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Audit Quality in Emerging Markets: Evidence from Indonesia's Consumer Industry

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Abstract

Audit quality serves as a fundamental pillar in safeguarding the credibility of financial statements, which are pivotal for informed decision-making by diverse stakeholders. In Indonesia, the standards for auditor professionalism and independence are stipulated through Law No. 5 of 2011 on Public Accountants and Ministry of Finance Regulation No. 17/PMK.01/2008. Despite these regulatory frameworks, the practical enforcement of audit quality often reveals significant shortcomings. This study examines the impact of audit fees, audit capacity stress, audit firm size, and litigation risk on audit quality. The research targets companies listed in the consumer non-cyclical and cyclical sectors on the Indonesia Stock Exchange (IDX) for the period from 2021 to 2023. Employing a quantitative approach with purposive sampling, the study analyzes 225 firm-year observations from 75 companies. Logistic regression is used to test the proposed relationships. The findings indicate that audit capacity stress has a negative impact on audit quality, whereas litigation risk has a positive influence. These results underscore the need to manage auditor workloads and recognize litigation exposure as a factor that can enhance professional scepticism and diligence among auditors in Indonesia's consumer sector. The study offers valuable insights for auditors in balancing workload and litigation pressure while also informing investors that high litigation risk may be associated with increased audit rigour and reliability.

Keywords: Audit Capacity Stress, Audit Fee, Audit Firm Size, Audit Quality, Litigation Risk

INTRODUCTION

Audit quality is defined as the probability that an auditor will identify and disclose material misstatements or violations within a client's accounting system. It serves a vital function in upholding the integrity of financial statements, which are relied upon by a wide range of stakeholders such as investors, shareholders, and creditors to make well-informed economic decisions (Arens et al., 2014). In practice, differences in the interests of company management and financial statement users can lead to conflicts due to an information gap. Management has full access to the company's financial information, while external stakeholders rely on the reports presented to them. To bridge this gap, an independent third party, the external auditor, is required to assess the fairness of financial statements and ensure that there are no material misstatements or indications of fraud (Effendi & Ulhaq, 2021).

The low audit quality in Indonesia remains a pressing issue, as exemplified by the case of PT ECII Tbk. In this case, the audited financial statements still received an unqualified opinion (WTP) despite subsequent findings revealing material misstatements. The 2018 financial report of ECII failed to disclose a deposit guarantee of IDR 282 billion for a third party and the misuse of IDR 55 billion for paying interest on loans from other parties (Saleh,

2020). Another case occurred at PT AISA Tbk, where financial statement manipulation was found to record fictitious revenue from six affiliate companies. An investigation conducted by Ernst & Young (EY) revealed that AISA's financial statements were overstated by IDR 4 trillion, including fictitious sales of IDR 662 billion, EBITDA of the food division of IDR 329 billion, and cash flows of IDR 1.78 trillion to affiliates without proper disclosure (Sidik, 2019).

The theory proposed by Jensen and Meckling (1976) explains that the relationship between principals and agents often results in conflicts due to differences in objectives. Managers (agents) tend to focus on personal interests, such as bonuses and job security, while shareholders (principals) are more oriented towards enhancing the long-term value of the company (Graaf, 2011; Ukoma, 2020). The information asymmetry between the two allows management to present biased or manipulated financial information (Ali, 2020; Setyawati et al., 2023). To mitigate this risk, independent auditors are appointed as an external monitoring mechanism that can reduce moral hazards and enhance transparency (Corbella et al., 2015).

Conversely, auditors' responses to pressure during the audit process significantly influence audit outcomes. Attribution theory, initially proposed by Heider (1958) and subsequently refined by Weiner (1985), elucidates how individuals attribute the causes of events to either internal factors (e.g., effort and ability) or external factors (e.g., environmental stressors and task complexity). Within the auditing context, this theoretical framework is instrumental in analyzing how auditors manage occupational stress. Auditors exhibiting an internal locus of control tend to be more resilient, maintaining audit quality despite external pressures. In contrast, those with an external locus of control are more inclined to attribute performance shortcomings to external conditions such as tight deadlines and client-related demands (Fachrunnisa & Ramadhani, 2024; Santosa et al., 2024; Utama & Rohman, 2023).

