explanation for this finding is that mandatory audit firm rotation rules in Indonesia is regulated under *Peraturan Otoritas Jasa Keuangan (POJK) No. 9 Tahun 2023* concerning the Use of Public Accountant and Public Accounting Firm Services in Financial Services Activities, the Indonesian Financial Services Authority imposes a limitation on audit engagements by individual audit partners. For public companies, the tenure of the same audit partner is restricted to a maximum of seven cumulative years. After reaching this limit, the audit partner may only be re-engaged following a cooling-off period, which varies depending on their role in the engagement. This regulatory constraint may truncate tenures before either learning effects (beneficial) or familiarity threats (detrimental) are empirically observable. In a sector as cyclically volatile as Consumer Cyclical, where client-specific learning is accumulated over shortened observation windows, audit tenure may be too brief to detect systematic effects on discretionary accruals.

The Effect of Audit Delay on the Quality of Financial Statements

The findings of the study indicate that audit delay does not influence financial statement quality. These results contrast with the research of Tanujaya et al. (2024), which showed that changes in financial statement quality are associated with delays in the completion of audits. In this study, the majority of companies included in the sample filed their financial statements within a reasonable period of time as prescribed by applicable reporting provisions. The time for timely completion is relatively normal and does not directly reflect a systematic delay in the audit process. As such, the difference in audit delays between companies is also quite limited, not showing enough spread to significantly affect financial statement quality. Under the lens of agency theory, auditors provide a neutral monitoring mechanism that can help minimize information asymmetry between management and shareholders. Theoretically, an audit duration that is too long may suggest the presence of reporting complexity or certain risks in the financial statements. However, in this study, the relatively slight and unsystematic variation in audit delays has made the variable not strong enough to significantly affect the quality of company financial statements in the research model.

The Effect of Audit Fees on the Quality of Financial Statements

According to the outcome of the study, audit fees do not influence the quality of financial statements. Similar findings were reported by Sadiq et al. (2023), who discovered that audit fees are not always associated with enhanced quality of financial data. These findings contrast with Baaba Amanamah (2024), who found that audit fees could enhance firms' compliance with financial reporting standards. In the cases examined in this study, where audit fees evolved slowly over the study period, there is little to no spurious relationship between audit fee levels and financial statement quality. While audit fees remained relatively constant, the amount paid to auditors is not directly linked to improving company financial statement quality. Using agency theory, audit fees can be considered an economic incentive for auditors in exchange for the services rendered. In theory, higher audit fees can indicate greater assignment complexity or greater audit effort. However, on the other hand, they can also compromise the independence of

the auditor if he or she is economically dependent on the client. The stable trend of audit fee changes in this study illustrates that economic pressures have not effectively impacted financial statement quality. This might also suggest that the absence of an audit fee effect among mid-cap Consumer Cyclicals companies may simply reflect a compressed fee range, where there is insufficient differentiation among fees to signal meaningful differences in audit effort. This means that fee variation across firms may reflect differences in firm size rather than audit complexity since the firms in this sector are relatively homogeneous unlike the variance one might observe in contrasting sectors such as financial services or infrastructure.

The Influence of Auditor Specialization on the Quality of Financial Statements

This result stands in contrast with the research of Soroushyar (2023), who found that specialist auditors have a better ability to enhance the quality of financial statements. In this study, relatively few auditors were identified as specialists compared to non-specialist auditors. Since most companies in the sample do not use auditors who are dominant within the same industry, the auditor specialization variable is unbalanced in its distribution. This can lead to restricted variable variance and significant challenges for models in identifying major factors that affect financial statement quality. From the agency theory perspective, auditors who specialize in a certain industry are assumed to have a better understanding of business characteristics and company-specific risks, which could help them enhance the effectiveness of financial statement oversight. However, the relatively low percentage of specialist auditors in this study, as well as the fact that specialist auditors are not dominant among the auditing firms in the sample, prevents these competencies from yielding significant differences with regard to financial statement quality.

The Role of Leverage as a Moderator on the Relationship Between Audit Tenure and Financial Statement Quality

The study findings indicate that leverage cannot moderate the relationship between audit tenure and financial statement quality. Hence, the degree of corporate leverage neither enhances nor dilutes the association between client-auditor tenure and financial reporting quality. This result contradicts the research conducted by Masud (2021), which proves that leverage significantly influences financial statement quality, but confirms the research carried out by Aulawy & Utomo (2021), which found no significant effect of leverage on financial statement quality. The differences can be attributed to variations in the role of leverage in the research model. While this study did not test leverage as a core independent variable contributing to financial statement quality, leverage is used in the analysis as a moderating variable assumed to affect the effectiveness of audit tenure as a supervisory mechanism. In practice, companies with high leverage are under scrutiny from creditors, which means they require more robust supervisory mechanisms in order to reduce conflicts of interest between management and outside parties from an agency theory perspective. In theory, audit tenure helps auditors gain insight into company attributes, thereby enhancing efficiency and improving financial statement quality. Nonetheless, in this study, the structure of intercompany liabilities is relatively stable and characterized by accounts payable and traditional operating liabilities. Moreover, the companies' leverage levels during the study period remained stable, which did not create sufficient financial pressure. As a result, leverage cannot be shown to affect the relationship between audit tenure and financial statement quality.

