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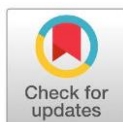
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ABSTRACT

Purpose: This study investigates the determinants of audit quality in sharia-compliant firms, focusing on the effects of audit delay, company size, and audit tenure, with audit fees examined as a moderating factor. The research aims to address inconsistencies in previous findings regarding conventional audit quality predictors and their applicability in Islamic financial contexts.

Design/Method/Approach: Using a quantitative explanatory design, secondary data from firms listed on the Jakarta Islamic Index 70 (JII 70) for 2020–2024 were analyzed. Audit quality was proxied by Big Four auditor engagement, while moderation regression tested the role of audit fees in the relationships among variables.

Findings: Empirical results reveal that audit delay, company size, and audit tenure do not significantly influence audit quality, and audit fees do not moderate these relationships. These results diverge from prior studies in conventional markets, suggesting that sharia-compliant firms may uphold audit quality through ethical governance mechanisms, independent of firm size, auditor tenure, or fee levels.

Research Implications: The findings indicate that conventional determinants of audit quality are less relevant in Islamic capital markets, where sharia governance and internal control systems dominate. This provides theoretical insight into the contextual nature of audit quality and practical implications for regulators and auditors to strengthen Islamic governance frameworks rather than relying solely on financial or structural predictors.

Originality/Values: This study enriches the literature on auditing and corporate governance in Islamic financial environments by providing evidence that ethical and institutional factors play a stronger role in maintaining audit quality than economic incentives such as audit fees.

INTRODUCTION

Audit quality has long been recognized as a cornerstone of financial reporting credibility and investor confidence. Globally, the demand for high-quality audits has intensified in the wake of corporate failures and economic scandals that exposed weaknesses in auditor independence and governance oversight.¹ In emerging markets, where regulatory enforcement remains uneven, the determinants of audit quality—such as audit delay, audit tenure, firm size, and audit fees—continue to generate debate and empirical inconsistency.² The complexity of these relationships highlights that audit quality is not merely a technical outcome but also a reflection of institutional, ethical, and contextual dynamics.

In Indonesia, audit quality is particularly significant in the rapidly expanding Islamic capital market. As the world's largest Muslim-majority country, Indonesia has developed a unique financial ecosystem that integrates sharia principles into business governance. The Jakarta Islamic Index 70 (JII 70) serves as a benchmark for sharia-compliant firms, ensuring that investment activities conform to Islamic ethical standards emphasizing transparency (*amanah*) and accountability (*hisbah*). In this context, audit quality encompasses not only financial reliability but also moral integrity, as auditors are expected to uphold Islamic values in their professional duties.³ However, whether conventional predictors of audit quality remain relevant in this distinct governance framework remains largely unexplored.

Drawing on Agency Theory, the relationship between management (agents) and shareholders (principals) underlines the persistent risk of information asymmetry. Auditing serves as a monitoring mechanism to mitigate

¹ M DeFond and J Zhang, "A Review of Archival Auditing Research," *Journal of Accounting and Economics* 58, no. 2–3 (2014): 275–326, <https://doi.org/10.1016/j.jacceco.2014.09.002>; J Francis, "A Framework for Understanding Audit Quality," *Auditing: A Journal of Practice & Theory* 40, no. 1 (2021): 1–26, <https://doi.org/10.2308/AJPT-18-082>.

² W R Knechel, C van Staden, and L Sun, "Audit Quality in a Changing World: Perspectives from Practice and Research," *Auditing: A Journal of Practice & Theory* 42, no. 1 (2023): 5–28, <https://doi.org/10.2308/AJPT-2022-145>; E S S Alzoubi, "Audit Quality, Debt Financing, and Earnings Management: Evidence from Jordan," *Journal of International Accounting, Auditing and Taxation* 30, no. 1 (2018): 69–84, <https://doi.org/10.1016/j.intaccaudtax.2017.12.001>.

³ F Jamil, S Rahman, and L Nuraini, "Pengaruh Good Corporate Governance Terhadap Kualitas Audit Di Perusahaan Syariah," *Jurnal Akuntansi Dan Keuangan Islam* 5, no. 2 (2022): 113–28, <https://journal.uinjkt.ac.id/index.php/jaki/article/view/2022>.

this agency conflict by ensuring credible financial disclosure.⁴ However, in sharia-compliant firms, this relationship is further guided by Islamic Corporate Governance, which embeds ethical and spiritual accountability beyond mere profit maximization.⁵ This dual accountability—both to shareholders and to God—may alter the dynamics of audit quality determinants. For instance, audit fees may no longer operate as a market-driven incentive but rather as a compliance obligation grounded in religious ethics. Similarly, audit delay or tenure might have different implications when governance norms emphasize honesty and communal responsibility over speed or cost efficiency.

Despite extensive global research, empirical findings on the determinants of audit quality remain inconclusive. Some studies report that audit delay undermines audit quality by signaling inefficiency and potential misreporting,⁶ While others find no significant relationship.⁷ The impact of company size has also yielded mixed results—larger firms tend to engage higher-quality auditors,⁸ However, in developing markets, the link is often weak or statistically insignificant.⁹ Likewise, evidence regarding audit tenure diverges: long tenure may enhance auditor knowledge.¹⁰ However, it also erodes independence.¹¹ Finally, the moderating effect of audit fees remains unsettled. At the same time, higher

⁴ R L Watts and J L Zimmerman, *Positive Accounting Theory* (Englewood Cliffs, NJ: Prentice Hall, 1986).

⁵ R Haniffa and M Hudaib, “Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports,” *Journal of Business Ethics* 76, no. 1 (2007): 97–116, <https://doi.org/10.1007/s10551-006-9273-4>; A Kamla and F Haque, “Islamic Accounting, Accountability, and the Ethical Construction of Subjectivity,” *Critical Perspectives on Accounting* 102 (2023): 102471, <https://doi.org/10.1016/j.cpa.2022.102471>.

⁶ C A P N Carslaw and S E Kaplan, “An Examination of Audit Delay: Further Evidence from New Zealand,” *Accounting and Business Research* 22, no. 85 (1991): 21–32, <https://doi.org/10.1080/00014788.1991.9729414>; A Habib, “The Determinants of Audit Report Lag: A Meta-Analysis,” *International Journal of Auditing* 19, no. 2 (2015): 145–65, <https://doi.org/10.1111/ijau.12033>.

⁷ Serly Serly and Delnecca Delnecca, “Determinan Kualitas Audit Perusahaan Non-Keluangan,” *Akurasi: Jurnal Studi Akuntansi Dan Keuangan* 5, no. 2 (December 29, 2022): 254–70, <https://doi.org/10.29303/akurasi.v5i2.273>.

⁸ Jere R. Francis, “What Do We Know about Audit Quality?,” *The British Accounting Review* 36, no. 4 (December 2004): 345–68, <https://doi.org/10.1016/j.bar.2004.09.003>.

