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The Role of Family Business in Selecting Audit Quality

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ABSTRACT

Purpose: This study concerns with a descriptive analysis of the differences between family business and non-family business as seen from audit fees and audit quality. Audit quality is measured from the size of KAP and industry specialization. In addition, this study analyses the impact between family ownership on audit quality (KAP size and industry specialization). This study examines the influence of audit committee effectiveness on the audit quality.

Design/methodology/approach: This study used logistic regression analysis. The unit of analysis in this study is the financial statements, while the population is all manufacturing companies listed on the IDX, while the sample in this study is manufacturing companies from 2014 to 2016.

Findings: The results of this study states that there is no difference between family and non-family business in selecting quality. Second, there is a difference in audit fees between family and non-family business. Third, there is an influence between family ownership and audit fees. This can be interpreted that business in Indonesia which are mostly owned by families, have a very important influence on how much the audit fees incurred for independent parties. Fourth, there is an influence between family ownership and audit quality (based on KAP size). Fifth, there is an influence between family ownership and audit quality (based on industry specialization). Sixth, there is an influence between the effectiveness of the audit committee and audit quality (based on the KAP size). Seventh, there is an influence between the effectiveness of the audit committee and audit quality (based on industry specialization).

Research limitations/implications: Sample in this study is manufacturing only companies from 2014 to 2016 with total 112 sample financial reports.

Practical implications: Further research can add samples and variable

Originality/value: This paper is original

Paper type: Research paper

Keyword: And Audit Quality , Audit Fees, Family Ownership

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I. INTRODUCTION

Internal factors such as business governance, business financial health, character and board structure to the characteristics of the business itself are factors that are directly related to the business concerned (Januarti, 2009). Business governance can have a direct impact on business management. With good governance, all forms of fraud that harm business owners will be abdullahminimized (Azam and Abdullah, 2015). This will affect the business audit needs on the selection of audit quality level.

Another element of governance is the ownership structure. The ownership structure is the basis of business governance which is quite important because the ownership structure can have a direct influence on the board of directors (Usman *et al.*, 2019). The ownership structure itself has several types: concentrated ownership, foreign ownership, institutional ownership, public ownership, and managerial ownership. The ownership structure of

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each business is different and forms different business governance characteristics so that the selection of audit quality will be certainly different. This is supported by research (Zureigat, 2011) . which states that the structure of business ownership in this case is foreign and institutional ownership that has a significant relationship to audit quality. In addition, Azam and Abdullah, (2015) states that ownership structure is ownership concentration which has a significant effect on audit quality.

Audit quality in this study was measured by two proxies, namely industry specialists and KAP size. The auditor industry specialist is the concentration of auditor services in certain fields. The determination of this specialist is from the frequency of KAP assignments in conducting audits of similar business, namely manufacturing business. Industry specialists in this study are auditors who have a minimum market share 20% of the total number of clients accepted in certain industry groups Rusmin,(2010) The second proxy is the KAP size. Based on the study done by (Abbot and Parker, 2000), (Utami, 2012) and (Vidyata, Diyanti and Wardhani, 2017)they divided auditor size into 3 parts, namely Big Four, Second Tier, and Others.

In addition to audit quality, the ownership structure is also related to audit fees. Khan, Chand and Patel, (2013) states that the concentration of ownership by individuals, families or institutions causes more effective oversight of managerial activities and financial reporting processes. Based on this statement, the arisen impact is the owner can prevent managers from taking actions such as fraud or expropriation of non-controlling shareholders. Reducing the risk of fraud will reduce the audit effort and the determined audit premium. As a result, it can reduce the audit fees that are billed to the client from the auditor.

Decreasing the risk of fraud can be recognized from how the business governance itself, especially in terms of the audit committee whether the committee has been effective in forming good governance or not. The ownership structure with family ownership will tend to pay attention to the quality of the audits chosen and supported by the role of the audit committee of their business. (Kamal and Ferdousi, 2006) declared that the effectiveness of the audit committee is very important because the independence of the audit committee will ensure the running of good business governance in the company. This is also supported by Kusumawati and Hermawan, (2013) who stated that the effectiveness of the audit committee through the audit committee's characteristics influences the activities of the audit committee itself.

