Influence of Audit Quality, Pattern of Loans Concentration and Company Size to Banking Loans (Agency Problem of Creditor – Debtor at Manufacture Company in Indonesia)

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ABSTRACT

This study aims to analyze the influence of audit quality, loan concentration pattern, and company size to large of loans. This research uses quantitative method with regression analysis model by stratified random sampling based on subsector strata in manufacturing company that go public in indonesia stock exchange. This study shows that there is a positive and significant correlation between audit qualities to the loans, there is a negative and significant correlation between loan concentration patterns to the loans, there is a positive and significant correlation between company sizes on the loans and ROA, current ratio and age of the company can be a control variable to the loans

Keywords: Audit Quality, Loan Concentration Pattern, Company Size, Loans
JEL Classifications: M4, M41, M42

1. INTRODUCTION

Along with the era of globalization where is increasingly tight economic competition, most companies require external funding in addition to the main internal funding. If the company depends only on limited internal funding it will be difficult for the company to face the existing competition (expanding, funding research and development, etc.). The tight competition and operational activities that must be financed compel the company to use external funding. Debt is mostly chosen by most companies as an external source of funding, because the debt is not permanent and the cost is relatively cheaper when compared to the cost of issuing new shares that require the cost of share capital. Meanwhile, according to Roberts and Sufi (2009), on the one hand, funding affects real economic activity due to the limitation of creditors on corporate investment that aims to suppress managerial behavior that will affect the quality of a company's financial statements.

While it is known to maintain the quality of financial statements of a company, high quality audit of course is needed. According to Armstrong et al. (2010), before providing loans for capital, lenders

typically require companies to provide audited financial statements, to assess the company's ability to pay its debts. It is conceivable that the company's accounting statements present improper asset values, unclear performance measures, or hard-to-use performance measures to forecast future cash flows or risks, lenders will find it difficult to assess the quality of corporate credit, have difficulty in accessing debt markets with cost effective. The statement is in line with the results of research conducted by Beatty et al. (2009) which states that firms with low quality financial statements are more likely to rent than get financing from debt. High quality audit proved to improve the quality of financial statements (Christiani and Nugrahanti, 2014; Subagyo and Olivia, 2012; Linata and Sugiarto, 2012). From a series of studies, reflected that the quality of a company's financial statements is strongly influenced by the quality of audits conducted by external auditors.

In addition to being an important stakeholder, lenders can use high-quality external audits to reduce credit risk. If credit risk can be minimized with high audit quality, then the use of collateral that also serves to reduce risk is likely to be reduced. The statement is also supported by research conducted by Yang (2014) which

shows that there is a negative relationship between audit quality and the use of the guarantee, this means that the higher the quality of audits carried out then the use of guarantees applied to the company will be reduced and vice versa.

In this study other than audit quality, the researcher also tried to use variable of loan concentration pattern, and company size in bank loan decision based on the obligation of go public company to regularly convey audited financial information to the public, including banking party. The bank relies on the reporting and auditing system to provide information on the use of the credit it provides to the accepting company. It also adds control variables to complement the causal relationship between variables and thus the empirical model of the research becomes more complete and better (Hartono, 2010). The results of the analysis will also be better able to explain the phenomenon optimally and have higher statistical strength (Murniati et al., 2013). Return on assets (ROA) is useful to measure the profitability of the company for the use of its assets. While the current ratio (ratio) functioned to measure the ability of the company to pay off the short-term debt by using current assets owned. In addition, also added control variables in the form of company's age to reflect the duration of relationship between banks and companies that play a role in solving the problem of information asymmetry and reduce the use of collateral.

This study re-examined the effect of variables that have been described previously by using the context of companies listed on the BEI. Based on the background that has been put forward, the authors are interested to examine the "Influence of Audit Quality, Loan Concentration Pattern, and Company Size on Loans".

Based on the background research, then the formulation of the problem in this study are as follow:
1. Does the audit quality positively affect the Loans?
2. Does the loan concentration pattern positively affect the Loans?
3. Does the size of the company have a positively effect on the Loans?
4. What is ROA, current ratio and company's age can be a control variable in the relationship of quality audit role roles, Loan Concentration Patterns, and Company Size to the Loans?

2. LITERATURE REVIEWS AND HYPOTHESIS

Grand theory in this research is "Agency Theory" where creditors act as principal, while the lending company as agent. The agency relationship between the bank and the recipient company can lead to a condition of information imbalance (asymmetric information) because the receiving company has more information about the utilization of the loan than the lending bank. Jensen and Meckling (1976) explain that the use of debt through a loan will divert some agency costs from the agency's (agency cost of equity) to the creditor (agency cost of debt).