Consistent with attribution theory, various factors have been identified as determinants of audit quality. One such factor is the audit fee, which refers to the financial compensation paid by clients to auditors in exchange for audit services (Nurbaiti & Sabilla, 2022). Typically, audit fees are negotiated at the outset of the engagement, taking into account the anticipated time requirements, the auditor's effort, and the complexity of the audit task (Damayanti & Aufa, 2022; Kamil, 2020). From the perspective of agency theory, the magnitude of the audit fee is often interpreted as a proxy for the auditor's level of commitment to a comprehensive examination, thereby functioning as a mechanism to mitigate agency conflicts. Empirical evidence from prior research Kamil, 2020; Nguyen Van et al., 2022; Okerekeoti, 2022; and Srinidhi & Gul, 2006 generally supports a positive association between audit fees and audit quality, suggesting that higher remuneration may enable auditors to allocate more resources and time, ultimately enhancing audit effectiveness (Choi et al., 2010; Thanh Hai et al., 2019). Nevertheless, some scholars have raised concerns that elevated audit fees may lead to economic dependence on clients, thereby potentially compromising auditor independence and objectivity (Sheikh & Siddiqui, 2020; Ayoola, 2024).

Second, audit capacity stress (ACS) refers to the condition where the auditor's workload is disproportionate to the available resources and time to complete the audit assignment (Yolanda et al., 2019). This phenomenon typically occurs during peak annual audit periods, when public accounting firms (KAP) receive numerous assignments within a relatively short period (Nurbaiti & Sabilla, 2022). According to attribution theory, the auditor's response to work pressure can be either functional or dysfunctional, depending on the individual's perception and

coping strategies employed (Santosa et al., 2024; Ukoma, 2020). Poorly managed work pressure tends to trigger incorrect decisions, negligence in audit procedures, and a decline in the quality of reporting (Akhbar & Sebrina, 2024; López & Peters, 2012). Even auditors from large firms, such as the Big Four, are not immune to the negative impact of ACS on audit quality (Ismail et al., 2019). Amiruddin (2019) posits that auditors operating under intense pressure are more vulnerable to engaging in dysfunctional behaviors that can compromise audit quality. Coram et al. (2003) categorize such behaviors—termed audit quality reduction behaviors—as deliberate actions undertaken by auditors that result in the application of substandard audit procedures. Similarly, Malone and Roberts (1996) contend that audit quality deteriorates when auditors fail to fully adhere to established audit values, thereby weakening the reliability and effectiveness of the evidence collected. Broadly, audit capacity stress—characterized by an excessive workload relative to available resources—is generally associated with a decline in audit quality (Asnaashari et al., 2023). Nonetheless, findings by Cheng et al. (2021) introduce nuance by suggesting that, within non-Big Four audit firms, audit capacity stress may have a positive influence on audit quality. This is attributed to the fact that partners in such firms often serve a limited number of high-value clients, granting them greater industry exposure, more extensive experience, and stronger reputational incentives, all of which contribute to enhanced audit performance.

Moreover, the size of an audit firm is widely recognized as a contributing factor to enhanced audit quality, primarily due to the superior resources and reputational capital possessed by larger firms (Ananda & Faisal, 2023; Salman & Setyaningrum, 2023). Prominent public accounting firms—particularly those affiliated with the Big Four (Deloitte, PwC, EY, and KPMG)—typically benefit from well-established infrastructure, highly qualified personnel, and rigorous internal quality control mechanisms (Arens et al., 2014; Kamil, 2020). These firms also have stronger reputational incentives, which motivate them to uphold credibility through the delivery of high-quality audit services (Alzoubi, 2018; Reguera Alvarado et al., 2019). From an agency theory standpoint, auditors from larger firms are considered more effective in mitigating agency conflicts between management and shareholders, owing to their greater independence and reduced economic reliance on individual clients (Salman & Setyaningrum, 2023). Additionally, larger firms tend to exhibit greater diligence in detecting material misstatements and demonstrate more robust adherence to audit procedures (Francis et al., 2012). Empirical studies generally support a positive and significant association between audit firm size and audit quality (Ananda & Faisal, 2023; Salehi et al., 2019). Nonetheless, contrasting evidence is presented by Pham et al. (2017), who argue that audit firm size may have a negative effect on audit quality, suggesting that scale alone does not guarantee superior audit outcomes.

