The Influence of Audit Quality, Auditor Specialization, and Sustainability Reporting on The Cost of Capital Moderated by Company Size: A Study of the Kompas 100 Index (Indonesia Stock Exchange)

ABSTRACT

The capital market has become an attractive instrument for both local and foreign investors. This study aims to analyze and provide empirical evidence regarding the influence of audit quality, auditor specialization, and sustainability reporting on the cost of capital. Additionally, it investigates how company size moderates the relationship between these variables and the cost of capital. The study focuses on companies listed in the Kompas 100 Index on the Indonesia Stock Exchange (IDX) from 2018 to 2022. A quantitative approach is employed, utilizing secondary data available from the IDX (www.idx.go.id), specifically from company annual reports. Data collection involved recording relevant information from the annual reports of each company. The population of the study comprises companies included in the Kompas 100 Index, with a sample selected through non-probability sampling (purposive). The data analysis method applied is Moderated Regression Analysis (MRA). The results reveal that audit quality has a negative effect on the cost of capital, while auditor specialization shows no significant effect. Furthermore, sustainability reporting also has a negative effect on the cost of capital. As for the moderating variable, company size successfully moderates the relationship between audit quality and the cost of capital, but it does not moderate the effect of auditor specialization or sustainability reporting on the cost of capital.

Keywords: Audit Quality, Spesialisasi Auditor, Sustainability Reporting, Company Size, Cost of Capital

1. INTRODUCTION

In this era of globalization, the world economy has begun to enter a new phase towards an economic system, where market mechanisms play a determining role. Economic actors really need accurate information in order to make the right decisions. Thus, the need for information continues to grow rapidly along with the development of the world economy, including information related to activities in the capital market. The capital market has grown into one of the attractive instruments for investors, both local and foreign investors. Awareness of the role of the capital market in long-term provision is very important. Every company needs funds that must be spent to finance the source of financing. To obtain these funds, the company must incur real costs called equity capital costs. The cost of equity capital, when viewed from the company's perspective, is the cost that must be paid to its investors [1]. In general, capital plays a fairly important role in the company's operational activities, without capital, the company's operational activities will be hampered, including the company's investment funding activities. The cost of capital is an important aspect in

analyzing investment activities because it is usually used as a measuring tool to determine whether an investment proposal is accepted or rejected [2].

Cost of capital is one of the important things for companies and investors, because it is one of the cost components that will affect investment decisions. Cost of capital is the minimum income level required by capital owners [3]. Because the company obtains additional funds from creditors and debtors, the company must calculate the income that must be obtained so that the company continues to make a profit after paying interest on loans and returns expected by investors. The high cost of equity capital will affect the company's growth in the future. Therefore, various efforts have been made by the company to reduce the cost of equity capital, so that the company's value can be maximized [4].

Several issuers have announced financial performance ending in December 2022 [5]. As a result, several issuers have a high debt to equity ratio (DER). Edvisor.id CEO Praska Putrantyo said that based on the December 2022 financial report, several issuers have a high DER. "Issuers from the non-primary consumer goods, primary consumer goods, raw materials, energy, infrastructure, and industrial sectors tend to have a relatively high DER ratio of over 3 times," Based on his data, Praska outlined several stocks that have high DER, including OKAS with a DER of 12.80 times; CLAY 80.82 times; LPPF 8.91 times; PSDN 30.19 times; MPPA 21.79 times; BOSS 44.91 times, CENT 29.79 times, and SDMU 354.38 times [5]. Unreasonable or excessively high debt ratios are also experienced by companies listed on the Kompas 100 index, such as Matahari Department Store Tbk which has a DER ratio of up to 8.7 times, XL Axiata Tbk more than 3 times.