Based on the ownership structure, audit quality and audit fees, it can be concluded that the concentration of ownership is related to audit fees, while family ownership affects audit fees. This shows that concentrated business tend to have more effective controls and supervision, thereby reducing the risk of expropriation and control risk which will have an impact on decreasing audit fees. Based on this background of the study, the writer intends to examine whether the ownership structure, in this case is family ownership, has an influence on audit quality and audit fees.

A. STATEMENTS OF THE PROBLEM

1) Is there any difference between family and non-family companies in choosing audit quality?
2) Is there any difference between family and non-family ownership in determining the amount of audit fees?
3) Is there any influence of family ownership on audit fees?
4) Is there any effect of family ownership on the audit quality selection (KAP size)?
5) Is there any influence of family ownership on the audit quality selection (Industry Specialization)?
6) Is there any influence on the effectiveness of audit committee toward the audit quality selection (KAP size)?
7) Is there any influence on the effectiveness of audit committee toward the audit quality selection (Industry Specialization)?

II. LITERATURE REVIEW AND HYPOTESIS DEVELOPMENT

A. **Agency Theory**

Agency theory states that management and owners have different interests (Jensen and Meckling, 1976). Business that separate management and ownership functions will be vulnerable to agency conflict (Croxton *et al.*, 2001). In the agency model, a system constructs both parties. Consequently, working agreement is required between the owner (principal) and management (agent). The agreement is expected to maximize the utility of principals, be able to satisfy and guarantee agents to receive rewards from the business management activities. The difference in importance between the owner and management lies in maximizing the benefits (utility) of the owner (principal) with the constraints (utility) benefits (utility) and incentives that will be received by management (agent). In this case, different interests often arise conflicts of interest between shareholder (Chandra and Putra, 2016)s / owners (principal) and management (agent).

B. Audit Quality

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DeAngelo, (1981) defines audit quality as the probability that an auditor discovers and reports about a violation in his/her client's accounting system. The probability of finding a violation depends on the auditor's technical ability and auditor's independency. Some studies such as (DeAngelo, 1981);(Goldman and Barlev, 1974); (Nichols and Price, 1976) generally assumes that auditors with their expertise and independence will be able to find a violation. This shows that the ability of auditors who are supported by experience and the level of professionalism can precisely determine the level of materiality Kartika, (2010) so that the auditor can easily detect violations.

One indicator to measure audit quality is through the size of public accounting firms Palmrose, (1988) and DeAngelo, (1981), where to protect their reputation, large auditors generally have a higher society in order to maintain their reputation. According to DeAngelo, (1981) that the larger the size of a public accounting firm the better the quality of the resulting audit, this is also supported by (Choi and Pae, 2011)

Table 2. Global KAP Big 4 and KAP Non-Big 4 Global Incomes

No	KAP (Accounting Firm)	Global Income** (in Million US$)
	Big 4 Companies	
1	Pricewaterhouse Coopers	3,979.50
2	Deloit & Touche	3,967.14
3	Ernest & Young	3,124.20
4	KPMG	2,436.48
	Companies which income more than US$ 100 million	
5	RSM/Mc Gladrey & Pullen	651.17
6	Grant Thornton	539.17
7	BDO	372.00
8	Crowe Horwath	330.20
9	BKD	204.36
10	Moss Adams	158.27
11	Plante & Moran	150.60
	Companies which income less than US$100 Million	
12	Chery, bekaert & Holland	59.15
No	KAP (Accounting Firm)	Global Income** (in Million US$)
13	Marks Paneth & Shron	53.55
14	Carr, Riggs & Igram	50.12
15	Kearney & Co	46.92
16	Anchim, Block & Anchin	42.68

Source: Top 100 Firms Accounting Today, BNA Tax & Accounting Thomson Reuters, 2010