Finally, litigation risk refers to the potential legal claims from external parties, such as creditors and investors, due to losses incurred by the company (Lusiani & Khafid, 2022; Majidah & Deaprila, 2022). To minimise this risk, management tends to prepare financial statements conservatively to reduce exposure to legal claims (Maharani & Dura, 2023). From the auditor's perspective, litigation risk encourages the application of stricter audit procedures, increased professional scepticism, and caution in assessing the fairness of financial statements to safeguard their reputation and avoid legal consequences (Wong et al., 2018). Simunic (1980) stated that litigation risk also influences audit fees as auditors must bear greater professional

risks. The findings of Maux & Francoeur (2014) support the idea that litigation risk encourages management to exercise greater caution in reporting, ultimately enhancing audit quality. Thus, litigation risk serves as a reinforcing mechanism for audit quality, promoting increased conservatism, independence, and auditor diligence (Wong et al., 2018). However, Abdullah and Ani (2021) found that litigation risk does not have a significant effect.

This research focuses on the consumer non-cyclical and consumer cyclical sectors, which have different business risk characteristics. The non-cyclical sector provides essential goods that tend to remain stable in the face of economic cycles (Dong, 2024; Zanubah et al., 2023), whereas sectors such as the automotive and luxury goods industries in the cyclical sector are susceptible to economic fluctuations (Nadya, 2023). Both sectors have been officially classified by BEI-IC since 2021 and have demonstrated significant growth in the number of issuers and trading volumes from 2021 to 2023.

This study aims to examine the influence of audit fees, audit capacity stress, audit firm size, and litigation risk on audit quality among firms in the consumer non-cyclical and cyclical sectors listed on the Indonesia Stock Exchange (IDX) during the period from 2021 to 2023 period. Audit quality is assessed using the earnings surprise benchmark proxy, a relatively underutilized measure in prior literature.

Theoretically, this research contributes to the existing body of knowledge by providing a nuanced understanding of the determinants of audit quality, thereby offering a foundation for future scholarly investigations. Practically, the findings are intended to support companies in enhancing the effectiveness of their financial reporting processes, inform investors in their decision-making by highlighting key audit-related indicators, and guide auditors in refining their professional practices to uphold and improve audit quality.

This research remains relevant as the inconsistencies in previous studies may be attributed to differences in methodology, regulations, and industry characteristics. Therefore, further research is needed to obtain a clearer understanding of audit quality and the factors that influence it. With the increasing number of companies and investor interest in the non-cyclical and cyclical consumer sectors, companies in these sectors are required to be transparent and accurate. High-quality audits are crucial for assuring investors regarding the accuracy of financial statement presentations, thereby enhancing investor confidence.

RESEARCH METHOD

Research Design

This study adopts a quantitative research design, incorporating both descriptive and causal approaches to examine companies within the consumer non-cyclical and consumer cyclical sectors listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. To assess the relationships between the variables under investigation, logistic regression analysis is utilized as the primary analytical method.

Research Variables

Dependent Variable: Audit Quality (AQ) – The ability of the auditor to detect and report material misstatements using the earnings surprise benchmark. The value is 1 if $\mu-\sigma < ROA < \mu+\sigma$ (qualifies), and 0 if otherwise.