Several Issuers Have High DER, causing high capital costs. The high DER ratio contributes to the high cost of equity capital of the company, because the higher the debt to equity ratio, the greater the risk faced by investors and as a result, they demand a higher rate of return as compensation for the risk. Furthermore, data from infobanknews.com shows that until December 2023, the Central Bank of Indonesia or BI is ranked fourth in the highest benchmark interest rate, namely 6 percent. During 2023, BI raised interest rates by 50 bps in total, which increased by 25 bps in January and October 2023 respectively. This increase in BI's benchmark interest rate will automatically cause an increase in lending rates, high borrowing costs, and will result in higher capital costs [6].

One of the factors that can affect the cost of capital is audit quality. High-quality auditors serve as an effective monitoring tool, sending favorable signals to the market. Companies that perform well voluntarily engage higher-quality auditors to maintain their image and show that they have a transparent nature [7]. Audit quality as the auditor's ability to find net income manipulation [8]. As stated, higher audit quality plays an important role in decision making by users of financial statements. High audit quality has a negative impact on the cost of capital [9]. They show that large auditors are more likely to provide high-quality audits, which can reduce the cost of equity for the company.

In addition to audit quality factors, the next factor that can affect the cost of capital is auditor specialization. Specialization in the field of audit can be seen as the result of a combination of skills training and long experience in conducting audits in a particular sector [10]. Thus, the audit knowledge gained through such experience can improve the ability to conduct audits with a higher level of quality. Specialization in auditing requires an investment of time and financial resources to develop personnel and technology that are specifically directed at a particular industry [11]. The purpose of this investment is to reduce the overall cost of capital. In previous research conducted by [12] stated the negative effect of auditor industry specialization on the cost of capital. This is supported by [13] who found that auditor industry specialization has a negative effect on the cost of capital, which means that auditors with industry specialization capabilities will be able to reduce the cost of capital.

The next factor that can affect the cost of capital is the practice of sustainability reporting. In recent years, there has been an increasing awareness of the importance of conveying more comprehensive information about company performance, not only in terms of finance, but also from environmental and social aspects. This is reflected in the increasing practice of disclosure of sustainability reports by companies in Indonesia. The importance of sustainability reports is not only limited to the need to provide more complete information to stakeholders, but also in reducing information asymmetry between internal and external stakeholders [14]. The cost of capital refers to the level of return that creditors and investors expect for risk [15]. According to [16] in his research confirmed that there is a negative relationship between the disclosure of non-financial information (including those related to corporate social responsibility and environmental issues) and the cost of capital for companies in the United States.

The next factor that can affect the cost of capital can be seen from the size of the company. In this study, the size of the company is used as a moderating variable. This is with the consideration that increasing financial performance will provide options for management to increase company assets to improve shareholder welfare and will affect management decisions to decide what

funding will be used so that it has an impact on shareholder welfare. Thus, this aspect can affect how factors such as audit quality, auditor specialization, and sustainability reporting interact with the cost of capital. In the study [17, 18] found that company size has a negative and significant effect on the cost of equity capital. Different results were shown by [19] who found that company size did not affect the cost of capital

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory is a theory that explains the relationship between two parties in managing a company, namely the principal and the agent. This theory considers how managers (agents) and owners (principals) work together in managing a business, with the owner acting as an information assessor and the manager as a decision maker [20]. According to agency theory, managers (agents) have more complete information about the company's performance than shareholders (principals) and have the potential to cause conflict. Conflicts caused by differences in interests between owners (principals) and managers (agents) can incur costs and must be prevented. One way is to implement various monitoring mechanisms that can prevent opportunistic manager behavior. If the company fails to form a device to supervise managers, investor confidence in the company's performance will decline and they will demand a higher cost of capital when buying company shares [21].