*** Global incomes are only from auditing and assurance services.*

Table 2. implies that the global income of Big 4 KAP quite far differs compared to the Non Big 4 KAP. For example, the smallest Big 4 KAP income namely KPMG still has an income four times greater than the income of the Non Big 4 KAP which is RSM International. This provides evidence that in terms of income side, the two types of KAP differ significantly. Non Big 4 KAP itself is also divided again in terms of income, namely KAP with income above US $ 100 Million and KAP with income below US $ 100 Million. The KAP income that exceeds US $ 100 Million is indeed quite large, yet it is still not as big as the Big 4 KAP, so that it is classified as a second tier KAP. In Indonesia, several type of KAP has often been classified, but generally informal and not standardized. KAP grouping into Big 4 and Non Big 4 is generally measured not by the amount of income but by the number of auditors. Based on data from the Ministry of Finance in 2009, there were 389 KAPs in Indonesia with a total of 10,159 auditors, of whom 1,579 were registered auditors. From that data. KAP can be divided into 3 groups based on the number of auditors (Soedibyo, 2010). :

1. 4 KAP with professional staff > 400 people
2. 12 KAP with a number of professional staff between 100 - 400 people
3. 373 KAP with professional staff number < 100 people

From these data, it can be grouped into big 4 big KAP, medium or second tier KAP, and small KAP. The three KAP groups also have international cooperation. Here are some KAPs that work together with international networks or associations of independent companies:

Table 2. KAP International Network

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No.	Name of KAP	International Network
1	Haryanto Sahari & Rekan	Pricewaterhouse Coopers
2	Osman, Bing Satrio & Rekan	Deloitte Touche Tohmatsu
3	Purwantono, Sarwoko & Sandjaja	Ernst & Young Global
4	Siddarta, Siddarta & Widjaja	KPMG International
5	Aryanto, Amir usuf & Mawar	RSM International
6	Doli, Bambang, Sudarmaji & Dadang	BKR International
7	Hadori & Rekan	HLB International
8	Hendrawinata, Gani & Rekan	Grant Thornton International
9	Jimmy Budhi & Rekan	Praxity AISBL International
10	Johan, Malonda, Astika & Rekan	Baker Tilly International
11	Kanaka, Puradireja, Suhartono	Nexia International
12	Kosasih & Nurdiyaman	Geneva Group International
13	Mulyamin, Sensi, Suryanto	Moore Stephens International
14	Paul hadiwinata, Hidayat, Arsono & Rekan	PKF International
15	Rama Wendra	Parker International
16	Tanubrata, Sutanto & Rekan	BDO International

Source: Ministry of Finance, in Soedibyo, (2010)

Audit quality measurement can also be seen from KAP ranking. Besides being measured by dividing KAP into Big Four and Non Big Four, (Ibrahim and Mohd, 1999) and Almilia, (2004) divided audit quality measurement according to rating based on the number of clients. Rank 3 for companies audited by auditors who have the most clients, and scale one for companies audited by auditors who have the fewest clients.

C. Audit Fees

Audit fee is the amount received by the auditor by considering various things such as the complexity of the services provided, the level of expertise and others. According to Agus, (2012), audit fees are costs that depend on the risk of the assignment, the complexity of the services provided, the level of expertise required to carry out the services, the KAP fee structure concerned and other professional considerations. There are four indicators of audit fee indicators: Assignment risk, Complexity of services rendered, Public accountant fee structure and other professional considerations of KAP size.

D. Family Business

Family business is a company that is owned, controlled, and run by members of one or more families or managed by family members. However, this does not mean that all workers in the company must be family members. Many family companies, especially small companies, employ other people to occupy lowly positions, while high positions (top managers) are occupied by people from the company owner's family. For example, the owner of the company is his father, the director is the first child and the deputy director is the second child. Many family companies have had extraordinary success, such as Maspion Group, Ciputra, Sidomuncul, Emco and Nyonya Meneer (although currently Nyonya Meneer has been declared bankrupt). Basically, family participation in the company can strengthen the business because family members are very loyal and highly dedicated to the family-owned business. Family ownership is the percentage of shares owned by family members in a company La Porta, Lopez-de-Silanes and Shleifer, (1999), Claessens, Djankov and Lang, (2000), Arifin, (2010), Fitri, Savitri and Al Azhar, (2019) . Family ownership is defined as the whole of individuals and companies whose ownership is recorded (ownership above 5% must be recorded), except for public companies, the State, financial institutions.

Family business is a form of business that involves some family members in ownership or business operations. The effectiveness of the family's role in the company can be seen from the three forms of family business:

1. Family owned business (FOB), where the family is only a shareholder, the management of the company is handed over to professional executives from non-family members, and other relatives do not control the company.
2. Family business (FB), where the family acts as a shareholder also takes care of the company. It means the company is owned and managed by a founding family member.