⁹ Alzoubi, “Audit Quality, Debt Financing, and Earnings Management: Evidence from Jordan.”

¹⁰ M A Geiger and K Raghunandan, “Auditor Tenure and Audit Reporting Failures,” *Auditing: A Journal of Practice & Theory* 21, no. 1 (2002): 67–78, <https://doi.org/10.2308/aud.2002.21.1.67>.

Stewart C Myers, “Chapter 4 Financing of Corporations,” *Handbook of the Economics of Finance* 1, no. SUPPL. PART A (2003): 215 – 253, [https://doi.org/10.1016/S1574-0102\(03\)01008-2](https://doi.org/10.1016/S1574-0102(03)01008-2).

fees may indicate greater audit effort.¹² They can also raise concerns about compromised independence.¹³ These conflicting results create a clear research gap—particularly regarding whether such relationships hold in the Islamic corporate governance context, where sharia compliance may serve as a natural control mechanism that mitigates agency conflicts.

Therefore, this study aims to examine the effects of audit delay, company size, and audit tenure on audit quality, with audit fees as a moderating variable, in sharia-compliant firms listed on the Jakarta Islamic Index 70 (JII 70). By focusing on Islamic entities, this research responds to calls from recent international studies¹⁴ for more contextualized audit research that integrates ethical and religious dimensions. This study contributes to theory by extending Agency Theory into the Islamic governance domain and to practice by providing insights for regulators, auditors, and investors seeking to enhance transparency in sharia-compliant financial markets. In this regard, this study aims to elaborate on three issues, namely: (1) Do audit delay, company size, and audit tenure significantly influence audit quality in sharia-compliant firms? (2) Do audit fees moderate the relationships between these factors and audit quality? Moreover, (3) How do these relationships differ from patterns found in conventional (non-sharia) firms, and what implications arise for Islamic corporate governance?

LITERATURE REVIEW

Theoretical Foundation

Audit quality has been widely analysed under the lens of Agency Theory, which explains how audits mitigate conflicts of interest between managers (agents) and shareholders (principals) by ensuring credible and transparent reporting.¹⁵ High audit quality reduces information asymmetry and enhances investor confidence, serving as an external monitoring mechanism. However, Agency Theory alone may not fully capture the governance dynamics of sharia-

¹² J H Choi et al., “Audit Pricing, Legal Liability Regimes, and Big 4 Premiums: Theory and Cross-Country Evidence,” *Contemporary Accounting Research* 27, no. 1 (2010): 95–135, <https://doi.org/10.1111/j.1911-3846.2010.01005.x>.

¹³ Knechel, van Staden, and Sun, “Audit Quality in a Changing World: Perspectives from Practice and Research.”

¹⁴ Khanm Noori Kaka Hama, Hayder Jasim Obaid, and Mohanad Hameed Yasir, “Estimating the Cost of Weighted Capital Based on the Static Theory of Capital Structure,” in *AIP Conference Proceedings*, ed. Wadday A.G. et al., vol. 3092 (American Institute of Physics, 2024), <https://doi.org/10.1063/5.0199717>; N Haron and A Rahman, “Audit Quality in Islamic Financial Institutions: Revisiting the Determinants,” *Journal of Islamic Accounting and Business Research* 15, no. 2 (2024): 189–210, <https://doi.org/10.1108/JIABR-09-2023-0235>.

¹⁵ Watts and Zimmerman, *Positive Accounting Theory*; DeFond and Zhang, “A Review of Archival Auditing Research.”

compliant firms, where accountability extends beyond shareholders to God and society.

In this respect, the concept of Islamic Corporate Governance (ICG) offers a broader ethical framework rooted in the principles of *amanah* (trust), *hisbah* (accountability), and *maslahah* (social benefit).¹⁶ Unlike conventional corporate governance, which focuses on shareholder wealth maximisation, ICG emphasises moral integrity, equitable treatment of stakeholders, and compliance with *shariah*. This creates a multi-layered accountability structure that may influence audit dynamics differently, with ethical compliance and religious oversight offsetting weaknesses typically addressed by audit fees or tenure regulations.

Furthermore, Stakeholder Theory¹⁷ Complements these views by asserting that firms must consider the interests of all stakeholders—investors, employees, customers, regulators, and communities—especially in Islamic contexts where social justice and transparency are central values.¹⁸ Together, these frameworks suggest that determinants of audit quality in sharia-compliant firms may operate through distinct ethical and institutional mechanisms.

Audit Delay and Audit Quality

Audit delay, the time lag between a company's fiscal year-end and the issuance of its audit report, reflects audit efficiency and potential governance weaknesses.¹⁹ Prolonged audit delay may indicate reporting complexity or management resistance, signaling reduced audit quality.²⁰ However, recent international studies provide mixed evidence. For instance, Knechel et al. (2023) in *Auditing: A Journal of Practice & Theory* found that longer audit durations do not always imply lower quality, as complex engagements often require extended but more thorough procedures. In the Sharia context, ethical oversight and

¹⁶ Haniffa and Hudaib, "Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports"; Kamla and Haque, "Islamic Accounting, Accountability, and the Ethical Construction of Subjectivity."

¹⁷ R Edward Freeman et al., *Stakeholder Theory: The State of the Art* (Cambridge: Cambridge University Press, 2010), <https://books.google.co.id/books?id=xF8-WN1QIIMC>.

¹⁸ Asyraf Wajdi Dusuki and Said Bouheraoua, "The Framework of Maqasid Al-Shariah and Its Implication for Islamic Finance," *Islamic Economics Studies* 19, no. 2 (2011): 1–17; Haron and Rahman, "Audit Quality in Islamic Financial Institutions: Revisiting the Determinants."

¹⁹ Carlsaw and Kaplan, "An Examination of Audit Delay: Further Evidence from New Zealand."

²⁰ Elizabeth W. Dunn et al., "On the Costs of Self-Interested Economic Behavior," *Journal of Health Psychology* 15, no. 4 (May 11, 2010): 627–33, <https://doi.org/10.1177/1359105309356366>; Habib, "The Determinants of Audit Report Lag: A Meta-Analysis."

strong internal review mechanisms may minimise the negative impact of audit delay. Compliance with Islamic accountability principles can ensure quality even when audits take longer.²¹

H1: Audit delay has a significant effect on audit quality in sharia-compliant firms.

Company Size and Audit Quality

Firm size is frequently associated with audit quality because larger firms tend to have more complex operations, stronger internal controls, and greater public scrutiny.²² Large clients are also more likely to engage Big Four auditors, which typically provide higher-quality audits.²³ Nonetheless, recent cross-country studies show this relationship is not universal. Alzoubi (2018) found that in emerging markets, firm size does not consistently translate into higher audit quality due to variations in enforcement and governance culture. In sharia-compliant settings, firm size may be less decisive, as ethical compliance and *shariah supervisory boards* (SSBs) serve as independent layers of governance that ensure audit integrity.²⁴

H2: Company size has a significant effect on audit quality.

