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Entrenchment Effect and Corporate Governance: Audit Quality Analysis

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ABSTRACT: This study aims to examine the effect of entrenchment effect and corporate governance on audit quality as measured by accrual quality. This study uses manufacturing companies listed on the Indonesia Stock Exchange from 2018-2020 as a sample. The final sample of this study was 39 companies with a total of 117 observations. This study uses multiple linear regression as the method of analysis. The results of this study provide evidence that the entrenchment effect has a positive effect on audit quality. The results also show that when the company faces a high entrenchment effect from the controlling shareholder, the company still appoints a high-quality auditor to reduce agency conflict and to maintain the company's reputation. This study also shows that corporate governance has a negative effect on audit quality. The findings of this study indicate that the controlling shareholder will choose a public accounting firm with high audit quality. This is done with the aim of giving a signal to non-controlling shareholders that the controlling shareholders have concern for them.

KEYWORDS: Audit Quality, Agency conflict, Entrenchment Effect.

INTRODUCTION

Companies with ownership structures consisting of many shares often face agency problems. Agency problems between management and shareholders occur due to the company's ownership structure that is spread out in the hands of many shareholders (dispersed ownership). This problem occurs because the owners or shareholders are less effective in monitoring the performance of management (Lizarez 2022, Couzoff et al. 2022). This less effective supervision puts the company under management control so that management has the freedom to run the company according to its interests. Companies with a dispersed ownership structure are generally found in common law countries with strong property rights protections, such as the United States, United Kingdom, Canada and Ireland (Claessens and Fan, 2002).

In contrast to common law countries, countries with civil law legal systems have weak protection for property rights. In civil law countries, most of the company's ownership is held by a few shareholders. Claessens and Fan (2002) state that when a company's ownership structure is concentrated in the hands of a handful of controlling shareholders, the controlling shareholder will have the ability to direct various company policies, known as the entrenchment effect. The existence of an entrenchment effect often causes the phenomenon of a negative entrenchment effect. This phenomenon occurs due to the emergence of agency conflicts between controlling and non-controlling shareholders.

To overcome agency conflicts that occur, the role of external parties is needed, in this case the services of auditors from KAP. However, in order for agency problems to be resolved, a KAP with high audit quality is needed. Audit quality is the probability of a public accountant to detect a violation of the client's accounting system (error/fraud) and to report the violation (DeAngelo, 1981). In addition, high or low audit quality can also be seen from the perspective of audit failure or audit failure. The higher the quality of the audit, the lower the risk of audit failure. But basically, the controlling shareholder tends to keep his financial statements from being transparent, so he is free to take expropriation actions. Lin and Liu (2009) state that one of the ways used by controlling shareholders to maintain the transparency of their financial statements is to reduce the quality of external supervision of public accounting firms, namely appointing public accounting firms with low audit quality. In their research, Choi and Yoo (2007) found that there was a negative influence on the entrenchment effect on audit quality.

The entrenchment effect occurs when the controlling shareholder uses the control rights he has to run the company. The controlling shareholder often uses the control right to carry out expropriation actions, this is what causes the Entrenchment effect to appear. The act of expropriation is the act of using one's right of control or control to maximize one's own welfare by distributing wealth from other parties. The controlling shareholder has the right to direct the company's policies in accordance with their interests, but these interests do not necessarily fulfill the rights of the non-controlling shareholders. Therefore, as previously explained, to cover up the expropriation actions carried out, KAPs with low audit quality tend to be appointed to carry out audits in their companies.

Choi et all. (2007) proved in their research that the higher the difference between control rights and cash flow rights of diverse shareholders, the higher the probability that the company will appoint a KAP with low audit quality.

To avoid the selection of a KAP with low audit quality as a result of the Entrenchement effect, it is necessary to have good corporate governance. Corporate Governance can be defined as a process and structure that is applied in running a company, with the ultimate goal of increasing shareholder value/benefit, while paying attention to the needs of all relevant parties (stakeholders). The implementation of corporate governance is expected to help improve the quality of the company's financial statements. The implementation of corporate governance also influences the selection of the company's auditors. In the mechanism of corporate governance implementation, the appointment of an auditor will be greatly influenced by recommendations from the audit committee in supporting the creation of accountability and transparency in the presentation of corporate financial statements (Guidelines for Good Corporate Governance of the Indonesian National Governance Committee). An effective audit committee generally consists of independent people from the business community who have a high reputation so that they are more concerned about the risk of loss if an error occurs in the company's financial reporting (Abbot and Parker, 2000). The audit committee has a role in encouraging public accountants to increase the scope of the audit according to the audit committee's analysis. The effectiveness of the audit committee was also found by Maharani (2012) who stated that the audit committee had a positive and significant influence on the selection of high-quality auditors.