The researcher's consideration of the possible role of audit quality, Loan concentration pattern, and company size in bank lending decisions is based on the obligation of a public company

to regularly deliver audited financial information to the public, including banks. The bank relies on the reporting and auditing system to provide information on the use of the credit it provides to the accepting company. The principal and agent relationship between the bank and the company that receives the loan is the relationship between the commercial lender that provides the loan capital and the borrower obtains the investment return from the loaned capital (Jensen and Meckling, 1976). Increased information about the borrower will lower the risk for the lender and assist the lender in pricing the loan (Sengupta, 1998).

This study considers the inclusion of the relevant control variables involved in this study: ROA as the ROA for the firm. Current ratio is measured by the ratio of current assets to current liabilities and years since the company established by the natural logarithm of the company's age.

Based on literature review, the hypothesis that can be proposed in this study are as follows:
1. Quality audits in a company are positively associated with large bank loans.
2. Pattern Concentration Loans in a company are positively associated with large bank loans.
3. The size of a company is positively related to the size of the banking loan.
4. ROA, current ratio and age of the company can be a control variable in the relationship of the role of audit quality, Loan Concentration Pattern, and the size of the Company to the loan

3. RESEARCH METHODS

This research was conducted on companies listed on the Indonesian Stock Exchange (BEI) by using quantitative data and secondary data sources, such as the financial statements of companies listed on the Stock Exchange in 2010-2014 accessed through www.idx.co.id and data in the Indonesian Capital Market Directory (ICMD).

Based on conceptual framework, structural model formulation which is analyzed to test hypothesis in this research is as follows

$$LOANS = \beta_0 + \beta_1 AUD\_QUAL + \beta_2 CBP + \beta_3 SIZE + \beta_4 AGE + \beta_5 CURRENT + \beta_6 ROA + e_1$$

$LOANS_{it}$ = The amount of loan for firm i in year t, measured by the natural logarithm of the amount of debt of the company bank.

$AUDIT_{it}$ = Audit quality for company i in year t, using dummy variable: Given number 1 if KAP is included into KAP Big Four or its affiliates and number 0 for KAP not included in KAP Big Four or its affiliates.

CBP_{it} = The concentrated borrowing patterns for firm i in year t, measured negatively by the number of banks that are the provider of corporate credit.

$SIZE_t$ = Company size for firm i in year t, measured by natural logarithm of total company asset.

ROAit = ROA for firm i in year t, measured by comparison of net income to average total assets.

CURRENTit = Current ratio for firm i in year t, measured by the ratio of current assets to current liabilities.

AGEit = Long years since company was established for company i in year t, measured by natural logarithm of company age.

e = Error.

The populations of this research are listed in Indonesia Stock Exchange in 2010-2014. companies with incomplete data, such as the unavailability of adequate data in the financial statements relating to the proxy used and the financial statements presented in units of the US Dollar ($) are not included in the sample. In addition, firms with no financial statements available and those whose book periods differed were not included in the sample.The samples are companies manufacturing sector in the Indonesia Stock Exchange. Data collection methods used in this study was the observation of data obtained through the collection of data by observing, recording and studying the descriptions - descriptions of books - books, scientific papers in the form of journals, theses and documents - documents contained in the ICMD.

Data analysis techniques used to solve problems in this research using regression analysis. This analysis is used to find and get a picture of the effect of audit quality, loan concentration pattern, and company size on loans in the manufacturing sector companies in the Indonesian stock exchange with SPSS (Statistical Product and Service Solutions).

Table 1: Results of fit model test

Model	Sum of squares	df	mean square	F	Sig.
1					
Regression	72.205	6	12.034	2.020	0.031[a]
Residual	1674.019	281	5.957		
Total	1746.224	287			

Table 2: Result of determination coefficient test

Model	R	R²	Adjusted R²
1	0.203[a]	0.413	0.209

4. RESULTS AND DISCUSSION

4.1 Results
Regression analysis used in this study is multiple linear regressions analysis. Regression analysis results can be seen in the following Table 1:

4.1.1. Testing of fit model
Fit model testing is done by looking at the significance value F in the following Table 1:

In the Table 1, it is known that the fit model test results with sig value. 0.031 <0.05 which means that independent variables are can be used to predict the dependent variable.

4.1.2. Determination Coefficient Test
Testing the coefficient of determination is done by looking at the value of Adjusted R Square in the following Table 2:

According to the Table 2, it can be seen that the test results Adjusted R^2 is 0.209, meaning independent variables affect the dependent variable of 20.9% while the rest of 79.1% influenced by other variables.

4.1.3. Hypothesis testing
After all assumptions are met, then the next is to test the hypothesis to determine the effect of independent variables to the dependent variable by using the t test with the following results:

From Table 3, it is known that t significance value for audit quality variable is 0.006 <0.05 so that mean first hypothesis in this research accepted. This means that audit quality has a significant effect on the loan.

From Table 3, it is known that the significance value t for the loan concentration pattern variable is 0.019 <0.05 so that the second hypothesis in this research is accepted. So there is a negative and significant influence between the patterns of loan concentration to the loan. This means that the lower the concentration pattern of the loan will increase the loan, and vice versa

From Table 3, it is known that t significance value for firm size variable is 0,016 <0.05 so that mean fourth hypothesis in this research accepted. This means that the size of the company affect the loan.