Table 1. Operationalization of Variables

Variable	Formula/Indicator	Scale
Audit Fee (AF)	AF = ln (audit fee)	Ratio
Audit Capacity Stress (ACS)	ACS = Number of KAP clients / Number of KAP auditors	Ratio
Audit Firm Size (AFS)	1 = Big 4, 0 = 4 Non-Big 4	Nominal
Litigation Risk (LR)	LR = Total Debt / Total Equity	Ratio

Population and Sample

The population of this study comprises companies operating in the consumer non-cyclical and consumer cyclical sectors listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The research sample consists of 75 companies, yielding a total of 225 firm-year observations, selected through purposive sampling.

Data Sources

Data were obtained from publicly available annual reports and financial statements accessed via the IDX website and the Ministry of Finance of the Republic of Indonesia. The sample selection was based on the following criteria: (1) companies must be listed in the specified sectors on the IDX during the 2021–2023 period; (2) companies must have consistently published annual reports throughout the period; and (3) audit fees must be disclosed in their financial statements.

Data Analysis and Hypotheses

Logistic Regression Model: $AQ = \alpha + \beta_1 AF + \beta_2 ACS + \beta_3 AFS + \beta_4 LR + \beta_5 AR + e$

Analysis Stages: Descriptive statistics, model feasibility test (Hosmer-Lemeshow), overall model test, coefficient of determination (Nagelkerke R^2), simultaneous test (F), and partial test (t).

Hypotheses:

H_1: Audit fees have a positive effect on audit quality.

H_2: Audit capacity stress negatively impacts audit quality.

H_3: Audit firm size has a positive effect on audit quality.

H_4: Litigation risk has a positive effect on audit quality.

RESULT AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistics are employed in this study to summarize the dataset without drawing inferential conclusions. The analysis includes measures of central tendency and dispersion specifically the mean, minimum, maximum, and standard deviation for each continuous variable. Additionally, for categorical (dummy) variables, the analysis presents frequency distributions and percentage values to illustrate their characteristics. The study examines four independent variables audit fee, audit capacity stress, audit firm size, and litigation risk—and one dependent variable, namely audit quality.

Descriptive Analysis of Nominal Variables

Descriptive statistical analysis for nominal-scale variables is conducted to provide an overview of the distribution and characteristics of categorical data within the study. The nominal variables analyzed include audit quality and audit firm size. The results of the descriptive statistics for these variables are presented below.

1. Audit Quality

Table 1. Descriptive Statistics Results of Audit Quality

AQ	Category	Freq.	%
0	Not Quality	7	3,11%
1	Quality	218	96,89%
Total		225	100%

Source: processed data (2025)

In this study, audit quality is assessed using the earnings surprise benchmark. A value of 1 is assigned when a firm's return on assets (ROA) falls within the range of the mean plus or minus one standard deviation ($\mu - \sigma < ROA < \mu + \sigma$), indicating acceptable audit quality. Conversely, a score of 0 is assigned if the ROA falls outside this range, either above (suggesting potential "window dressing") or below (indicating "taking a bath"), which implies non-compliance with audit quality standards.

As shown in Table 1, of the 225 firm-year observations analyzed, 218 observations (96.89%) met the criteria for high audit quality. In contrast, 7 observations (3.11%) reflected audits of insufficient quality. Among these, 2 cases failed to detect window dressing practices aimed at enhancing the company's financial image, while the remaining 5 did not identify "taking a bath" behavior, in which financial performance was understated. Despite the generally high level of audit quality observed in the consumer non-cyclical and cyclical sectors, these findings highlight that certain audits still failed to uncover deliberate income suppression, which may have been intended to reduce tax liabilities.

2. Audit Firm Size

Table 2. Descriptive Statistics Results of Audit Firm Size

AFS	Category	Freq.	%
0	Non-Big 4	125	55,56%
1	Big 4	100	44,44%
Total		225	100%

Source: processed data (2025)

Audit firm size in this study is represented as a dummy variable, assigned a value of 1 if the audit was conducted by a public accounting firm affiliated with the Big Four (Deloitte, PwC, EY, or KPMG), and 0 if conducted by a non-Big Four firm. As presented in Table 4.2, of the 225 firm-year observations, 100 observations (44.44%) involved audits performed by Big Four firms, while 125 observations (55.56%) were conducted by non-Big Four firms. These figures suggest that, within the consumer non-cyclical and cyclical sectors in Indonesia, companies more frequently engage non-Big Four auditors than those affiliated with the Big Four.