The potential for the negative entrenchment effect is feared to have an influence on audit quality. Reliable audit quality will certainly reduce agency conflicts that occur between the company's shareholders. The audit quality received by the company depends on the auditor's ability to find errors/frauds in the company's financial statements. Therefore, audit quality is highly dependent on the public accounting firm chosen by the company through the recommendation of the company's audit committee. This study aims to determine the effect of entrenchment effect and corporate governance on audit quality.

This study refers to several previous studies, namely, research by Utami and Diyanty (2015) which examined the influence of the Entrenchment effect on Audit Quality and the Effectiveness Role of the Audit Committee. From this study, it was found that there was a positive influence between the negative entrenchment effect and the selection of a public accounting firm with higher audit quality. In addition, research from Anafiah et al (2017) which examines the effect of controlling shareholders and corporate governance on audit quality also shows the same thing, namely there is a positive influence between the entrenchment effect and audit quality, and the effectiveness of the audit committee and the board of directors has a positive effect. to the appointment of KAP with high audit quality. Both of these studies have similar research results to that of Fan and Wong (2005), namely the entrenchment effect has a positive effect on audit quality. High audit quality occurs when the controlling shareholder who carries out the entrenchment effect has a desire to reduce agency conflict by appointing a high-quality auditor. In addition, research by El Ghoul et al (2007) also said that companies may also appoint high-quality auditors to maintain the company's reputation. However, different things were found from the research of Choi and Yoo (2007), from the research conducted, it was found that the entrenchment effect had a negative effect on audit quality.

This study has several differences with previous research, namely in previous studies, audit quality was proxied using the size of a public accounting firm, while in this study, audit quality was proxied using accrual quality. This is because the use of accrual quality measurements looks at the state of the company's financial statements, so that it can be seen whether there is fraud or not which refers to expropriation actions. Differences are also found in the control variables used, this study uses 3 control variables, namely leverage, firm size, and profitability. Meanwhile, previous research used 6 control variables, namely financial leverage, firm size, profitability, liquidity, growth potential, and number of independent commissioners. The purpose of this study is to explain empirically the relationship between the Entrenchment Effect and Corporate Governance on audit quality. This research is expected to be used as information material to understand the entrenchment effect and corporate governance and how it affects audit quality so that it can add insight to the company's stakeholders in making decisions.

THEORY AND HYPOTHESES

Agency Theory

In the company there is a management in charge of managing the company, the management who manages the company is called an agent. The contract between the owner of the company and management, in which management receives a mandate to manage the company is called agency theory. Company owners and management have different interests from one another. The owner of

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the company wants his company to be more advanced so that it can prosper its shareholders, while management has a personal interest, namely maximizing itself. This management action can cause the decision maker to take the wrong decision. According to Eisenhardt (1989) in Rani and Syafruddin (2011) states that agency problems arise when, first, the goals of the principal and agent conflict and there is difficulty for the principal to verify what the agent actually does. Second, is the problem of risk sharing that may arise when the principal and agent have different behavior towards risk.

In relation to the entrenchment effect, agency conflicts occur between controlling shareholders and non-controlling shareholders. It is feared that the controlling shareholder who has the right to regulate the running of the company will abuse his power to maximize his own welfare. On the other hand, the decisions taken by the controlling shareholders may not necessarily fulfill the rights of the non-controlling shareholders. If there is an agency problem, an independent third party is needed to bridge the interests between the principal and the agent. The third party in this case is the auditor. The auditor is considered to be able to bridge the two parties affected by the agency conflict because the auditor provides an opinion on the fairness of the financial statements. The reliability of the opinion given by the auditor on the financial statements is determined from the quality of the audit conducted.

Audit Quality

Auditors must be able to provide accurate information, namely information that can accurately indicate the value of the company. Audit quality is the probability that an auditor finds and reports about a violation contained in the client's financial statements. De Angelo (1981) defines audit quality as the auditor's probability of (1) finding a violation in the client's accounting system, and (2) reporting a violation. In line with this definition, Vanstraelen (2000), as quoted by Mostafa and Hussien (2010) defines audit quality as the auditor is able to find and report errors that exist during the audit investigation process. Sari (2010) revealed that audit quality is the work of auditors in checking financial statements correctly and complying with established standards.