2.2. Legitimacy Theory

Legitimacy theory, is a conceptual framework that helps in understanding how companies act and interact with social and environmental issues [22]. This theory is recognized as a positive approach rooted in the idea of a "social contract". The social contract refers to expectations, both direct and indirect, from society towards the behavior and activities of companies to ensure the continuity of their operations in the future. Meanwhile, according to [23] legitimacy theory is an assessment or opinion given by society to the company, in this case the goals that the company wants to achieve. There are two dimensions so that companies can obtain legitimacy support from society [24]. Legitimacy theory is a concept used to explain how organizations try to maintain support and legitimacy from parties related to their operations, such as shareholders, customers, government, and the general public.

2.3. Cost of Capital

The cost of capital is the required rate of return from all of its funding sources. Or it can be concluded that the cost of capital is the minimum rate of return that must be achieved by the company in order to cover the financial burden of using its long-term funding sources. The cost of capital is also an opportunity for investors [25]. The cost of capital is the cost incurred by the company to finance the source of financing. The cost of capital is the cost incurred by a company that obtains funds by selling common stock or using retained earnings or debt for investment. The cost of capital is the return expected by investors and lenders when they provide money, either in the form of equity or debt, to the company [26]. In other words, the cost of capital comes from the trade-off between risk and return. The cost of capital is the cost incurred by the company to obtain funds from external sources [27]. The cost of capital is considered very important in long-term investment decisions. A fact that must be considered important by managers is the risk of information conveyed that affects the rate of return for investors. Information risk depends on the level of confidentiality and accuracy of the information reported. In this study, the cost of capital was measured using the Weighted Average Cost of Capital (WACC) with the following formula [28]:

$$\mathrm{WACC} = \{(\mathrm{D\ x\ Rd})\ \mathrm{x}\ (1 - \mathrm{Tax}) + (\mathrm{E\ x\ Re})\}$$

2.4. Audit Quality

Audits provide credibility to the financial reporting process through assurance engagements on whether the financial statements are fairly presented in accordance with the applicable financial framework. To ensure its quality, audits are usually conducted in accordance with laws and regulations and international standards on auditing. The need for auditors to provide quality audits so that they can meet the expectations of users of accounting information [29]. Audit quality as the auditor's ability to find manipulation of net income [30]. As previously stated, higher audit quality plays an important role in decision making by users of financial statements. Poor audit quality can eliminate the trust of users of financial statements in the company. Audit quality is defined as the auditor's ability to detect and report errors contained in the financial statements [31]. One of the errors that often occur in financial statements is aggressive revenue practices or excessive discretionary accruals. The Big Four auditors include four leading international firms: PWC, Deloitte, KPMG, and Ernst & Young (EY). In the analysis, a dummy variable is used to indicate the size of the auditor, with a value of 1 given to companies audited by one of the Big Four members and a value of 0 given to the others. This provides a clear framework for understanding how auditor size can influence perceptions

of audit quality in the context of the research being conducted.

2.5. Auditor Specialization

Audit specialization is understood as the combined result of expertise training and long-term audit experience gained from conducting audits in a particular industry [10]. Therefore, the audit knowledge gained through such experience increases the likelihood of being able to perform audits of good quality. One piece of evidence suggests that addressing the issues associated with existing auditor industry specialization metrics requires the product of two existing models as a single metric for quantitative measurement of audit specialization [32]. They believe that this addresses the issues identified with the models and also captures auditor-specific and firm-specific factors in auditor industry specialization. Auditor specialization as a person who is assigned to his/her firm and gains training and experience in audit practice in a particular industry [33]. Industry specialization auditors are identified by market share in the same industry, which is based on the percentage of total client assets audited in an industry. The calculation of auditor specialization is as follows [20]:

$$\text{AS} = \frac{\text{Total assets of KAP clients in a particular industry}}{\text{Total client assets in the industry}} = \text{x } 100\%$$