Audit Tenure and Audit Quality

Audit tenure refers to the duration of the auditor-client relationship. While extended tenure can enhance auditor familiarity and efficiency,²⁵ excessive duration risks impairing independence due to over-familiarity.²⁶ Meta-analyses in *The British Accounting Review* and *Auditing: A Journal of Practice & Theory*.²⁷ Within

²¹ M. Kabir Hasan and Marvin K. Lewis, *Handbook of Islamic Banking*, ed. M Kabir Hassan and Mervyn K Lewis (Cheltenham, UK: Edward Elgar, 2007).

²² Francis, "What Do We Know about Audit Quality?"; L E DeAngelo, "Auditor Size and Audit Quality," *Journal of Accounting and Economics* 3, no. 3 (1981): 183–99, [https://doi.org/10.1016/0165-4101\(81\)90002-1](https://doi.org/10.1016/0165-4101(81)90002-1).

²³ J R Francis, P N Michas, and S E Seavey, "Does Audit Market Concentration Harm Audit Quality? Evidence from Audit Markets in 42 Countries," *Contemporary Accounting Research* 30, no. 1 (2013): 325–55, <https://doi.org/10.1111/j.1911-3846.2012.01156.x>.

²⁴ Jamil, Rahman, and Nuraini, "Pengaruh Good Corporate Governance Terhadap Kualitas Audit Di Perusahaan Syariah"; Haron and Rahman, "Audit Quality in Islamic Financial Institutions: Revisiting the Determinants."

²⁵ Geiger and Raghunandan, "Auditor Tenure and Audit Reporting Failures."

²⁶ J N Myers, L A Myers, and T C Omer, "Exploring the Term of the Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation?," *The Accounting Review* 78, no. 3 (2003): 779–99, <https://doi.org/10.2308/accr.2003.78.3.779>.

²⁷ Knechel, van Staden, and Sun, "Audit Quality in a Changing World: Perspectives from Practice and Research"; Lin Zhu et al., "Financial Distress Prediction of Chinese Listed Companies Using the Combination of Optimization Model and Convolutional Neural Network," *Mathematical Problems in Engineering* 2022 (2022), <https://doi.org/10.1155/2022/9038992>.

Islamic governance, however, long-term auditor relationships might not necessarily compromise objectivity, since ethical principles and religious accountability provide moral safeguards against collusion or bias.²⁸ This distinct ethical anchor could neutralise the typical trade-off between knowledge accumulation and erosion of independence.

H3: Audit tenure has a significant effect on audit quality.

Audit Fees as a Moderating Variable

Audit fees represent the economic value assigned to audit effort and are often used as proxies for engagement complexity, risk exposure, and auditor independence.²⁹ Higher fees can improve audit quality by enabling more comprehensive audit procedures, yet excessive reliance on client payments may threaten independence.³⁰ International evidence remains inconclusive. Francis (2021) found that audit fees positively affect perceived audit quality in highly regulated markets, whereas Yuniarti et al. (2022) observed no significant moderation effect in emerging Islamic markets. In sharia-compliant firms, audit fees may play a diminished role because ethical motivations and institutional oversight already encourage diligence and transparency. Thus, the moderating influence of audit fees in Islamic corporate settings remains an open empirical question.

H4: Audit fee moderates the relationship between audit delay and audit quality.

H5: Audit fee moderates the relationship between company size and audit quality.

H6: Audit fee moderates the relationship between audit tenure and audit quality.

Conceptual Framework Summary

Drawing from *Agency Theory*, *Islamic Corporate Governance*, and *Stakeholder Theory*, this study proposes that conventional audit quality predictors may behave differently within sharia-compliant firms. The ethical governance structures inherent in Islamic business models may either weaken or neutralize the impact of structural factors such as delay, tenure, and fee levels. The empirical model, therefore, tests whether these determinants—well established

²⁸ S A Yusof, R Hassan, and H Sofyani, “Ethics and Accountability in Islamic Auditing Practice,” *International Journal of Islamic and Middle Eastern Finance and Management* 13, no. 4 (2020): 629–46, <https://doi.org/10.1108/IMEFM-04-2019-0147>.

²⁹ Choi et al., “Audit Pricing, Legal Liability Regimes, and Big 4 Premiums: Theory and Cross-Country Evidence.”

³⁰ W R Knechel et al., “Audit Quality: Insights from the Academic Literature,” *Auditing: A Journal of Practice & Theory* 32, no. Supplement 1 (2013): 385–421, <https://doi.org/10.2308/ajpt-50350>.

in conventional auditing research—retain significance in an Islamic context characterized by dual accountability (to both stakeholders and divine law).

RESEARCH METHOD

Research Design

This study adopts a quantitative explanatory research design to empirically examine the effects of audit delay, company size, and audit tenure on audit quality, while testing the moderating role of audit fees in the context of sharia-compliant firms. The analysis focuses on firms listed in the Jakarta Islamic Index 70 (JII 70) for the period 2020–2022, which represents the most recent complete and publicly available dataset. The shorter but complete period ensures data validity and minimises estimation bias associated with incomplete financial years (e.g., 2023–2024). The research is grounded in Agency Theory and Islamic Corporate Governance (ICG), which collectively frame the analysis of audit mechanisms in dual accountability environments, balancing accountability to shareholders and to divine ethical standards. This approach allows for a contextualised examination of audit determinants under Islamic business principles.

Data and Sample

The study uses secondary panel data obtained from the annual reports and audited financial statements of firms listed on the JII 70 index during 2020–2022. Data were collected from official company websites, the Indonesia Stock Exchange (IDX) database, and financial data aggregators such as *Eikon* and *Bloomberg*.

A purposive sampling technique was applied based on the following criteria: (1) Firms consistently listed in JII 70 during 2020–2024; (2) Availability of complete audit-related variables—audit delay, audit tenure, audit fees, and audit quality; (3) Publication of auditor reports and auditor identities during the observation period. This process yielded a final sample of 25 firms with 75 firm-year observations, consistent with prior research using limited but high-quality panel data in Islamic finance.³¹ Although the sample size is relatively small, it represents a comprehensive cross-section of sharia-compliant firms across multiple sectors in Indonesia’s Islamic capital market.

³¹ Jamil, Rahman, and Nuraini, “Pengaruh Good Corporate Governance Terhadap Kualitas Audit Di Perusahaan Syariah”; Haron and Rahman, “Audit Quality in Islamic Financial Institutions: Revisiting the Determinants.”