Audit quality concerns the auditor's compliance in fulfilling professional matters to ensure confidence in the reliability of financial statements (Prasita and Adi, 2007). IAI states that the audit conducted by the auditor is said to be of quality, if it meets auditing standards and quality control standards. The results of DeAngelo's research show that a large KAP will try to present a higher audit quality than a small KAP. Audit quality can also be seen from the perspective of audit failure. The higher the audit quality, the lower the audit failure will occur.

Audit quality can be measured using the KAP measure. De Angelo (1981) argues that large public accounting firms have better audit quality than those that rely on only a few clients. In addition, the auditor's specialization can also be used as a measure to determine whether the auditor has high or low audit quality. Auditors with specialization make him understand more about the industry of the clients he audits so that the audit quality is also higher. Audit tenure or audit engagement period is also one measure that can determine audit quality. Theoretically, at the beginning of the engagement, audit quality will be low because the CPA firm is still in the process of understanding the client's company. However, the quality of the audit will increase as the engagement period progresses.

Entrenchment Effect

Controlling shareholders who have strong control rights tend to use the company for personal interests regardless of the rights of non-controlling shareholders. This proves that there is an entrenchment effect in the company. Entrenchment is the act of controlling shareholders who are protected by their control rights to expropriate (Fan and Wong, 2005). Expropriation is the act of using one's right of control or control to maximize one's own welfare by distributing wealth from others.

Controlling shareholders with strong control rights use the company for personal interests rather than the interests of non-controlling shareholders. This implies the entrenchment effect of the ultimate controlling shareholder (Sanjaya, 2010). According to Siregar (2011), there are two mechanisms commonly used by controlling shareholders to control a company through other companies, namely pyramid ownership and cross-holding. Pyramid ownership is indirect ownership of a company through other companies, either through public or non-public companies.

The entrenchment effect includes the expropriation of company profits transferred to other companies that are still controlled by the controlling shareholder. The controlling shareholder can also expropriate the pursuit of goals that do not maximize the company's profits. The entrenchment effect does not always cause agency conflicts in the company. Agency conflict will occur if the company is affected by the negative entrenchment effect, namely when the controlling shareholder uses his control rights for personal interests without regard to the rights of non-controlling shareholders.

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Corporate Governance

Corporate governance is a series of mechanisms that can protect minority parties (outside investors/minority shareholders) from expropriation by managers and controlling shareholders (insiders) with an emphasis on legal mechanisms. Triwahyuningtias (2012) revealed that Corporate Governance regulates the division of duties, rights, and obligations of those who have an interest in the life of the company including shareholders, the board of directors, managers, and all relevant stakeholders (Wardhani, 2006). The Forum for Corporate Governance in Indonesia (FCGI) states that corporate governance is a set of regulations that regulate the relationship between shareholders, management (managers) of companies, creditors, the government, and employees as well as other external and internal stakeholders relating to the rights and their obligations or in other words a system that controls the company.

Based on the above understanding, it can be concluded that corporate governance is a system, process, and set of regulations that regulate the relationship between various interested parties, especially in the sense of being narrow, the relationship between shareholders, the board of commissioners, and the board of directors in order to achieve organizational goals. Corporate Governance is intended to regulate this relationship and prevent significant errors in corporate strategy from occurring and to ensure errors that occur can be corrected immediately.

The board of commissioners and audit committee, as corporate governance structures, have a very important role in maintaining the credibility of the process of preparing financial statements as well as maintaining the creation of an adequate corporate supervision system and the implementation of good corporate governance. The board of commissioners is a board whose task is to carry out general and specific supervision in accordance with the articles of association and provide advice to the board of directors. The Board of Commissioners has the main task of supervising the policies of the Board of Directors in running the company and providing advice to the Board of Directors. To assist in carrying out its duties, the board of commissioners forms a committee called the audit committee. The audit committee is responsible to the Board of Commissioners in order to assist in carrying out its duties and functions. One of the duties of the audit committee related to this research is that the audit committee provides recommendations on the appointment of accountants based on independence, scope of assignments and fees. When the functions of the board of commissioners and audit committee are running effectively, the control over the company will be better so that agency conflicts that occur between majority shareholders and minority shareholders can be minimized.