2.6. Sustainability Reporting

The concept of sustainability report is derived from the Triple-Bottom Line concept introduced by John Elkington, namely Planet, People and Profit [34]. Which means that in operating its business activities, companies need to pay attention to the surrounding environment in managing the remaining production results in the form of waste, internal and external scopes that must be able to prosper humans, and continue to prosper stakeholders so that the company's performance continues to run well. Sustainability reports are a type of report that is currently no longer voluntary. The implementation of sustainability report reporting has been required by the Government with the ratification of Financial Services Authority Regulation Number 51 / POJK.03 / 2017 Concerning the Implementation of Sustainability Finance for Financial Services Institutions, Issuers, and Public Companies, Article 2 paragraph (1). Disclosure of Sustainability report operations will be a benchmark for transparency of financial reporting and corporate accountability to stakeholders [35]. The measurement of sustainability reports is guided by GRI G4, with a total of 91 lists of indicators consisting of nine (9) economic indicators, thirty-four (34) environmental indicators and forty-eight (48) social indicators which are then categorized into several parts, namely labor practices and decent work, human rights, society, and product responsibility [36]. In this study, the sustainability reporting measurement method uses the sustainability reporting disclosure formula with the following formula [37].

$$\text{SRDI} = \frac{\text{n}}{\text{k}}$$

2.7. Company Size

Company size is defined as a scale that classifies the size of a company through total asset value, sales volume, and market capitalization. Total asset value can indicate the size of invested capital and sales volume indicates the size of cash flow in the company. Company size reflects how big the company is in terms of assets and number of employees [38]. Larger companies have more stakeholders in their organizational field. Thus, they are susceptible to supervision from more stakeholders in the business environment. In addition, larger companies are also more visible to wider stakeholders. Company size describes the size of a company which can be expressed by total assets or total net sales [39]. The larger the total assets and sales, the larger the size of a company. The formula for company size is as follows:

$$\text{SIZE} = \text{Log (Total asset)}$$

3. METHODOLOGY AND MODEL SPECIFICATION

The object of research is something that is of concern in a study, this research object is targeted in research to get answers or solutions to problems that occur. The object of research is "An attribute or value of a person [40], an object or activity that has certain variations determined by the researcher to be studied and secondary data obtained from the financial statements of the Kompas 100 index companies listed on the IDX in 2018 - 2022. This study uses a quantitative approach, the type of data in this study uses secondary data, namely data that is available on the Indonesia Stock Exchange (www.idx.go.id), in this case the annual report. Data collection is carried out by recording each data needed in the annual report of each company. Meanwhile, the population in this study is the Kompas 100 index companies listed on the IDX in 2018 - 2022. According to Sugiyono (2020) the sample is part of the number and characteristics of the population. In this study, sampling was carried out using the non-probability sampling method with the purposive sampling technique. The data analysis method used in this study is Moderated Regression Analysis (MRA). MRA is a special application of multiple linear regression where the regression equation contains interactions or multiplications of two or more independent variables.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistical tests are used to describe data presented in the form of minimum values, maximum values, average values, and standard deviations [41]. The following are the results of descriptive statistical tests in this study.

Table 1. Descriptive Statistical Test

	N	Minimum	Maximum	Mean	Std. Deviation
WACC	270	-.15	.46	.0815	.07509
SR	270	.03	.56	.2123	.11558
SIZE	270	6.68	14.21	8.7228	2.34225
Valid N (listwise)	270				

Source: SPSS Data Processing Results

a. Cost of Capital (WACC)

Based on the data processing that has been done, it can be seen that the cost of capital variable has a mean or average value of 0.0815 (8.15%) with a maximum value of 0.46 (46%) and a minimum value of -0.15 (-15%). With a standard deviation of 0.07509 (7.5%) which means that the cost of capital variable shows a homogeneous level, with data spread around the average. This also shows that the cost of capital is not always fixed, but can vary.

b. Audit quality (AQ)

Table 2. Data Audit Quality

DUMMY	Auditor	Number of Companies
0	Non-Big Four	12 (22.2%)
1	Big Four	42 (77.8%)

Source: Data Processing Results

From table 2 above, it can be seen that of the 54 Kompas 100 index companies, 42 companies use Big Four audits and 12 other companies use non- Big Four audits.