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3. Business family (BF), as the owner of a company tends to emphasize kinship relations only.

E. The Effectiveness of the Audit Committee

According to OJK Regulation 55/2015, the Audit Committee is a committee formed by and responsible to the Board of Commissioners to help carrying out the duties and functions of the Board of Commissioners. The Audit Committee consists of at least 3 (three) members who are independent commissioners and parties from outside the issuer or public company. The Audit Committee is known by the Independent Commissioner. Duties and responsibilities of the Audit Committee include as follows:

1. Reviewing financial information that will be issued by public business to owners and / or authorities, including financial reports, projections and other reports with information from the public company.
2. Reviewing compliance with laws and regulations relating to the activities of the public company.
3. Providing an independent opinion if there is a difference of opinion between management and the accountant for the services provided.

Therefore, it can be concluded that the audit committee is a committee formed by and responsible to the Board of Commissioners to help carrying out the duties and functions of the Board of Commissioners. The establishment of this audit committee is flexible and can be formed, not imperative so it is in accordance with the policies and considerations of the Board of Commissioners, but for issuers / public companies must have an audit committee consisting of at least three members.

F. Theoretical Framework

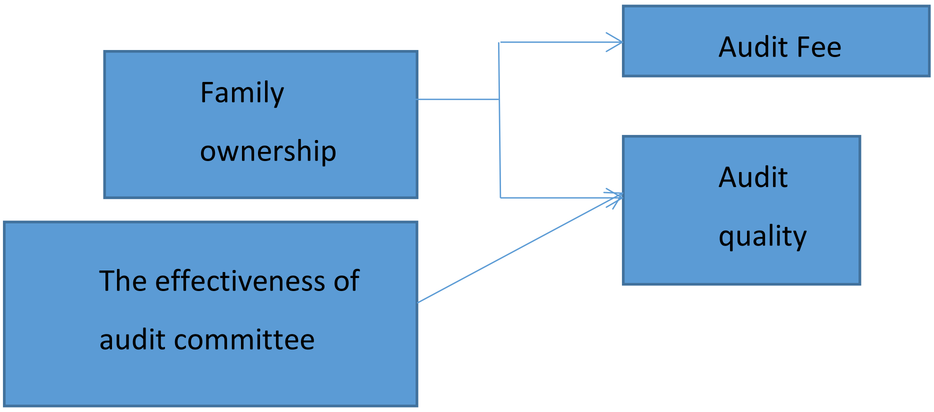

Figure 1. Theoretical Framework

G. Hypothesis

The Effect of Family Ownership on Audit Fees

According to supply-side theory, Simunic Kang *et al.*, (2013) states that company characteristics influence the audit work that will affect the amount of audit fees payment. Bell *et al.*, (2001) proved that audit fees will increase if partners' assessments of business risks also increase. It can be said that the auditor will increase the amount of audit fees when the client company's governance is weak and when there is a risk of high profit manipulation. Companies that have a high family ownership will encourage business owners to supervise managers closely which can reduce the risk of material misstatement in financial reporting. With the lower audit risk, the lower the audit costs incurred by a company to pay for external audit services. Based on the explanation above, hypothesis 1 is as follows:

H1: Is there any influence between family ownership on the audit fees?

H. The Effect of Family Ownership on Audit Quality

Family business is a company that is owned, controlled, and run by members of one or more families or managed by family members. However, this does not mean that all workers in the company must be family members. Family ownership is identical to managerial ownership where the managers are family members. If the manager has shares in the company, the manager will tend to avoid actions that can harm the company such as fraud. As the result, if the managers are family members, fraud will be minimized. The impact is that they will tend to choose a low quality audit because the control system is quite good. The greater ownership of managers will push to prioritize the interests of shareholders and avoid actions that are detrimental to the owner

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of the business itself. The greater ownership owned by the family will reduce opportunistic actions that are generally carried out by manager.

H2: Is there any influence between family ownership on audit quality (based on KAP size)?

H3: Is there any effect between family ownership on audit quality (based on industry specialists)?