The Role of Leverage as a Moderator on the Relationship Between Audit Delay and Financial Statement Quality

The findings indicate that leverage does not moderate the relationship between audit delay and financial statement quality. These research results agree with the research of Budiono and Shanti (2024), which explains that leverage is not a factor that can determine financial statement quality. However, these results differ from those of Digidowiseiso et al. (2022), which found that leverage had a significant effect on financial statement quality. The difference may be due to the differing focus of the tests. In the previous research, leverage is the main variable affecting financial statement quality, whereas in this study, leverage is being tested as a

moderating variable between audit delay and financial statement quality. The argument is that firms with high leverage may face additional creditor scrutiny, which can complicate the audit process and prolong the time required for its completion. However, in this study, the corporate liability structure was stable and mainly composed of accounts payable and operational liabilities, which did not exhibit significant changes in complexity throughout the study period. Under these conditions, leverage does not amplify the relevance of audit delay to financial statement quality. Hence, the moderating role of leverage in the relationship between audit delay and financial statement quality is not empirically supported.

The Role of Leverage as a Moderator on the Relationship Between Audit Fees and the Quality of Financial Statements

The findings of the study indicate that leverage does not have a moderating effect on the relationship between audit fees and financial statement quality. Tested as an independent variable, the results are in accordance with the research of Lilis et al. (2024), which did not find a significant effect of leverage on financial statement quality. However, this outcome contradicts Masud (2021), which indicates that leverage has a significantly positive impact on financial statement quality. In this study, leverage is put forth as a moderating variable anticipated to influence the effectiveness of audit fee levels in improving financial statement quality. However, the findings indicated that corporate leverage did not moderate the relationship between audit fee levels and financial statement quality. According to agency theory, firms with high leverage face pressure from creditors and therefore require more stringent control through an audit mechanism. However, in the sample, corporate liabilities were relatively stable and dominated by accounts payable and operational liabilities, which did not exhibit significant increases in complexity over the study period. Additionally, the companies' leverage levels tended to be stable, which did not generate significant financial pressure. Under these circumstances, changes in audit fees are not directly related to increased risks arising from the company's capital structure; therefore, leverage does not act as a moderator that reinforces the relationship between audit fees and financial statement quality.

The Role of Leverage as a Moderator on the Relationship Between Auditor Specialization and the Quality of Financial Statements

Results show that leverage is not a moderator on the relationship between auditor specialization and financial statement quality. These results have been compared to previous studies that proposed leverage as an independent variable affecting financial statement quality. Lilis et al. (2024) found that there is no difference in financial statement quality between companies with high leverage ratios and those without, while Masud (2021) states that leverage does have an effect on financial statement quality. In this research, leverage is treated as a moderating variable that strengthens the role of specialist auditors in improving financial statement quality. From an agency theory perspective, firms facing high financial leverage must deal with pressure from creditors, which constrains the ease of financial statement reporting. In such cases, it is assumed that auditors with industry specialization are better positioned to understand business characteristics and industry-specific risks, enabling them to enhance audit quality and the reliability of financial statements. Nonetheless, the structure of corporate liabilities was quite stable in this study and mainly consisted of accounts payable and traditional operational liabilities, which did not display marked complexity during the study period. Under these conditions, the reporting pressure is not high enough to create a demand for auditor industry expertise. Therefore, the role of specialist auditors does not become increasingly important as leverage increases; as a result, leverage by no means acts as a moderating factor on the relationship between auditor specialization and financial statement quality.

CONCLUSION

Audit-related variables (audit tenure, audit delay, audit fees and auditor specialization) have no effect on financial statement quality in this sector. Our findings imply that the limited dispersion in public firm auditors, along with regulatory limits on auditor tenure (i.e., mandatory auditor rotation) and business continuity factors leave minimal cross-sectional variation for this

explanatory power. Moreover, there is an insignificant effect of leverage as a moderating variable in moderating or weakening the relationship between audit variables and financial statement quality. This indicates that the amount of corporate debt in the surveyed companies does not exert enough pressure to change audit mechanism effectiveness. In summary, the findings suggest that factors of institutional, structural, and sectoral nature are key determinants of financial statement quality, in addition to conventional audit-related determinants. For further research, a broader analysis by including firms from various sectors with different characteristics will be considered in order to increase variability and generalizability. Researchers can also enhance their model (financial reporting quality) by adding more variables such as corporate governance, earnings management, or audit committee effectiveness as determinants of financial statement quality. Also, deployment of alternative methodological frameworks like longitudinal or mixed-method designs can offer more profound perspectives on dynamic relationships and other contextual influences affecting audit effectiveness.

ACKNOWLEDGEMENT

The authors would like to thank Universitas Tarumanagara Jakarta, for providing academic support and facilities in the preparation of this research. Thanks also to Indonesia Stock Exchange (IDX) for granting access to the financial data used in this study. In addition, the authors would like to thank all individuals and organizations involved in providing valuable insights, constructive criticism and guidance during the research and writing process of this manuscript, including but not limited to lecturers, colleagues and reviewers.

AUTHOR CONTRIBUTION STATEMENT

Khairani Nurhadiza has contributed to investigation, the study conceptualization and manuscript drafting. Hendro Lukman helped to develop the research design, supervised, validated the analytical methods used in this study, and critically revised the manuscript. Hendang Tanusdjaja assisted with methodological refinement, results interpretation and final manuscript editing. The authors read and approved the final manuscript and agree to be accountable for all aspects of the work.

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