Hypothesis Development

The Influence of Entrenchment Effect on Audit Quality

The controlling shareholder has control rights in the running of the company. This then causes the controlling shareholder to expropriate which is a negative entrenchment effect. Fan and Wong (2005) state that, in order to cover the expropriation carried out so as not to be detected by external parties, the quality of disclosure of financial statements will be lowered. Decreasing disclosure quality will cause information asymmetry between controlling and non-controlling shareholders to increase.

Agency theory explains that agency conflicts occur because of differences in interests between controlling and non-controlling shareholders. Agency conflicts that occur between two parties can be overcome by the role of a third party in this case the auditor. The auditor can bridge the two parties who have agency conflicts because the auditor provides an opinion on the fairness of the financial statements. For this reason, a high-quality auditor is needed so that agency problems can be resolved. Basically, controlling shareholders tend to appoint public accounting firms with low audit quality to cover their expropriation actions. Low audit quality will of course be detrimental to other stakeholders because with low audit quality, the auditor has not been able to detect errors/frauds that have occurred. However, agency conflict due to the entrenchment effect is not always negatively related to audit quality based on the appointment of a public accounting firm. The existence of agency conflicts in growing market conditions results in a decrease in the value of the company and an increase in the cost of capital. This brings losses to controlling shareholders because they will find it difficult to access external funding (El Ghoul, 2007). Faced with this risk, controlling shareholders will be motivated to direct management to choose a public accounting firm with high audit quality. The purpose of this election is to mitigate the concerns of non-controlling shareholders about the potential for agency conflicts as a result of the entrenchment effect. It is hoped that the selection of high audit quality can bring trust from non-controlling shareholders to controlling shareholders

Previous research showed two different results, namely, the research of Fan and Wong (2005) which stated that the entrenchment effect had a positive effect on audit quality, while the research of Choi and Yoo (2007) stated that the entrenchment effect had a negative effect on audit quality.

H1: Entrenchment effect has a positive effect on audit quality

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The Effect of Corporate Governance on Audit Quality

The corporate governance structure consists of a board of commissioners and an audit committee. The board of commissioners is responsible for monitoring the credibility of the company's financial statements, in terms of accountability and transparency. In carrying out its duties, the board of commissioners is assisted by the audit committee. The audit committee provides recommendations to the board of commissioners, especially in terms of selecting a public accountant based on independence, engagement coverage and professional fees.

Based on the explanation of the previous agency theory, to resolve agency conflicts, the services of an auditor with good audit quality are needed. Therefore, the role of the board of commissioners and the audit committee is urgently needed to resolve agency conflicts that occur between controlling and non-controlling shareholders. This is because the board of commissioners has the authority to appoint a public accounting firm that will be used by the company based on recommendations from the audit committee. Thus, it is expected that public accounting firms with high audit quality can be selected. Maharani (2012) found that the size of the board of commissioners has a positive and significant influence on the selection of auditors who have good quality. Lin and Liu (2009) suggest that companies that have a large number of commissioners have a positive influence on the appointment of the 10 best auditors. The quality of the audit committee is also an important factor affecting audit quality. The effectiveness of the audit committee was also found by Maharani (2012) who stated that the audit committee had a positive and significant influence on the selection of high-quality auditors.

H2: Corporate governance has a positive effect on audit quality

RESEARCH METHODS

Types of Research and Data Sources

This study uses quantitative research methods with the type of correlative used to measure the effect of the independent variables on the dependent variable. The data used is secondary data from manufacturing companies listed on the Indonesia Stock Exchange from 2018-2020. The data is obtained from the annual report obtained from the Indonesia Stock Exchange website (www.idx.co.id). Hypothesis testing was analyzed using regression analysis techniques.

Population and Sample

The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange from 2018-2020. Sample selection was done by purposive sampling method. The criteria set are listed on the IDX from 2018 to December 31, 2020 and not delisting. In addition, companies whose shareholder data can be traced to the final controlling shareholder; company whose equity value is not negative. Companies that have all the necessary components for the measurement of the variables in the research model. Based on the criteria for selecting the sample, a sample of 39 companies with 3 years of observation was obtained.

Variables and Measurements

The dependent variable in this study is audit quality which will be proxied by accrual quality. In measuring audit quality using the accrual quality approach, the first thing to do is to divide the company's total accruals into two components, namely: non-discretionary accruals and discretionary accruals. The independent variables in this study are the Entrenchment Effect and Corporate Governance. Cash flow leverage is used as a proxy for the entrenchment effect of the ultimate controlling shareholder in the form of expropriation incentives by the controlling shareholder against non-controlling shareholders. corporate governance variables to be measured are the board of commissioners and the audit committee. For the measurement, the index method proposed by Hermawan (2009) will be used as proxied by size, independence, competence and activity. This study also uses control variables, namely Leverage, Profitability, and Firm Size. Company size is measured using the natural logarithm of the company's total assets. Profitability is measured using Return on Assets (ROA). Leverage is calculated by dividing total long-term debt by total assets.