c. specialization (SA)

Table 3. Auditor Specialization Data

DUMMY	Auditor Specialization	Number of Companies
0	< 15%	51 (94.4%)
1	>15%	3 (5.86%)

Source: Data Processing Results

From table 3 above, it can be seen that of the 54 Kompas 100 index companies, there are 3 companies that have auditor specialization above 15% and 51 companies whose auditor specialization is below 15%.

d. Sustainability Reporting (SR)

Based on data processing, it can be seen that the sustainability reporting variable has a mean or average value of 0.2123 (21.2%) with a maximum value of 0.56 (56%) and a minimum value of 0.03 (3%). With a standard deviation of 0.11558 (11.5%) which means that the sustainability reporting variable shows a low or homogeneous level of variation, with a lot of data spread not far from the average.

e. Company size (SIZE)

Based on data processing, it can be seen that the company size variable has a mean or average value of 8.7228 with a maximum value of 14.21 and a minimum value of 6.68. With a standard deviation of 2.34225 which means that the standard deviation value is smaller than the average value, so that the figure shows that the company size variable used in this study does not vary.

4.2 Classical Assumption Test

Normality Test

In this study, the normality test will be carried out with Jarque-Bera (JB) through SPSS statistical software. If the probability value (p-value) is smaller than the 5% significance level, then the data is not normally distributed. The data will be normally distributed if the probability value (p-value) is greater than the 5% significance level. The results of the normality test in this study can be seen in the following table.

Table 4. Normality Test of Model 1

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	126

Normal Parameters [a,b]	Mean	.0000000
		.01432214
Most Extreme Differences	Absolute	.070
	Positive	.069
	Negative	-.070
Test Statistics		.070
Asymp. Sig. (2-tailed)		.200 [c,d]

Source: SPSS Data Processing Results

Table 4 shows that the probability values in models 1 and 0.200 are greater than the significance level of 0.05, so it can be concluded that the data in this study are normally distributed.

Table 5 Normality Test of Model 2

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		196
Normal Parameters [a,b]	Mean	.0000000
		.02526178
Most Extreme Differences	Absolute	.052
	Positive	.052
	Negative	-.051
Test Statistics		.070
Asymp. Sig. (2-tailed)		.200 [c,d]

Source: SPSS Data Processing Results

Table 5 shows that the probability values in models 2 and 0.200 are greater than the significance level of 0.05, so it can be concluded that the data in this study are normally distributed.

Multicollinearity Test

The multicollinearity test aims to test whether the regression model finds a correlation between independent variables. A good regression model should not have a correlation between independent variables [41]. The results of the multicollinearity test in this study can be seen in the following table:

Table 6. Multicollinearity Test of Model 1

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	AQ	.932	1,073
	SA	.983	1,017
	SR	.924	1,082

Source: SPSS Data Processing Results

Based on the results of the multicollinearity test in Table 6, it shows that the VIF value for the variables Audit Quality, Auditor Specialization, and Sustainability Reporting is less than 10. Thus, it can be concluded that the three variables are free from multicollinearity problems because the VIF value is < 10.

Table 7. Multicollinearity Test for Model 2

Model	Collinearity Statistics	
	Tolerance	VIF

1	(Constant)		
	AQ	.063	15,764
	SA	.539	1,854
	SR	.050	19,826
	AQ_SIZE	.051	19,598
	SA_SIZE	-1.637	61,089
	SR_SIZE	.036	27,973

Source: SPSS Data Processing Results

Based on the results of the multicollinearity test in Table 7, it shows that the VIF value for company size moderates audit quality, company size moderates audit quality. Auditor specialization and company size moderate sustainability reporting with a VIF value above 10, which means that multicollinearity occurs.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is inequality of variance from the residual of one observation to another observation. If the variance from the residual of one observation to another observation remains, then it is called homoscedasticity and if it is different then it is called heteroscedasticity. A good regression model is one that is homoscedastic or does not experience heteroscedasticity [41].