Descriptive Statistical Analysis of Ratio Scale

This research includes variables that are scaled on a ratio scale, such as audit fees, audit capacity stress, and litigation risk. The descriptive statistics for the ratio scale variables are as follows:

Table 3. Descriptive Statistics Results with Ratio Scale

Variable	N	Mean	Std. Deviation	Min	Max
AF	225	20,53956	1,238501	17,66	24,07
ACS	225	57,10783	26,35078	10	139
LR	225	2,100122	13,6283	-30,15	190,31

Source: processed data (2025)

The audit fee (AF) represents the total remuneration paid by a company to its auditor for providing audit services. In this study, the audit fee is expressed in its natural logarithmic form. As shown in Table 3, the mean value of ln(AF) is 20.54, equivalent to approximately IDR 815,799,042. This figure exceeds the standard deviation of 1.24, indicating a relatively consistent range of audit fees within the consumer non-cyclical and cyclical sectors in Indonesia.

Audit Capacity Stress (ACS) denotes the workload borne by auditors within Public Accounting Firms (*Kantor Akuntan Publik*/KAP), operationalized as the ratio of clients to individual auditors. Table 3 reports an average ACS value of 57.11, which surpasses the standard deviation of 26.35. This finding implies that, on average, auditors are responsible for auditing more than 50 clients annually, reflecting a considerable workload that may adversely impact audit quality due to potential resource constraints and time pressure.

Litigation risk (LR) is measured using the debt-to-equity ratio (DER), which serves as a proxy for the firm's exposure to legal claims arising from financial distress or misstatements. The average LR value is 2.10, with a standard deviation of 13.63, indicating substantial variability across firms. This suggests that companies in the consumer non-cyclical and cyclical sectors exhibit a wide range of financial leverage levels, with many firms operating with relatively high debt in comparison to equity. Such financial structures may elevate the risk of litigation, particularly in scenarios where firms encounter difficulties in fulfilling their financial obligations.

Logistic Regression Analysis

This study employs a simple logistic regression model (pooled logit) using STATA version 17 to examine the relationship between the independent variables and audit quality. The model satisfies the goodness-of-fit criterion, as evidenced by a Hosmer-Lemeshow test value of 1.000 ($p > 0.05$), indicating an adequate model fit. The Pseudo R^2 value is 0.7499, suggesting that approximately 74.99% of the variation in audit quality is explained by the independent variables included in the model, with the remaining 25.01% attributable to other unobserved factors. Furthermore, the model's overall significance is confirmed by the likelihood ratio (LR) chi-square statistic of 46.72 and a corresponding p-value of 0.0000 ($p < 0.05$), indicating that audit fees, audit capacity stress, audit firm size, and litigation risk collectively exert a statistically significant influence on audit quality.

Table 4. Logistic Regression and Odds Ratio Results

Variable	Coefficient	P-value	Odds Ratio (OR)	Interpretation
Constanta	80,22	-	-	-
Audit Fees (AF)	-1,73	0,086	0,18	No significant effect
Audit Capacity Stress (ACS)	-0,36	0,018*	0,70	Negative; each increase in ACS decreases the odds of audit quality by 30%
Audit Firm Size (AFS)	-17,38	0,056	2.76e-08	No significant effect
Litigation Risk (LR)	0,68	0,033*	1,98	Positive effect; each increase in LR increases the odds of audit quality by 98%

* Significant at $\alpha = 0.05$

Regression Equation

AQ = 80.22 - 1.73AF - 0.36ACS - 17.36AFS + 0.68LR

Overall, only audit capacity stress has a significant negative effect, while litigation risk has a significant positive effect on audit quality. Audit fees and audit firm size do not have significant effects.