RESEARCH RESULT

Descriptive Statistics Test Results

Descriptive statistics are used to provide an overview of the variables in the study. A detailed description of each variable can be seen in table 1.

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Table 1. Descriptive Statistical Results

	N	*Min*	*Max*	*Mean*	*Std. Deviation*
Entrenchment Effect	117	.01	.12	.0457	.03207
Corporate Governance	117	2.00	2.96	2.6785	.15230
Size	117	22.40	32.60	27.5207	2.02928
Leverage	117	.00	.84	.1052	.13063
Profitability	117	-.72	.92	.0604	.14230
Audit Quality	117	-.42	.73	-.0371	.10393

Source: Processed data (2021)

The results of the descriptive analysis of the Entrenchment effect variable obtained a mean value of 0.0457 and a standard deviation of 0.03207. Corporate Governance can be defined as a process and structure that is applied in running a company, with the ultimate goal of increasing shareholder value/benefit, while paying attention to the needs of all relevant parties (stakeholders). In this study, corporate governance consists of the board of commissioners and the audit committee. The results of the descriptive analysis for this variable are the mean of 2.6785 and the standard deviation of 0.15230. The results of the descriptive analysis for the firm size variable are the mean of 27.5207 and the standard deviation of 2.02928. The results of the descriptive analysis for the leverage variable are the mean of .1052 and the standard deviation of 0.13063. Profitability is measured by using Return on Assets (ROA) which is a ratio that measures the company's ability to generate profits by using the total assets owned by the company at the end of the period. The results of the descriptive analysis for the leverage variable are the mean of 0.0538 and the standard deviation of 0.12272. Audit quality is calculated using accrual quality. The results of the descriptive analysis for this variable are the mean of -0.0371 and the standard deviation of 0.10393.

Classic assumption test

Normality test was performed by Kolgomogorov-Spinov test. The results of the normality test for this study can be seen at a significance value of 0.200 (above 0.05). This value indicates that the data is normally distributed. The multicollinearity test is a test to determine whether in the regression model there is a correlation between independent variables by investigating the magnitude of the intercorrelation between the independent variables. A good regression model is indicated by the absence of multicollinearity between independent variables which can be seen from the value of Tolerance 0.10 and VIF 10, then the proposed model is free from multicollinearity symptoms. The results of the multicollinearity test showed that there was no multicollinearity. Heteroscedasticity test is used to ensure that all residuals or errors have the same variance. If the variance of the regression coefficient is large, this will affect the F test or t test and the regression results will be inaccurate. The heteroscedasticity test can be carried out in various ways, including the Park test, Glesjer test, looking at the regression graph pattern and the Spearman correlation coefficient test. In this study, the spearman method was used and saw the significance of the results. If > 0.05 then there is no heteroscedasticity symptom, but if the significance value is <0.05 then heteroscedasticity symptom occurs. The results of this test indicate that the significance value of all variables has a value> 0.05. This means that there are no symptoms of heteroscedasticity. Autocorrelation test is a statistical analysis conducted to find out whether there is a correlation that arises between the variables contained in the prediction of changes in time. The results of the Autocorrelation Test for this study indicate that the Durbin Watson value produced is 1.587. This value lies between dU (1.571) and 4-dU (2,429). From these results, it can be concluded that there is no autocorrelation symptom.

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Hypothesis Test Results

Table 2 shows the results of hypothesis testing. The test is carried out by setting a significance level of 0.05.