Table 8. Heteroscedasticity Test for Model 1

Coefficients [a]					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	B	Std. Error	Beta		
(Constant)	.013	.002		6.261	.000
AQ	-.001	.002	-.071	-.759	.449
SA	-.002	.003	-.076	-.833	.407
SR	.000	.007	-.003	-.030	.976

a. Dependent Variable: ABS_RES

Source: SPSS Data Processing Results

Based on the results of the heteroscedasticity test in Table 8, it shows that the Sig value for the audit quality, auditor specialization, and sustainability reporting variables greater than 0.05, meaning that all variables are free from heteroscedasticity problems.

Table 9. Heteroscedasticity Test Model 2

Coefficients [a]					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	B	Std. Error	Beta		
1 (Constant)	.020	.013		1,540	.125
AQ	.008	.010	.228	.801	.424
SA	.000	.006	.005	.052	.959
SR	-.010	.043	-.073	-.230	.819
SIZE	-.001	.001	-.094	-.413	.680
AQ_SIZE	-.001	.001	-.195	-.614	.540
SA_SIZE	10.617	.042	1.548	.580	.563
SR_SIZE	.003	.005	.257	.678	.499

a. Dependent Variable: ABS_RES

Source: SPS Data Processing Results

Based on the results of the heteroscedasticity test in Table 9, it shows that the Sig value for all variables is greater than 0.05, meaning that all variables are free from heteroscedasticity problems.

Autocorrelation Test

The test used to detect autocorrelation in this study is the Durbin test.

Watson. The Durbin Watson test is only used for first-order autocorrelation and requires an intercept

(constant) in the regression model and no lag variables between the independent variables [41].

Tabel 10. Uji Autokorelasi Model 1

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.498[a]	.248	.229	.01450	1.774

a. Predictors: (Constant), SR, SA, AQ
b. Dependent Variable: WACC

Source: SPSS Data Processing Results

From the results of the autocorrelation test in Table 10, the DW value is 1.774. This value will be compared with the alpha table value of 5%, the number of samples (n) of 54 and the number of independent variables of 3 (k = 3). then the Durbin Watson table value is obtained, namely dL = 1.421 and du = 1.674. So it is concluded that the DW value is greater than du, so there is no positive autocorrelation.

Table 11. Autocorrelation Test of Model 2

Model Summary [b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.479 [a]	.229	.205	.02566	1,747

a. Predictors: (Constant), SR_SIZE, AQ, SA, SIZE, AQ_SIZE, SR
b. Dependent Variable: WACC

Source: SPSS Data Processing Results

From the results of the autocorrelation test in Table 11, the DW value is 1.147. This value will be compared with the alpha table value of 5%, the number of samples (n) of 54 and the number of independent variables of 3 (k = 3). then the Durbin Watson table value is obtained, namely dL = 1.421 and du = 1.674. So it is concluded that the DW value is greater than du, so there is no positive autocorrelation.

Hypothesis Testing

Partial hypothesis testing or t-test is conducted to determine the effect of each independent variable on its dependent variable. The basis for decision making is based on the significance value, if the significance value is smaller than the 5% error rate (sig. <0.05) then the hypothesis is accepted, and vice versa. The results of the hypothesis testing will be explained below.