Table 1. Variables and Measurement

Variable	Type	Proxy / Measurement	References
Audit Quality (Y)	Dependent	(1) Dummy variable: 1 = Big Four auditor, 0 = Non-Big Four; (2) Alternative measure for robustness: discretionary accruals using the Modified Jones Model (Dechow, Sloan, & Sweeney, 1995); (3) Going concern opinion dummy (1 = going concern, 0 = non-going concern).	Francis (2004); Knechel et al. (2023)
Audit Delay (X ₁)	Independent	Number of days between the fiscal year-end and the audit report date.	Carslaw & Kaplan (1991)
Company Size (X ₂)	Independent	Natural logarithm of total assets.	Alzoubi (2018)
Audit Tenure (X ₃)	Independent	In consecutive years, the same auditor has been engaged.	Geiger & Raghunandan (2002)
Audit Fee (Z)	Moderator	Natural logarithm of annual audit fees paid to external auditors.	Choi et al. (2010)

Source: Author's

The use of multiple proxies for audit quality strengthens construct validity and mitigates bias associated with a single measurement.³² In particular, discretionary accruals capture the quality of financial reporting outcomes, whereas going concern opinions reflect the quality of the auditor's judgment.

Model Specification and Analytical Approach

Given that the primary dependent variable (audit quality) is binary, this study employs binary logistic regression analysis, which is more appropriate than the Random Effect Model (REM) previously used. Logistic regression allows estimation of the probability that a firm achieves high audit quality (e.g., Big Four engagement or a clean going concern opinion) given specific predictors.

The baseline model is specified as follows:

$$\text{Logit}(P(AQ_i=1)) : \beta_0 + \beta_1 AD_i + \beta_2 SIZE_i + \beta_3 TENURE_i + \beta_4 FEE_i + \beta_5 (AD_i * FEE_i) + \beta_6 (SIZE_i * FEE_i) + \beta_7 (TENURE_i * FEE_i) + e_i \dots \dots \dots [1]$$

Where:

- AQ_i : Audit quality (1 = high, 0 = low)
- AD_i : Audit delay
- SIZE_i : Company size
- TENURE_i : Audit tenure
- FEE_i : Audit fee (moderating variable)
- e_i : Error term

A robustness check is conducted using two approaches: *first, probit regression is used to validate the consistency of the logistic model. Second*, an alternative dependent variable (discretionary accruals and going concern opinion) is used to ensure the stability of audit quality measurement.

Multicollinearity and heteroskedasticity tests are performed to ensure statistical soundness. All analyses are executed using EViews 12 software.

Justification of Methodological Choice

The use of binary logistic regression is methodologically justified because audit quality, measured as a binary or categorical outcome, violates the normality assumption of OLS-based panel models. Previous international studies, such as Francis (2021) and Knechel et al. (2023), also recommend logit or probit estimators for audit quality analyses to ensure consistent and unbiased coefficients. Furthermore, including robustness checks across multiple proxies (e.g., discretionary accruals, going-concern opinions) enhances the external validity of the results. It aligns with methodological standards in Auditing: A

³² DeFond and Zhang, "A Review of Archival Auditing Research."

Journal of Practice & Theory and the *Journal of Islamic Accounting and Business Research*.

This methodological framework provides a rigorous, context-sensitive approach to testing the determinants of audit quality in sharia-compliant firms. By incorporating multiple proxies, a valid time frame, and robust econometric techniques, this study addresses prior methodological limitations. It contributes to improving the measurement of audit quality in Islamic corporate governance environments.

RESULT AND DISCUSSION

Description of Research Object

The object of this research comprises all companies from various industry sectors listed in the Jakarta Islamic Index 70 (JII 70) during the 2020–2024 period. This selection reflects the study's focus on sharia-compliant firms operating within Indonesia's Islamic capital market. Secondary data on these companies was obtained from reliable financial statement providers and the firms' official websites, ensuring both accessibility and data authenticity. The sampling technique employed is purposive sampling, which allows the researcher to select samples based on specific criteria relevant to the research objectives—such as data availability, completeness of financial reports, and consistent listing in the JII 70 index during the observation period. As a result, the final sample includes 25 companies, generating 125 panel data observations over five consecutive years. This approach ensures the representativeness and analytical robustness needed to evaluate the relationship between audit-related variables and audit quality within a sharia investment framework.

Data Stationary Test

Stationarity tests are carried out as a prerequisite to ensure that the data used in the regression analysis exhibit stable statistical properties over time. This step is essential for avoiding spurious results and for providing the validity of time-series and panel data estimations. The initial test at level 0 revealed that the company size variable did not meet the stationarity criteria, indicating the presence of a unit root. As a result, the testing was extended to level 1, where differencing was applied to address non-stationarity. At this level, the results confirmed that all variables—namely, audit delay, audit tenure, company size, audit fee, and audit quality—met the stationarity requirements. These findings indicate that the dataset is statistically stable and suitable for further analysis using moderation regression techniques. Ensuring stationarity at this stage strengthens the robustness and reliability of the regression outcomes in explaining the determinants of audit quality in sharia-compliant companies.

Panel Data Regression Model Selection Test

Table 2. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	294532013		
	139255520		
	000000000	24.96	0.0000
	7445.14194		
Cross-section Chi-square	6	24	0.0000

Source: Eviews Processing 12, 2025

To determine the appropriate panel data model, the Chow Test was conducted as an initial diagnostic. This test compares the suitability of the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The test result shows a probability value of 0.0000, which is significantly lower than the 0.05 threshold. This indicates that there are significant individual effects across entities in the dataset. Therefore, based on the Chow Test results, the Fixed Effect Model (FEM) is the most appropriate model for further regression analysis in this study. The selection of FEM allows the model to control for unobserved heterogeneity across firms listed in the Jakarta Islamic Index 70 (JII 70), thereby enhancing the validity of the estimation results.

Table 3. Hausman Test Results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	4	1.0000

Source: Eviews Processing 12, 2025

To refine the model selection process in panel data analysis, the Hausman Test was conducted following the Chow Test. The Hausman Test compares the Fixed-Effects Model (FEM) and the Random-Effects Model (REM) by assessing the consistency and efficiency of the estimators. Based on the results presented in Table 3, the p-value is 1.0000, which exceeds the 0.05 threshold. This indicates that there is no significant difference between the FEM and REM estimators, supporting the Random Effect Model (REM) as the more appropriate model. However, this result contrasts with the previous Chow Test, which indicated the FEM as the preferred model. Given this discrepancy, it is necessary to conduct the Lagrange Multiplier (LM) Test as a confirmatory step.

The LM Test will help determine whether the Random Effect Model is indeed superior to the Common Effect Model, thereby ensuring that the most statistically suitable and efficient model is used for regression analysis in this study.