I. The Impact of the Committee Audit Effectiveness on Audit Quality

The greater number of audit committee members will be able to work more effectively to oversee financial reporting by company management Choi and Pae, (2011). Kent and Stewart, (2008) considered that the size of the audit committee has the effect on delivering information. Persons, (2009) stated that the number of audit committee members is suitable for encouraging ethical disclosure because a number of recommendations for committee members or the board of directors convey voluntary ethics. Increasing membership of the audit committee tends to improve the quality of financial reporting which will improve the function of independent oversight of financial reports and the quality of audits carried out by external auditors. The role in this case is the public accounting firm (KAP) both in terms of KAP size and market share owned by KAP. Based on the explanation above, hypotheses 4 and 5 of this study are as follows:

1. H4: Is there any influence between the effectiveness of the audit committee and audit quality (based on KAP size)?
2. H5: Is there any effect between the effectiveness of the audit committee and audit quality (industry specialization)?

III. METHODOLOGY

A. Family Ownership

Family ownership is defined as ownership of individuals and ownership of a private company (above 5%) which is not a public, state or financial institution. Family ownership is often interpreted as concentrated ownership. This study used the percentage of family ownership that if the investor owns directly or indirectly 20% or more of the voting rights of the investee, the investor is considered to have a significant influence.

Family Ownership = Percentage of family ownership

B. Effectiveness of the Audit Committee (X2)

The measurement of the effectiveness of the audit committee referred to the 2015 *Asean Corporate Governance* item for the audit committee. The use of *Asean Corporate Governance* was issued by institutions in corporate governance and be a framework for assessing corporate governance. The measurement of the effectiveness of the audit committee referred to the research held by Jihat and Dyanti (2017). The audit committee was measured based on the number of audit committees in the company.

Effectiveness of the Audit Committee = The number of Audit Committee

C. Audit Fees (Y1)

This fee measurement was in the form of nominal data (rupiah) listed in the company report. Hence, companies that become samples had to present professional audit fee data.

Audit Fee = Fee for external audit services

D. Audit Quality (Y2)

Audit quality in this study was proxied in two sizes. The first measure was audit quality proxied by KAP size. Measurement of this variable was based on research by Abbot and Parker, (2000), Utami, (2012) and Vidyata, Diyanti and Wardhani, (2017). Utami, (2012) divided auditor size into 3 parts, namely Big Four, Second Tier, and Others. Value 1 was for the company which was audited by KAP Others, value 2 for the company which was audited by Second Tier, value 3 for the company which was audited by KAP Big Four. This study only used 2 KAP sizes.

E. KAP size = 1 KAP Big Four, 2 KAP Non-Big Four

Second: Industry specialists in this study were the auditors who had a minimum market share 20% of the total number of clients accepted in certain industry groups (Rusmin, 2010). Measurement of this variable used a dummy variable, i.e. if the company was audited by a specialist auditor, the value is 1, but if it was audited by a non-specialist then the value is 0. The calculation of this industry specialist was done with data of 6 (six) years to see whether during the 6 (six) years the company switched KAP regularly. The determination of seven years was chosen because IAPI regulations stated that companies had to switch KAP min for 6 (six) consecutive years.

Industry Specialist = 1 Specialist and 0 Non-Specialist

F. Unit of Analysis, Population and Samples

The unit of analysis in this study was the financial reports, while the population was all manufacturing companies listed on the IDX. The sample in this study was a manufacturing company from 2014 to 2016 with a sampling technique that was purposive sampling with the criteria: manufacturing companies that included audit fees in its financial reports.

G. Technique of Data Analysis

This study used a hypothesis model to solve several problems. Hypothesis 1 used simple regression analysis that tested between one independent variable on dependent variable, while for testing hypotheses 2,3,4 and 5, the writer used the Logistic Regression Analysis test. This study also looked descriptively to assess the differences between family and non-family business related to the amount of audit fees for external audit services as well as the descriptive differences between family and non-family business regarding the selection of audit quality which was measured by the KAP size and type of specialist industry of the KAP.

IV. RESULTS AND DISCUSSION

A. RESULT

Descriptive Analysis

The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2016 whose samples were manufacturing companies that reported audit fees on financial records with total 112 sample financial reports.