Table 12. t-Test Results

Coefficients [a]					
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	.068	.004		16,551	.000
	AQ	-.007	.003	-.186	-2,283	.024
	SA	-.001	.005	-.023	-.290	.772
	SR	-.082	.013	-.513	-6,279	.000

a. Dependent Variable: WACC

Source: SPSS Data Processing Results

Based on the results of the first hypothesis test in Table 12, it is known that the audit quality variable on the cost of capital obtained a beta coefficient value with a negative relationship direction of -0.007, a t-value of -2.283 and a significance value of 0.024 <0.05. Thus, the first hypothesis is accepted. This means that audit quality has a negative effect on the cost of capital in Kompas 100 index companies listed on the IDX for the 2018-2022 period. Financial reports supported by quality audits are considered to minimize risk, resulting in projected returns that are lower than investors [42]. The decrease in the required rate of return will lower the company's cost of equity capital. Therefore, the higher the company's audit quality, the lower the cost of capital. In this study, audit quality affects the cost of capital, meaning that audit quality will affect the cost of capital to be low. When the financial statements have been audited, in this case the audit quality is determined by the Big Four and non-Big Four KAPs, which will affect the level of trust of users of the financial statements. This finding is in line with other studies such as those conducted by [43], which also found that high audit quality can reduce the cost of capital.

The second hypothesis is known that the auditor specialization variable on the cost of capital obtains a beta coefficient value with a negative relationship direction of -0.001, a t-value of -0.290 and a significance value of 0.772> 0.05. Thus, the second hypothesis is rejected. This means that auditor specialization does not affect the cost of capital in Kompas 100 index companies listed on the IDX for the 2018-2022 period. Research by [20] shows a significant negative correlation between auditor industry specialization and the company's cost of capital. This means that the higher the level of auditor industry specialization, the lower the cost of capital that must be borne by the company. However, this study is in contrast to the findings of [44] which found that audit specialization does not affect the cost of capital. In this study, auditor specialization does not affect the cost of capital, because the companies listed on the Kompas 100 Index come from various industries, leading to varying and inconsistent results when processing auditor specialization data. In practice, auditor specialization—referring to auditors experienced in a particular industry in identifying and managing relevant risks—can contribute to the quality of the financial statements. However, the impact may vary depending on various factors, including market conditions and scope.

The third hypothesis is known that the sustainability reporting variable on the cost of capital obtains a beta coefficient value with a negative relationship direction of -0.082, a t-count value of -6.279 and a significance value of 0.000 <0.05. Thus, the third hypothesis is accepted. This means that sustainability reporting has a negative effect on the cost of capital in Kompas 100 index companies listed on the IDX for the 2018-2022 period. In this context, sustainability reporting can affect the cost of equity (cost of capital) sustainability reporting functions as an important tool to strengthen the company's legitimacy in the eyes of stakeholders. Disclosure of sustainability reports by companies can generate value for the company [45]. Information asymmetry influences the decrease in the cost of capital because low information asymmetry can increase the accuracy of stock price information for investors [46]. In this context, disclosure of sustainability reports by companies can be the key to creating added value for the company itself. The same results are shown by [47] which states that CSR has a significant negative effect on the cost of equity (COE). Similar research on CSR Disclosure Quality and COE has also been conducted. The results show that CSR disclosure quality is proven to be negatively related to COE [48].

Moderation Analysis

There are two methods to identify the presence or absence of moderator variables, namely sub-group analysis and Moderate Regression Analysis (MRA) [41].

This study uses MRA, which uses an analytical approach that maintains sample integrity and provides a basis for controlling the influence of moderator variables [41].

Table 13. Moderation Analysis

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.003	.022		-.145	.885
	AQ	.110	.018	1.570	6.189	.000

SA	.012	.010	.107	1.227	.221
SR	.020	.074	.077	.272	.786
SIZE	.005	.002	.418	2.071	.040
AQ_SIZE	-.011	.002	-1.630	-5.765	.000
SA_SIZE	-15,543	-.070	1,548	-.955	.341
SR_SIZE	.000	.008	.012	.035	.972

a. Dependent Variable: WACC

Source: SPSS Data Processing Results

Based on the results of the fourth hypothesis test in table 13, it is known that the effect of audit quality on cost of capital moderated by company size obtained a beta coefficient value with a negative relationship direction of -0.011, a t-value of -5.765 and a significance value of 0.000 <0.05. Thus, the fourth hypothesis is accepted. This means that audit quality has a negative effect on cost of capital moderated by company size in the Kompas 100 index companies listed on the IDX for the 2018-2022 period. High-quality audits help reduce the risks perceived by investors and creditors, thereby reducing the cost of capital. Company size moderates the relationship between audit quality and cost of capital, with companies with large total assets tending to experience a more significant impact from increased audit quality compared to companies with small total assets. Previous research conducted by [49, 50] stated that company size has a positive effect on audit quality.