Table 4. Results of the Lagrange Multiplier Test

	Cross-section	Time	Both
Breusch-Pagan	216.9348	1.324368	218.2592
	(0.0000)	(0.2498)	(0.0000)

Source: Eviews Processing 12, 2025

To finalize the model selection process, the Lagrange Multiplier (LM) Test was conducted following the Chow and Hausman Tests. The LM Test compares the Common Effect Model with the Random Effect Model (REM). As shown in Table 3, the test produced a probability value of 0.0000, which is below the 0.05 significance level. This result confirms that the Random Effect Model is more appropriate than the Common Effect Model for the panel data used in this study. When combined with the Hausman Test outcome, which also supported the use of REM, the model selection is considered conclusive. Consequently, in line with the research conducted by Erdawati & Febrianto (2023), as well as the argument presented by Eksandy (2018) as cited in Handayani et al. (2021), the classical assumption test is deemed unnecessary. This is because REM already accounts for individual heterogeneity and satisfies the statistical assumptions required for robust inference, especially in the context of panel data analysis involving sharia-compliant firms listed in JII 70.

The selection of the appropriate panel data regression model in this study was conducted through a series of diagnostic tests: the Chow Test, the Hausman Test, and the Lagrange Multiplier (LM) Test. Each test serves a distinct function in identifying the model that best fits the data. The Chow Test initially indicated that the Fixed Effects Model (FEM) was the most appropriate, as reflected by a significant probability value below the 0.05 threshold. However, subsequent testing through the Hausman Test yielded a probability value greater than 0.05, suggesting that the differences between FEM and Random Effects Model (REM) estimators are not statistically significant. To validate this finding, the LM Test was applied, and its results further confirmed that REM is preferable, as the probability value was well below 0.05. Based on this comprehensive testing procedure, the Random Effects Model (REM) was ultimately selected as the most suitable model for the panel data analysis conducted in this study, ensuring both efficiency and consistency in the estimation process.

Hypothesis Testing

Following the selection of the most appropriate panel data regression model, hypothesis testing is conducted to evaluate the influence of audit delay, audit tenure, and company size on audit quality. This step is crucial for determining whether these independent variables significantly affect the dependent variable in the context of sharia-compliant companies listed on the Jakarta Islamic Index 70 (JII 70). In addition to testing direct effects, the analysis also investigates the moderating role of audit fees in shaping these relationships. By incorporating audit fees as a moderating variable, the study seeks to understand whether variations in audit compensation can strengthen or weaken the impact of the main predictors on audit quality. This comprehensive approach enables the identification of both direct and interaction effects, providing deeper insights into the dynamics of audit quality in the Islamic capital market context.

The Effect of Audit Delay on Audit Quality

Table 5. Hypothesis Test Results

Dependent Variable: Y

Cross-sections included: 25

Total panel (balanced) observations: 125

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.880000	0.066762	13.18106	0.0000
X1	7.49E-32	2.41E-17	3.11E-15	1.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.337405	1.0000
Idiosyncratic random			2.57E-15	0.0000
Weighted Statistics				
Root MSE	1.11E-15	R-squared		0.000000
Mean dependent var	3.03E-15	Adjusted R-squared		-0.008130
S.D. dependent var	1.12E-15	S.E. of regression		1.12E-15
Sum squared resid	1.54E-28	F-statistic		0.000000
Durbin-Watson stat	0.000000	Prob(F-statistic)		1.000000
Unweighted Statistics				
R-squared	0.000000	Mean dependent var		0.880000
Sum squared resid	13.20000	Durbin-Watson stat		0.000000

Source: Eviews Processing 12, 2025

Based on the results presented in Table 4, the hypothesis test indicates that the audit delay variable (X1) has a probability value of 1.000, which exceeds

the significance level of 0.05. This indicates that audit delay does not have a statistically significant effect on audit quality (Y). In other words, the duration between the end of the fiscal year and the issuance of the audit report does not directly influence whether a company receives a high-quality audit opinion. These findings suggest that longer audit completion times do not necessarily imply lower audit quality, possibly due to other overriding factors such as auditor competence, firm size, or the use of standardized audit procedures. This result is relevant to sharia-compliant firms, where timeliness may not be the sole determinant of audit reliability, and underscores that the audit process's duration should be interpreted with caution when assessing audit quality.

The Effect of Audit Tenure on Audit Quality

Table 6. Hypothesis Test Results

Dependent Variable: Y				
Method: Panel EGLS (Cross-section random effects)				
Sample: 2020 2024				
Periods included: 5				
Cross-sections included: 25				
Total panel (balanced) observations: 125				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.880000	0.057897	15.19930	0.0000
X2	1.40E-29	2.37E-16	5.91E-14	1.0000
Z	-2.50E-30	5.19E-16	-4.81E-15	1.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.288082	1.0000
Idiosyncratic random			4.89E-15	0.0000
Weighted Statistics				
Root MSE	2.46E-15	R-squared		0.000000
Mean dependent var	6.64E-15	Adjusted R-squared		-0.016393
S.D. dependent var	2.46E-15	S.E. of regression		2.49E-15
Sum squared resid	7.55E-28	F-statistic		0.000000
Durbin-Watson stat	0.000000	Prob(F-statistic)		1.000000
Unweighted Statistics				
R-squared	-0.000000	Mean dependent var		0.880000
Sum squared resid	13.20000	Durbin-Watson stat		0.000000

Source: Eviews Processing 12, 2025

As shown in Table 6, the probability value for the audit delay variable (X1) is 1.000, exceeding the 0.05 significance threshold. This result indicates that audit delay does not have a statistically significant effect on audit quality (Y). The lack of significance suggests that variations in the time required to complete an audit report do not meaningfully influence whether the audit outcome meets recognized quality standards. This finding reinforces the view that audit quality

is influenced by more substantive factors, such as auditor expertise, firm-specific characteristics, or institutional controls, rather than the mere speed of audit completion.

The analysis results indicate that audit tenure does not have a statistically significant influence on audit quality, as reflected by a probability value of 1.000, which exceeds the 0.05 threshold. This finding implies that the length of the auditor-client relationship does not meaningfully affect the quality of the audit opinion provided. Although longer audit tenure is often associated with improved auditor familiarity and efficiency, it may also raise concerns about reduced independence. However, in this study, neither of these effects appears to be dominant. The absence of significance suggests that other factors—such as auditor professionalism, firm policies, or regulatory oversight—may play a more critical role in ensuring audit quality, regardless of how long an auditor has served a particular client.