Descriptive analysis in this discussion was used to answer the problems related to difference. This study also discussed the analysis of differences between family business and non-family business in choosing audit quality as well as analysis of differences in audit fees. The results of the analysis were:

1. There are differences between family and non-family business in choosing audit quality.
   Based on the results of the independent sample test analysis, the significance value of the levene's test of equality of variance 0.063> 0.05 accepts Ho, indicated that if the variance is the same, the sig value used is sig equal variances assumed 0.674> 0.05, so it can be concluded that there is no difference (hypothesis be accepted).
2. The results of the different test analysis show that there is no difference between family and non-family business in choosing audit quality based on industry specialists. Industry specialists in this study were measured by how the KAP audited similar business. The results of this study indicated that although the KAP is a specialist or non-specialist, it does not become a differentiator for both family and non-family business.
3. There are differences in audit fees between family and non-family business.
   Based on the results of the independent sample test analysis, the significant value of the levene's test is equality of variance 0.106> 0.05 accepting Ho. This shows that if the variance is the same, then the sig value used is sig equal variances assumed at 0.477> 0.05, so it can be concluded that there is no difference (hypothesis accepted).
4. The results of the different test analysis show that there are differences between audit fees between family and non-family business. This means that audit fees provided by family and non-family business do not become a differentiator in determining the amount of compensation for services given to independent parties. Audit fees are measured by the amount of rupiah listed in the financial reports.

B. DISCUSSION

There is An Effect Between Family Ownership on Audit Fees (H1)

Based on the results of the regression analysis, the coefficient values sig 0.000 <0.05 indicate that the hypothesis is accepted. These result means that there is an influence between family ownership of audit fees. This can be interpreted that companies in Indonesia which are mostly owned by families have a very important influence on how much the audit fees incurred for independent parties. The data tabulation results show that if the company is owned by a family, the audit fee is relatively large. This is because family companies have complexity in assessing the reasonableness of financial reports related to manipulation of financial data. This is one of the things that causes a large audit fee. This result is in line with the research of Primasari and Zulaikha,

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(2017), Fan and Wong, (2005) which states that a high concentration of ownership affects the selection of auditors. The result of these studies do not support the research of Ho and Kang, (2013) which stated that family business prefers to recruit auditors from non-Big 4 KAPs and research by Andriyani and Laksito, (2017) and Ali and Lesage, (2013) which stated that there are two effects the opposite is the alignment effect and entrenchment effect on family business whose share ownership is dominated by managerial parties (Chau and Leung, 2006). The relationship between audit fees and family ownership depends on the trade-offs of the two conflicts.

There is an influence between family ownership on audit quality (based on KAP size) H2

Logistic regression analysis shows that iteration history shows a number that always decrease every step from 370,618 to 354,676. This shows that the model is fit. The results of the omnibus test of model coefficients show a sig value of 0.00 <0.05 which states the data is fit. Variables in the equation in the results of logistic regression analysis showed a sig value of 0.000 <0.05 which states that the hypothesis was accepted.

The results of the regression analysis concluded that there is an influence between family ownership on audit quality as measured by the type of KAP (Big 4 and non-Big 4). This shows that the family-owned business will choose Big 4 KAP, where the family business is a business whose organizational structure is managed by the family so it must be more incentive to examine financial reports. Thus, family-owned business tend to choose Big 4 KAP.

Shareholders who have a majority shareholding in their business are certainly not speculative investors but investors who really intend to invest in order to advance the company. The owner is certainly more concerned with the company's value and tends to be more protective of his/her assets. This will encourage business owners to minimize all forms of cheating by choosing high quality (Cahyono, Andini and Raharjo, 2016). It can be said that the greater concentration of share ownership of a company will be encouraged to use the Big Four KAP which will be able to protect its assets in the company from fraudulent profit management and increase the value of the company to external parties. The result of this study supports the research of Pratama and Syafruddin, (2013) and Abdullah, Ismail and Jamaluddin,(2008) which stated that the greater concentration of ownership will increasingly encourage business owners to use Big Four category of KAP services to audit the company's financial reports. This study is not in line with the research of Ho and Kang, (2013) which stated that family ownership had a negative effect on the choice of auditors where the family company preferred to recruit auditors from Non-Big 4 KAP compared to non-family companies.