The results of the fifth hypothesis show that the variable of the influence of auditor specialization on the cost of capital moderated by company size obtained a beta coefficient value with a negative relationship direction of -15.543, a t-value of -0.955 and a significance value of 0.341> 0.05. Thus, the fifth hypothesis is rejected. This means that auditor specialization does not affect the cost of capital moderated by company size in the Kompas 100 index companies listed on the IDX for the 2018-2022 period. This result is different from the study by [20] which showed a significant negative correlation between auditor industry specialization and the company's cost of capital. This means that the higher the level of auditor industry specialization, the lower the cost of equity capital that

must be borne by the company. It is explained that auditor industry specialization has a negative effect on the cost of equity capital, which means that auditors with industry specialization capabilities will be able to reduce the cost of equity capital [13]. Auditor specialization does not always have a consistent impact on the cost of capital, especially if moderated by company size.

The results of the sixth hypothesis show that the variable of the influence of sustainability reporting on the cost of capital moderated by company size obtains a beta coefficient value with a positive relationship direction of 0.000, a t-value of 0.035 and a significance value of 0.972> 0.05. Thus, the sixth hypothesis is rejected. This means that sustainability reporting does not affects the cost of equity moderated by company size in the Kompas 100 index companies listed on the IDX for the 2018-2022 period. Company size as one of the characteristics of a company that also determines the level of investor confidence, requires good credibility so that companies need to contribute to social and environmental growth [52]. The results of a study conducted by [53] showed that sustainability reporting has no effect on the cost of capital, which means that this study found that the higher the disclosure of sustainability reports, the less it can reduce the company's cost of capital.

There are several conditions that contribute to the lack of a significant effect of sustainability reporting on the cost of capital, moderated by company size. These include the limited impact of sustainability reports due to the reports not meeting standards or failing to provide relevant information for investors or creditors, the fact that in some industries, sustainability reporting is not a major factor in risk assessment or investment decisions because the company's size is not large enough to make a significant impact, or other external factors. It can be concluded that total assets of the company do not strengthen the effect of sustainability reporting on the cost of capital, in this case, a reduction in the cost of capital.

5. CONCLUSION AND RECOMMENDATION

Based on the results of the research that has been conducted, it can be concluded that Audit Quality and Sustainability Reporting have a negative effect on Cost of Capital. However, Auditor Specialization has no effect on Cost of Capital. Furthermore, Company Size can moderate the effect of Audit Quality on Cost of Capital. Meanwhile, Company Size is found to be unable to moderate the effect of Auditor Specialization and Sustainability Reporting on Cost of Capital. Based on the results of the analysis, suggestions that can be given to companies, it is important to continue to maintain and improve audit quality by selecting highly reputable auditors and conducting comprehensive audits to increase investor confidence and reduce cost of equity. Companies also need to ensure transparency of financial reports, compliance with accounting standards, and develop sustainability initiatives that include

environmental, social, and governance (ESG) responsibilities. In addition, an evaluation of the need for specialist auditors needs to be carried out if necessary for industry compliance or specific regulations. Meanwhile, for further research, it is recommended not to only focus on Kompas 100 Index companies, but also to consider other independent variables such as audit committees and audit tenure which may have a greater effect on cost of capital. The observation period also needs to be extended to obtain more comprehensive data, as well as testing using the Structural Equation Modeling method. (SEM) can be considered for more in-depth analysis.

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