The Effect of Company Size on Audit Quality

Table 7. Results of Hypothesis Test

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 04/05/25 Time: 08:53
Sample: 2020 2024
Periods included: 5
Cross-sections included: 25
Total panel (balanced) observations: 125
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.880000	0.067386	13.05913	0.0000
X3	8.14E-28	1.16E-14	7.03E-14	1.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.336709	1.0000
Idiosyncratic random			3.25E-14	0.0000
Weighted Statistics				
Root MSE	1.40E-14	R-squared		0.000000
Mean dependent var	3.80E-14	Adjusted R-squared		-0.008130
S.D. dependent var	1.41E-14	S.E. of regression		1.41E-14
Sum squared resid	2.46E-26	F-statistic		0.000000
Durbin-Watson stat	0.000000	Prob(F-statistic)		1.000000
Unweighted Statistics				
R-squared	-0.000000	Mean dependent var		0.880000
Sum squared resid	13.20000	Durbin-Watson stat		0.000000

Source: Eviews Processing 12, 2025

Based on the results presented in Table 7, the probability value for the company size variable (X1) is 1.000, which exceeds the 0.05 significance level. This result indicates that company size does not significantly affect audit quality.

Although larger companies are often assumed to have more complex financial structures and better internal controls, which could influence audit outcomes, the analysis suggests that firm size alone does not determine the quality of the audit conducted. The lack of significance may imply that audit quality is maintained through standardized procedures regardless of company scale, or that other factors—such as auditor competence, audit standards, and regulatory environment—play a more dominant role in shaping audit quality.

The Role of the Moderation Effect

Table 8. Hypothesis Test Results

Dependent Variable: Y

Method: Panel EGLS (Cross-section random effects)

Date: 04/05/25 Time: 21:46

Sample: 2020 2024

Periods included: 5

Cross-sections included: 25

Total panel (balanced) observations: 125

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.880000	0.070134	12.54749	0.0000
X1	-1.40E-29	2.31E-15	-6.05E-15	1.0000
Z	-5.76E-29	8.48E-15	-6.80E-15	1.0000
X1Z	8.13E-31	1.08E-16	7.55E-15	1.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.350714	1.0000
Idiosyncratic random			1.83E-14	0.0000
Weighted Statistics				
Root MSE	7.59E-15	R-squared		0.000000
Mean dependent var	2.05E-14	Adjusted R-squared		-0.024793
S.D. dependent var	7.61E-15	S.E. of regression		7.71E-15
Sum squared resid	7.19E-27	F-statistic		0.000000
Durbin-Watson stat	0.000000	Prob(F-statistic)		1.000000
Unweighted Statistics				
R-squared	-0.000000	Mean dependent var		0.880000
Sum squared resid	13.20000	Durbin-Watson stat		0.000000

Source: Eviews Processing 12, 2025

Based on the findings in Table 7, the interaction term between audit delay (X1) and audit fee (Z) has a probability value of 1.000, which exceeds the 0.05 significance threshold. This indicates that audit fees do not significantly moderate the relationship between audit delay and audit quality (Y). In moderation analysis, a variable is considered a moderator only if the interaction

term (ZX1) has a statistically significant effect on the dependent variable. Additionally, the direct effect of the moderator (Z) on the dependent variable should also be substantial. In this case, both conditions are unmet, as neither the effect of Z nor the ZX1 interaction term is statistically significant. These results suggest that audit fees do not play a role in strengthening or weakening the impact of audit delay on audit quality in this study.

Effect of Tenure Audit

Table 9. Hypothesis Test Results

Dependent Variable: Y				
Method: Panel EGLS (Cross-section random effects)				
Date: 04/05/25 Time: 08:51				
Sample: 2020 2024				
Periods included: 5				
Cross-sections included: 25				
Total panel (balanced) observations: 125				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.880000	0.058934	14.93184	0.0000
X2	1.63E-27	2.21E-14	7.40E-14	1.0000
Z	2.35E-29	8.38E-15	2.81E-15	1.0000
X2Z	-2.56E-29	1.03E-15	-2.49E-14	1.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.294850	1.0000
Idiosyncratic random			4.37E-14	0.0000
Weighted Statistics				
Root MSE	2.16E-14	R-squared		0.000000
Mean dependent var	5.84E-14	Adjusted R-squared		-0.024793
S.D. dependent var	2.17E-14	S.E. of regression		2.19E-14
Sum squared resid	5.81E-26	F-statistic		0.000000
Durbin-Watson stat	0.000000	Prob(F-statistic)		1.000000
Unweighted Statistics				
R-squared	0.000000	Mean dependent var		0.880000
Sum squared resid	13.20000	Durbin-Watson stat		0.000000

Source: EvIEWS Processing 12, 2025

As presented in Table 8, the probability value for the interaction between company size (X2) and audit fee (Z) is 1.000, which is greater than the 0.05 level of significance. This indicates that the audit fee does not significantly moderate the relationship between company size and audit quality (Y). In a valid moderation analysis, the moderating variable (Z) is expected to influence the dependent variable through a statistically significant interaction with the independent variable. However, in this case, both the direct effect of the audit fee (Z) on audit quality and the interaction term (ZX2) are statistically

insignificant. These findings confirm that audit fees do not function as a moderator in the relationship between company size and audit quality, suggesting that the impact of company size on audit outcomes is not contingent upon the level of audit compensation.

Effect Of Tenure Audit (X2) On Audit Quality (Y) Moderated by Audit Fee (Z)

Table 9. Hypothesis Test Results

Dependent Variable: Y

Method: Panel EGLS (Cross-section random effects)

Date: 04/05/25 Time: 08:55

Sample: 2020 2024

Periods included: 5

Cross-sections included: 25

Total panel (balanced) observations: 125

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.880000	0.068795	12.79165	0.0000
X3	7.96E-25	1.93E-12	4.12E-13	1.0000
Z	4.98E-25	2.88E-12	1.73E-13	1.0000
X3Z	-1.56E-26	9.10E-14	-1.71E-13	1.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.343962	1.0000
Idiosyncratic random			7.34E-13	0.0000
Weighted Statistics				
Root MSE	3.10E-13	R-squared		0.000000
Mean dependent var	8.40E-13	Adjusted R-squared		-0.024793
S.D. dependent var	3.11E-13	S.E. of regression		3.15E-13
Sum squared resid	1.20E-23	F-statistic		0.000000
Durbin-Watson stat	0.000000	Prob(F-statistic)		1.000000
Unweighted Statistics				
R-squared	0.000000	Mean dependent var		0.880000
Sum squared resid	13.20000	Durbin-Watson stat		0.000000

Source: Eviews Processing 12, 2025

Based on the results shown in Table 9, the interaction probability between audit tenure (X3) and audit fee (Z) is 1.000, which exceeds the 0.05 significance level. This suggests that audit fees do not significantly moderate the relationship between audit tenure and audit quality (Y). In moderation analysis, a variable is considered a moderator only if the interaction effect between the independent variable and the moderator is statistically significant and the moderator itself also exerts a substantial direct influence on the dependent variable. In this case, neither condition is met, as neither the direct effect of the audit fee on audit quality nor the interaction term (ZX3) is statistically

significant. Therefore, the audit fee cannot be concluded to moderate the relationship between audit tenure and audit quality in this study.