There is An Influence Between Family Ownership on Audit Quality (Based on Industry Specialists) H3

Based on logistic regression analysis, iteration history shows a number that always decrease every step from 369,459 to 350,870 which indicates that the model is fit. The results of the omnibus test of model coefficients show a sig value of 0.00 <0.05 which states that the data is fit. Variables in the equation in the results of logistic regression analysis showed a sig value of 0.000 <0.05 which states that the hypothesis is accepted.

The results of logistic regression show that there is an influence between family ownership on audit quality. Audit quality is measured based on the KAP auditing the company whether it included into the category of industry specialist or non-industry specialist. It might be regarded as industry specialists if the KAP audits similar companies which is more than 20%. The results of this study indicate that family business will tend to choose auditors / KAP which are industry specialists that investors interested in. The results of this study supports Rahmat, Iskandar and Saleh, (2009) which states that in order to be effective in carrying out their duties, an audit committee must have sufficient members (not too small or too large). According to the General Guidelines for Corporate Governance in Indonesia (Indonesia, 2006) the number of committee members must be adjusted to the complexity of the company while taking into account the effectiveness of decision making.

There is An Influence Between The Effectiveness of The Audit Committee with Audit Quality (Based on KAP Size) H4

Logistic regression analysis shows that the iteration history is always decreasing from 368,934 to 356,094. This means that the model is fit. The table of omnibus test of model coefficients shows the value of sig 0.00 <0.05 which states that the data is fit. Variables in the equation in the results of logistic regression analysis showed a sig value of 0.002 <0.05 which states that the hypothesis is accepted.

The results of the regression analysis showed that there is an influence between the effectiveness of the audit committee on audit quality. Audit quality in this hypothesis is shown by the KAP size, Big 4 and non-Big 4. In relation to the family company, of course, the number of audit committees which is responsible for the board of commissioners will prefer the KAP with a size of 4. The effectiveness of the audit committee in carrying out the duties and functions of the board the commissioner is conducting a review of the financial information to be released by the company to the public, e.g. financial statements, projections and other reports related to company financial information. The results of this study do not support the study done by Rustiarini, (2012) and Othman *et al.*, (2014)

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There is An Influence Between The Effectiveness of The Audit Committee And Audit Quality (Based On Industry Specialists) H5.

Logistic regression analysis shows that iteration history always decreases in every step from 368,934 to 356,094. This means that the model is fit. The table of omnibus test of model coefficients shows the value of sig 0.00 <0.05 which means the data is fit. Variables in the equation in the logistic regression results show sig 0.002 <0.05 which states that the hypothesis is accepted.

The results of the regression analysis indicate that there is an influence between the effectiveness of the audit committee on audit quality. Audit quality in this hypothesis is shown by selecting whether the KAP is an industry specialist or not. The results of this study are in line with the previous hypothesis which states there is an influence of the audit committee with the KAP size. This also shows that if the audit committee prefers to consider the KAP size, the audit committee will tend to choose the type of KAP with industry specialists in carrying out its functions and responsibilities as a board of commissioners.

V. CONCLUSION

This study aims to investigate what factors affect audit quality in terms of family ownership, audit fees, and audit committee effectiveness. Audit quality in this study is measured by KAP Big Four and Non Big Four and the percentage of industry specialists. The effectiveness of the audit committee is measured by the number of audit committees, while the audit fee is measured by the nominal amount obtained. The unit of analysis in this study is the financial statements, while the population is all manufacturing companies listed on the IDX, while the sample in this study is manufacturing companies from 2014 to 2016. The sampling technique is using purposive sampling with manufacturing company criteria that include audit fees in its financial reports.

Based on the hypothesis in this study, it can be concluded as follows:

1. There is no difference between family and non-family businesses in choosing the quality.
2. There is a difference in audit fees between family and non-family business.
3. There is an influence between family ownership and audit fees.
4. There is an influence between family ownership and audit quality (based on KAP size).
5. There is an influence between family ownership and audit quality (based on industry specialization).
6. There is an influence between the effectiveness of the audit committee and audit quality (based on the KAP size).
7. There is an influence between the effectiveness of the audit committee and audit quality (based on industry specialization).

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