Table 3: Result of t-test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1					
(Constant)	7.093	3.075		2.307	0.022
AUDIT	0.569	0.301	0.112	1.891	0.006
CBP	−0.095	0.051	−0.111	−1.874	0.019
SIZE	0.141	0.100	0.083	1.410	0.016
ROA	1.007	1.431	0.042	0.704	0.048
CURRENT	−0.041	0.133	−0.018	−0.310	0.036
LNAGE	0.214	0.290	0.043	0.739	0.019

Based on the test results, note that the significance value of t for the ROA variable is 0.048 <0.05 so that means ROA effect on the loan. For current ratio variable is equal to 0.036 <0.05 so that mean current ratio influence to loan. So also variable age of company is equal to 0.019 <0.05 so that mean age of company influence to loan.

4.2 Discussion

4.2.1. Quality audit to loans

Based on the first hypothesis testing, it can be seen that the significance value t for the audit quality variable is below 0.05 so it means the first hypothesis in this study is accepted. Thus, audit quality has a positive relationship with the loan.

Audit quality is a major contributor to financial stability and serves to rebuild market confidence and confidence. Eskandari et al. (2014) in Eskandari et al. (2014) stated that the auditor is legally entrusted to perform the audit under applicable rules and performs an important role in providing an opinion on whether a financial report is presented correctly and reasonably.

The quality of the audit is related to the opinion received by the company from its auditor. Audit opinion is given to the auditor by not considering the company's financial condition, whether it is in profit or loss condition.

In other words, the company's financial circumstances do not affect the opinions given by the auditor. Although the auditor provides unqualified opinion, the company may be in a state of losing money. This means that unqualified opinion can guarantee the ability of the company to repay its loan in relation to the loans imposed on the company. This shows that audit quality has an effect on loan. So even if big companies can provide large loans, it can guarantee that they will be able to repay the loan properly in the future. Therefore, lenders pay attention to the quality of the audit in providing loans and the proportion of collateral.

4.2.2. Loan concentration patterns to loans

Based on the results of the second hypothesis testing, it is known that there is a negative and significant relationship between the pattern of loan concentration to the loan. The result can be seen from the significance value t for the loan concentration pattern variable under 0.05 with the negative beta value, so that means the second hypothesis in this study is accepted.

A company loan can be concentrated on one lender with the intent to reduce overall oversight costs, increase control of the lender, and strengthen the relationship between the lender and the company as the recipient of the loan. Thus, concentrated loans can be attributed to lower credit costs. This indicates that the increase in loans is influenced by the pattern of lower loan concentration. In other words, the less (the more concentrated) the number of lenders of a company the less the proportion of collateral is given. Decisions on the use of guarantees are influenced by moral hazard and adverse selection issues. While moral hazard and adverse selection issues can be reduced by the nature of the relationship between the lender and the borrower.

4.2.3. Company size to loans

Based on the test results, it is known that the significance value t for the firm size variable is below 0.05 so that means the third hypothesis in this study is accepted. Then the sizes of the company affect the loans.

The reason for the acceptance of this hypothesis is that both large and small companies ensure that large firm sizes have large debts and small firms are weighed down by a small proportion of loans, which may be otherwise, depending on the performance of each company. This makes the size of the company affect the loan. Company size is basically the grouping of companies into several groups, including large companies, medium and small. Company scale is a measure used to reflect the size of the company based on the total assets of the company. So companies with small and large scale companies guarantee that the insurer will charge higher and lower loans, although there are other factors that affect it such as the quality of the audit or the proportion to the other party.

For the control variables are ROA, current ratio and company's age, also affect the loans. Thus it can be said that the ROA, the current ratio and the age of the company can be a control variable to the loans. To target the company's performance, operational and solvency risks, the added ROA and current ratio as control variables. In addition, years from the time the company was established (natural logarithms of company age) were also included in control variables to control relationships between banks and firms, as the results of previous studies indicate that the relationship between banks and firms can solve the problem of information asymmetry and reduce the use of collateral. Likewise the results of this study stated that ROA, current ratio and age of the company as a control variable affect the loan because in providing guarantee, the lender pay attention to the ratio of profitability, liquidity ratio and age of the company, but also they pay attention to the pattern of loans concentration.

5. CONCLUSION

Based on the principal problems and research results can be formulated the following conclusions:
1. There is a positive and significant correlation between audit qualities to the loans.
2. There is a negative and significant correlation between loan concentration patterns to the loans.
3. There is a positive and significant correlation between company sizes on the loans.
4. ROA, current ratio and age of the company can be a control variable to the loans.

Referring to the research results and conclusions, here are some suggestions.
1. In research with similar topics in the future there can be added other variables related to the loan such as ownership structure or GCG, and add period of observation period.
2. For further research may use different proxies for firm size in addition to total assets, such as sales of the company.

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