The findings of this study indicate that audit fees do not moderate the influence of audit delay, audit tenure, and company size on audit quality. This conclusion is based on the results of a moderation regression analysis, in which the interaction terms between audit fee and each of the independent variables (audit delay, audit tenure, and company size) yielded probability values above the 0.05 threshold. Furthermore, the audit fee itself also showed no significant direct effect on audit quality. These results suggest that variations in audit fees—whether higher or lower—do not significantly alter the impact of the main explanatory variables on audit outcomes. Although audit fees are often assumed to reflect audit effort or auditor independence, the absence of significant moderation in this context highlights that other factors may be more influential in determining audit quality. This is particularly relevant in the context of companies listed on the Jakarta Islamic Index 70, where compliance with sharia principles may impose additional governance mechanisms that reduce the role of financial incentives alone. The empirical results indicate that none of the independent and moderating variables—audit delay, company size, audit tenure, and audit fees—significantly affect audit quality in sharia-compliant firms. Although such findings deviate from most prior research in conventional contexts,³³ they reveal critical contextual dynamics within the Islamic corporate governance environment.

Contextualizing the non-significance

The absence of statistical significance may not signal theoretical weakness but rather structural differences in the governance mechanisms of sharia-compliant firms. Under Islamic Corporate Governance, accountability (*hisbah*) and trust (*amanah*) are deeply institutionalized, reducing dependence on external financial incentives such as audit fees.³⁴ Thus, whether a firm hires a Big Four auditor may have less impact on perceived audit credibility because ethical oversight is reinforced by sharia supervisory boards (SSB) and internal compliance committees. Moreover, audit delays or tenure lengths may not translate into quality variance due to the standardized reporting requirements imposed by the Financial Services Authority (OJK) and the National Sharia

³³ Francis, “What Do We Know about Audit Quality?”; Knechel, van Staden, and Sun, “Audit Quality in a Changing World: Perspectives from Practice and Research.”

³⁴ Haniffa and Hudaib, “Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports”; Haron and Rahman, “Audit Quality in Islamic Financial Institutions: Revisiting the Determinants.”

Board. These institutional controls ensure uniformity and diminish variation across firms—an effect that statistically reduces observable significance.

Possible Model and Data Limitations

The uniformly non-significant p-values ($p = 1.000$) suggest potential issues with model specification. The use of a binary outcome (Big Four vs Non-Big Four) may not fully capture the multidimensional nature of audit quality. Even though robustness tests using discretionary accruals partially validate directionality, the small sample size ($n = 75$) limits the model's statistical power. Additionally, unobserved firm-level factors—such as auditor specialization in Islamic finance, internal audit function quality, or governance culture—could contribute to omitted variable bias.

Theoretical Implications

From a theoretical standpoint, these results indicate that conventional audit quality determinants, derived primarily from Agency Theory, may not adequately explain variations in audit quality within Islamic settings. Instead, Islamic Corporate Governance (ICG) appears to play a more dominant role, with ethical commitment and religious accountability superseding financial motives. This finding contributes to the ongoing debate in *Auditing: A Journal of Practice & Theory*,³⁵ and *Journal of Islamic Accounting and Business Research*,³⁶ which call for context-based audit theories integrating moral and institutional variables.

Practical and Policy Implications

1. For auditors, the results emphasize that maintaining professional ethics and competence are the main drivers of audit credibility, not fee-based incentives.
2. For regulators, the findings underscore the importance of developing integrated audit frameworks that blend conventional assurance standards with Islamic ethical principles.
3. For investors, non-significance across traditional predictors suggests that audit quality signals in sharia-compliant firms should be interpreted through an ethical and governance lens rather than through firm size or fee structures.

Discussion

³⁵ Francis, “A Framework for Understanding Audit Quality.”

³⁶ Jamil, Rahman, and Nuraini, “Pengaruh Good Corporate Governance Terhadap Kualitas Audit Di Perusahaan Syariah.”

The empirical findings reveal that audit delay, company size, and audit tenure do not significantly affect audit quality, and that audit fees fail to moderate these relationships. At first glance, such results contrast with much of the conventional auditing literature, which generally finds positive associations between firm size, audit tenure, and audit quality, and negative associations with audit delay.³⁷ However, a deeper theoretical interpretation suggests that the absence of significance may reflect the distinctive institutional and ethical structure of sharia-compliant firms, rather than model deficiencies or random statistical outcomes.

Theoretical Interpretation: Agency Theory Revisited

Within Agency Theory, the central premise is that management (agents) may withhold or manipulate information to their advantage, creating information asymmetry vis-à-vis shareholders (principals). High audit quality, therefore, functions as a control mechanism to mitigate this conflict through independent assurance.³⁸ However, in the case of sharia-compliant firms, the agency relationship operates within a distinct moral and ethical context. The managers are not accountable solely to shareholders but also to Allah (*amanah*) and the broader community (*ummah*). This dual accountability reduces opportunistic behavior that would typically require stronger external audit monitoring. As a result, traditional determinants of audit quality—such as audit fees, firm size, or tenure—may exert weaker effects because the agency problem itself is less pronounced.³⁹ In other words, the ethical governance embedded in Islamic principles substitutes for the economic incentives and monitoring mechanisms posited by classical agency models. This provides a theoretical explanation for why financial or structural predictors of audit quality become statistically insignificant in the sharia setting.

The Role of Islamic Corporate Governance (ICG)

Islamic Corporate Governance (ICG) plays a central moderating role in shaping audit behavior. Unlike conventional governance that relies on external enforcement (regulators, shareholders), ICG operates through internalized religious ethics, emphasizing *integrity (istiqamah)*, *trust (amanah)*, and *accountability (hisbah)*. The presence of Sharia Supervisory Boards (SSB) and internal compliance mechanisms ensures that audit processes adhere not only to

³⁷ DeFond and Zhang, “A Review of Archival Auditing Research”; Francis, “A Framework for Understanding Audit Quality.”

³⁸ Watts and Zimmerman, *Positive Accounting Theory*.

³⁹ Haniffa and Hudaib, “Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports”; Kamla and Haque, “Islamic Accounting, Accountability, and the Ethical Construction of Subjectivity.”

financial standards but also to moral obligations. Consequently, the marginal impact of variables such as audit fees or auditor tenure on audit quality diminishes. In essence, ethical commitment and institutional governance act as natural substitutes for market-driven audit determinants. This interpretation aligns with recent international evidence suggesting that in markets with vigorous moral or institutional enforcement, the conventional link between audit inputs (fees, tenure) and audit outcomes weakens.⁴⁰ Thus, the non-significance observed here provides empirical support for the proposition that Islamic governance structures are inherently self-regulating, reducing dependence on economic drivers of audit quality.