Audit Fee and Audit Quality

The audit fee has a regression coefficient (β1) of -1.73 with a significance level of 0.086, which is greater than $\alpha = 0.05$. This indicates that audit fees do not affect audit quality. Therefore, the amount of audit fee paid by a company to the auditor, whether high or low, does not influence the audit quality for companies in the consumer non-cyclical and consumer cyclical sectors in Indonesia.

This finding is supported by data showing that the company with the highest audit fee, PT CPIN in 2023, amounting to IDR 28,327,053,750 (ln audit fee = 24.07), received a good audit quality (AQ = 1), while the company with the lowest audit fee, PT WAPO Tbk in 2021, amounting to IDR 46,750,000 (ln audit fee = 24.07), also received a good audit quality (AQ = 1). These two companies have vastly different audit fees, but both exhibit good audit quality. This indicates that the audit fee, whether high or low, does not affect the audit outcome.

This can be explained by the provisions in the Indonesian Institute of Public Accountants (IAPI) Regulation No. 2 of 2016, which determines the Fees for Financial Statement Audit Services. In the regulation, the audit fee amount is adjusted based on each company's specific conditions, including risk levels, complexity, and the scope of the audit. Therefore, the nominal audit fee does not directly reflect audit quality, as it is adjusted to meet the audit needs of each entity.

Audit Capacity Stress and Audit Quality

Audit capacity stress has a regression coefficient (β2) of -0.36 with a significance level of 0.018, which is smaller than α = 0.05. These results indicate that an increase in audit capacity stress has a negative impact on the audit quality produced. This finding supports the research hypothesis that excessive auditor workload can lead to a decline in audit quality, particularly in non-cyclical and consumer cyclical companies listed on the IDX during 2021–2023.

This result is supported by empirical data from PT TRIO Tbk and PT GLOB Tbk during the 2021–2023 period, which show high Audit Capacity Stress (ACS) values of 129.17, 127.57, and 139, respectively. These values are the highest among all the research samples. High ACS values negatively impacted audit quality, as indicated by the AQ = 0 value over three consecutive years at both TRIO and GLOB companies. This result aligns with the statistical tests, which show that ACS has a negative effect on audit quality.

In line with the research hypothesis, which states that high work pressure can reduce audit quality, these findings can also be explained through attribution theory, which posits that auditor behaviour is influenced by internal factors, such as professional diligence (Ukoma, 2020). In high-pressure situations, auditors may exhibit both functional and dysfunctional responses (Santosa et al., 2024). Dysfunctional responses, such as making incorrect decisions or neglecting audit procedures, can significantly reduce audit quality (Yan & Xie, 2016). This research is consistent with Ismail et al. (2019), who state that audit capacity stress has a negative impact on audit quality. Auditors experiencing high work pressure tend to feel pessimistic and confused while performing their tasks, which negatively impacts audit quality, even if the auditor is from a Big 4 affiliated public accounting firm (KAP) (Akhbar & Sebrina, 2024). Additionally, the increasing number of audit assignments may also lead to job dissatisfaction, further exacerbating the decline in audit quality (Ismail et al., 2019).

Audit Firm Size and Audit Quality

The regression analysis reveals that audit firm size has a coefficient (β_3) of –17.38 with a significance level of 0.056, which exceeds the conventional threshold of α = 0.05. Therefore, audit firm size does not exhibit a statistically significant effect on audit quality among companies in the consumer non-cyclical and cyclical sectors listed on the Indonesia Stock Exchange (IDX) for the period from 2021 to 2023.

This result is substantiated by empirical data indicating that both Big Four and non-Big Four public accounting firms (KAPs) are capable of delivering high-quality audits. For instance, PT AMRT Tbk, PT MIDI Tbk, and PT HERO Tbk, all of which were audited by Big Four-affiliated firms, consistently demonstrated high audit quality over the observed period. Similarly, PT PCAR and PT MGRO Tbk, audited by non-Big Four firms, also exhibited strong audit performance. These cases suggest that audit quality is not necessarily contingent on the size or global affiliation of the audit firm.