Table 2. Hypothesis Test Results

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	.371	.223		1.569	.100
	CFL	1.126	.475	.168	2.060	.042
	GOV	-.137	.077	-.362	-2.241	.020
	SIZE	-.011	.005	-.040	-.306	.624
	LEV	-.169	.091	-.286	-2.109	.032
	PROF	.391	.092	.389	5.132	.000

Source: Processed data (2021)

Based on table 2, it can be seen that the independent variables, namely the Entrenchment effect and Corporate Governance, have a significant influence on the dependent variable. In addition, two of the three control variables, namely Leverage and Profitability also have a significant influence on the dependent variable. Meanwhile, the size of the company which is the control variable has no significant effect on the dependent variable. Based on the regression results shown in table 2, it can be seen that the Entrenchment effect variable (Cash Flow Leverage) has a significance value of t 0.042, which means it has a significant effect on audit quality as the dependent variable. This is because the significant value is smaller than 0.05. The value of the t coefficient shows a positive result that is equal to 0.168. Based on this, it can be concluded that the Entrenchment effect has a positive effect on audit quality. These results indicate that Hypothesis 1 (H1) is supported. Based on the regression results shown in table 2, it can be seen that the Corporate Governance variable has a significance value of t 0.020 which means it has a significant effect on audit quality as the dependent variable. This is because the significant value is smaller than 0.05. The value of the t coefficient shows a negative result, which is -0.362. Based on this, it can be concluded that Corporate Governance has a negative effect on audit quality. These results indicate that Hypothesis 2 (H2) is not supported.

DISCUSSION

Entrenchment is the act of controlling shareholders who are protected by their control rights to expropriate (Fan and Wong, 2005). Expropriation is the act of using one's right of control or control to maximize one's own welfare by distributing wealth from others. This study shows that the controlling shareholder will choose a public accounting firm with high audit quality. This election is carried out with the aim of giving a signal to non-controlling shareholders that the controlling shareholders have concern for them. However, this action is solely to protect the expropriation actions carried out by the controlling shareholder. This study supports the results of research proposed by Fan and Wong (2005), namely the entrenchment effect has a positive effect on audit quality. In addition, research from Anafiah et al (2017) which examines the effect of controlling shareholders and corporate governance on audit quality also shows the same thing, namely there is a positive influence between the entrenchment effect and audit quality, and the effectiveness of the audit committee and the board of directors has a positive effect. to the appointment of KAP with high audit quality. On the other hand, this study does not support the research of Choi and Yoo (2007), from the research conducted, it was found that the entrenchment effect had a negative effect on audit quality.

Corporate governance is a series of mechanisms that can protect minority parties (outside investors/minority shareholders) from expropriation by managers and controlling shareholders (insiders) with an emphasis on legal mechanisms. The board of commissioners and audit committee, as corporate governance structures, have a very important role in maintaining the credibility of the process of preparing financial statements as well as maintaining the creation of an adequate corporate supervision system and the implementation of good corporate governance.

The results of this study indicate that there is no positive and significant effect of corporate governance on audit quality. This is because in the sample companies used, most of the company's independent commissioners are not company owners. In addition, many members of the audit committee do not have an accounting education background and there are also many audit committees who do not appoint a public accounting firm to be used by the company. This can be seen from the score given for the questions related to the things above.

This study differs from previous studies where corporate governance always has positive results on audit quality. Maharani (2012) found that the size of the board of commissioners has a positive and significant influence on the selection of auditors who have good quality. Lin and Liu (2009) suggest that companies that have a large number of commissioners have a positive influence on the appointment of the 10 best auditors. In addition, the effectiveness of the audit committee was also found by Maharani (2012) who stated that the audit committee had a positive and significant influence in the selection of high-quality auditors.

CONCLUSION, LIMITATIONS AND SUGGESTIONS

Based on the results of the analysis that has been done, it can be concluded that the Entrenchment Effect has a significant and positive effect on audit quality. This is indicated by a regression coefficient of 0.168 and a significance value of 0.042, smaller than 0.05, thus Hypothesis 1 (H1) in this study is supported, namely the Entrenchment Effect has a positive effect on audit quality. Corporate Governance has a significant and negative effect on audit quality. This is indicated by a regression coefficient of -0.362 and a significance value of 0.020, smaller than 0.05, thus Corporate Governance has a negative effect on audit quality. Hypothesis 2 (H2) in this study is not supported.

In this study, there are limitations that can affect the results of the study, namely that this study uses the score method for assessing the effectiveness of the board of commissioners and audit committees that are not biased apart from subjectivity. The assessment carried out is only based on reporting on the implementation of corporate governance, so it does not represent the actual situation.

Based on the conclusions and limitations of the research results, suggestions can be made to use methods that can represent the actual situation for collecting data on corporate governance variables. Ownership structure tracing is not carried out on foreign companies, so it is possible that when the foreign company turns out to be an affiliate of the ultimate controlling shareholder. Thus, for further research, data sources can be found for tracing foreign ownership so that it can be known who controls the foreign company.

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