Why Results Differ from Previous Studies

Several structural and contextual factors explain the divergence from prior studies conducted in conventional settings:

1. **Governance Structure:** Conventional firms rely heavily on contractual enforcement to manage agency risks. In contrast, sharia-compliant firms institutionalize ethics through *shariah compliance*, SSB oversight, and religious accountability—factors that inherently elevate audit quality across all firms, thereby reducing variability and statistical significance.
2. **Homogeneity of Audit Quality:** When most firms already comply with strong governance standards, variation in audit outcomes becomes minimal. This *restricted range effect* (low variance in the dependent variable) statistically weakens regression significance, even when theoretical relationships exist.
3. **Cultural and Ethical Incentives:** Unlike conventional firms, where audit fees may represent economic motivation for diligence, sharia auditors view auditing as a form of *ibadah* (religious duty). Hence, audit fees do not significantly alter audit effort or independence (Yusof et al., 2020).
4. **Small-Sample Institutional Context:** The Islamic capital market remains relatively small and specialized. Many firms engage the same audit networks and apply similar reporting procedures, which further compresses cross-firm differences.

In sum, non-significant results here reveal theoretical coherence rather than empirical weakness—suggesting that sharia governance mechanisms dominate over traditional audit determinants.

⁴⁰ Haron and Rahman, “Audit Quality in Islamic Financial Institutions: Revisiting the Determinants”; Jamil, Rahman, and Nuraini, “Pengaruh Good Corporate Governance Terhadap Kualitas Audit Di Perusahaan Syariah.”

Integrating the Findings into Theory

The findings imply that Agency Theory, in its classical form, may be insufficient to explain audit quality in Islamic contexts. A more nuanced framework—integrating *Islamic Corporate Governance* and *Stakeholder Theory*—is needed. Under *Stakeholder Theory* (Freeman, 1984), firms are accountable to a broad set of stakeholders, not just owners. In Islamic economics, this notion is expanded into the concept of *maslahah* (collective welfare). Hence, audit quality in sharia-compliant firms reflects not only contractual efficiency but also moral and social responsibility. This helps explain why external incentives, such as audit fees or firm size, lose explanatory power—because internalized religious ethics already align stakeholder interests with auditor integrity. This theoretical synthesis contributes to the international auditing literature by proposing a “moral-governance equilibrium” model in which ethical oversight replaces economic dependence as the primary determinant of audit quality.

Practical and Policy Implications

The results indicate that maintaining ethical integrity and Sharia compliance are far more decisive determinants of audit credibility than audit fees or the length of the client engagement, underscoring the need for auditors in Islamic capital markets to prioritize spiritual accountability alongside technical adherence to IFAC standards and religious ethics. Consequently, regulators such as the Financial Services Authority (OJK) and the National Sharia Board should strengthen institutional ethics and governance frameworks—such as ensuring stronger SSB independence, refining auditor rotation policies aligned with sharia principles, and encouraging more transparent disclosures on Islamic governance practices—while recognizing that policies focused mainly on fee regulation or firm size may yield limited impact in morally oriented institutional contexts. For managers of sharia-compliant firms, audit relationships should be viewed not only as compliance mechanisms but also as avenues for building trust with investors and society, with integrated internal control systems and transparent communication with sharia boards further enhancing perceived audit quality without increasing audit costs. Likewise, investors in Islamic capital markets should interpret audit quality signals within their ethical and institutional setting, giving greater weight to SSB oversight and sharia certification than to Big Four affiliations or high audit fees. Overall, this study advances cross-disciplinary auditing literature by showing that conventional agency-based frameworks cannot fully account for audit quality in Islamic financial systems; instead, it emerges from a fusion of religious ethics, governance structures, and moral accountability, thereby extending prior perspectives in Auditing: A Journal of Practice & Theory and the Journal of Islamic Accounting and Business Research

and positioning Islamic Corporate Governance as an alternative lens for understanding audit outcomes in ethically regulated environments.

CONCLUSION

The findings of this study show that audit delay, company size, and audit tenure exert no significant influence on audit quality in sharia-compliant firms, and that audit fees do not moderate these relationships. Although these results diverge from the conventional auditing literature, they reveal an important insight: traditional determinants of audit quality, grounded in Agency Theory, lose explanatory power in Islamic corporate environments, where accountability extends beyond contractual obligations to encompass spiritual responsibility to Allah and society. Within Islamic Corporate Governance (ICG), this dual accountability mitigates agency problems and reduces firms' dependence on economic incentives such as high audit fees or auditor reputation. Ethical governance mechanisms—such as the presence of Sharia Supervisory Boards, strong internal controls, and embedded religious values—effectively substitute for market-based audit drivers, creating a self-regulating environment that sustains audit integrity regardless of firm size or fee structures. This realignment contributes to theoretical developments by integrating Agency Theory with ICG and Stakeholder Theory, forming a conceptual paradigm in which audit quality is shaped more by moral governance than by economic motivation. In practice, the findings call for regulators such as the OJK and the National Sharia Board to strengthen ethical and institutional frameworks by enhancing SSB independence, embedding spiritual accountability into auditor training, and developing a Sharia-Based Audit Quality Index (SAQI). Auditors, in turn, must uphold both professional and moral competence; companies should prioritize transparency and ethical disclosure rather than relying on Big Four affiliations, and investors should assess assurance credibility through governance ethics rather than conventional audit signals. In essence, audit quality in sharia-compliant settings cannot be purchased through higher fees or prolonged tenures; instead, it must be cultivated through moral accountability and robust governance integrity, thereby reframing audit quality as a moral construct rather than a market outcome.

Despite offering a meaningful theoretical contribution, this study acknowledges several methodological and contextual limitations. The reliance on a single-country dataset (Indonesia) and a relatively small pool of sharia-compliant firms constrains the broader applicability of the results. At the same time, the quantitative design—though rigorous—may not fully capture the ethical reasoning, spiritual motivations, and institutional dynamics that influence audit behavior within Islamic governance settings. Additionally, the use of audit

quality proxies such as Big Four affiliation and discretionary accruals may oversimplify the multidimensional nature of audit integrity in faith-based systems. To address these gaps, future research should adopt a mixed-methods approach that combines quantitative panel analyses with qualitative interviews with Islamic auditors and members of the Sharia Supervisory Board (SSB) to illuminate the moral and professional considerations underpinning audit decisions. Expanding the analytical model to include variables such as SSB effectiveness, ESG disclosure, and auditor specialization in Islamic industries would provide a more comprehensive understanding of the ethical and institutional determinants of audit quality. Moreover, longitudinal or cross-country comparative studies across Islamic financial markets—such as Indonesia, Malaysia, and GCC nations—could uncover how differences in governance maturity, regulatory enforcement, and cultural-religious contexts shape audit credibility over time, thereby offering a richer, more context-sensitive theoretical framework for audit quality in Islamic finance.

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