This finding diverges from the majority of the existing literature, which typically reports a positive association between audit firm size and audit quality. Studies by Ananda and Faisal (2023) and Salman and Setyaningrum (2023), for example, argue that larger audit firms benefit from superior resources, greater experience, and enhanced reputational incentives, all of which are conducive to higher audit quality. However, in the Indonesian regulatory context,

audit quality appears to be influenced more by compliance with established professional standards than by firm size. Under Law No. 5 of 2011 on Public Accountants and Ministry of Finance Regulation No. 17/PMK.01/2008, all audit firms—regardless of size—are held to uniform standards of professionalism and independence, thereby ensuring a baseline level of audit quality across the profession.

Litigation Risk and Audit Quality

The regression analysis yields a coefficient (β_4) of 0.6815 for litigation risk, with a corresponding significance level of 0.034, which falls below the conventional α threshold of 0.05. This result suggests that litigation risk has a positive and statistically significant impact on audit quality. The positive coefficient suggests that the presence of litigation risk encourages auditors to produce audits with higher quality.

This finding is supported by data from PT LPPF Tbk and PT WICO Tbk, which in 2023 had debt-equity ratios (DER) of 190.31 and 54.98, respectively. Both demonstrated good audit quality, likely because auditors were more cautious when examining companies with high leverage that could pose litigation risks. Conversely, PT TRIO Tbk and PT GLOB Tbk recorded negative DERs of -1.03 and -1.01, respectively, accompanied by lower audit quality. This indicates that auditors tend to exercise greater caution in financially complex or risky conditions.

These findings align with research by Wong et al. (2018), which explains that litigation risk can encourage auditors to adopt a more conservative and meticulous approach to conducting audit procedures. A dominant debt structure is often associated with financial instability, prompting auditors to be more vigilant in ensuring that financial statements are presented fairly. In this context, high leverage is not only a financial risk indicator but also a crucial signal for auditors to enhance their diligence and professionalism.

Maharani and Dura (2023) also state that litigation risk plays a role in reducing information asymmetry between management and shareholders. The potential for legal action due to negligence in detecting or reporting material misstatements prompts auditors to implement stricter procedures and exercise greater professional scepticism. This finding is consistent with the research by Wong et al. (2018), which suggests that litigation risk drives auditors to be more conservative in order to mitigate potential audit failures and legal consequences, thereby improving audit quality.

CONCLUSION

An analysis of 75 companies operating within the consumer non-cyclical and cyclical sectors listed on the Indonesia Stock Exchange (IDX) over the 2021–2023 period, resulting in 225 firm-year observations, reveals that 96.89% of the sample exhibited high audit quality. The findings indicate that audit fees, audit capacity stress, audit firm size, and litigation risk collectively influence audit quality. However, among these variables, only audit capacity stress demonstrates a statistically significant negative effect. This outcome highlights the ongoing challenge of auditor scarcity about the complexity and volume of audit assignments in Indonesia. Consequently, ensuring sufficient auditor capacity and a balanced workload of distribution is essential for maintaining consistent audit quality. Litigation risk, on the other hand, exerts a statistically significant positive effect, suggesting that auditors tend to adopt

more cautious and rigorous approaches when auditing highly leveraged firms, thereby enhancing audit quality. In contrast, audit fees and audit firm size do not exhibit significant effects on audit quality within the observed sample. For future research, it is recommended to broaden the scope to include a wider range of industry sectors, incorporate multiple proxies for measuring audit quality, and consider collecting primary data through surveys or interviews. From a practical perspective, companies should prioritize selecting auditors with the adequate capacity to manage workload demands. Investors are advised to assess litigation risk as a potential signal of audit quality. Meanwhile, auditors should strategically manage their assignments and exercise heightened professional skepticism, particularly when auditing clients with elevated risk profiles, to safeguard audit integrity and reduce exposure to legal liabilities.

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