

The Influence of Audit Tenure, Audit Rotation, Public Accounting Firm Size, and Audit Opinion on Audit Quality (Study of Large Trading Companies Listed on the Indonesian Stock Exchange)

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Abstract: - The purpose of this study was to examine the Influence of audit tenure, audit rotation, size of the public accounting firm (KAP), and audit opinion on audit quality. This research data analysis method uses quantitative analysis techniques and purposive sampling, namely determining the research sample using 20 out of 47 samples of large trading companies listed on the Indonesia Stock Exchange (BEI) in the period 2020 to 2022. The method used is logistic regression. Data analysis to test the hypothesis was done by using multiple regression tests. The results of the logistic regression test show that (1) audit tenure has no significant influence on audit quality. (2) audit rotation has no significant influence on audit quality, (3) the size of the public accounting firm has no significant influence on audit quality. (4) audit opinion positively and significantly influences audit quality.

Key-Words: - audit tenure, audit rotation, public accounting, firm size, audit opinion, audit quality.

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1 Introduction

In assessing the fairness of a financial report presented by a company, a process is needed to obtain and evaluate the financial report objectively, namely through an audit process which can the fairness of the financial report compared to unaudited financial reports. Therefore, auditors as audit practitioners must be professional in auditing so that financial reports have quality that can be trusted by internal and external parties of the company, as well as, gaining trust in running a public service business, so that auditors can survive and increase their existence in the business world to survive amidst intense competition. Especially in the field of public accounting services, you must be able to gather as many clients as possible and gain the trust of the wider community.

Audit quality is a characteristic or description of audit practices and results based on auditing standards and quality control standards, which measure the implementation of an auditor's professional duties and responsibilities. Another factor that can influence audit quality is the size of the Public Accounting Firm (KAP). KAP itself is divided into 3 levels, namely first tier, second tier, and third tier based on the resources owned by KAP.

According to [1], one of the external factors that influences audit quality is audit tenure. Audit firm tenure affects the audit quality adversely (negatively). Where the length of the auditor's relationship with his client will affect the auditor's independence because objectivity decreases. Government regulations have also implemented mandatory rotation for auditors and public accounting firms. This is expected to increase auditor independence both in appearance and in fact. KAP rotation is regulation for changing Public Accounting Firms that must be carried out by organizations or businesses.

The length of the relationship between the client and the KAP can interfere with the auditor's independence and accuracy in carrying out auditing duties, [2]. Audit quality determined by the auditor is used to increase the trustworthiness of financial reports for users of accounting information to reduce the risk of information that is not credible for users of financial reports. However, currently trust in auditors is decreasing due to the many cases involving the auditors themselves, such as what happened to the Ernst & Young (EY) partner public accounting firm in Indonesia, namely KAP Purwantono, Suherman & Surya, which agreed to pay a fine of US\$ 1 million (around Rp. 13.3

billion) to United States regulators as a result of being convicted of failing to audit his client's financial statements. The agreement was announced by the US Public Accounting Oversight Board (PCAOB) on Thursday, February 9, 2017, Washington time. This case is the latest incident involving a public accounting firm in a developing country that violated the code of ethics of the EY network in Indonesia, which announced the results of an audit of a telecommunications company (ISAT) in 2011, providing an opinion based on inadequate evidence. Audit rotation is the change of KAP in auditing a client's financial statements. When a client's relationship with an accounting firm lasts for years, the client can be seen as a continuous source of income for the public accounting firm. However, it cannot be denied that the short engagement period between the auditor and the client can cause various problems such as increasing engagement costs borne by the client's company because the contract with the auditor is quickly completed. The auditor will take a long time to explore and explore the client's financial reports because he does not yet have a broad understanding of the client's company. concerned. Therefore, mandatory and voluntary rotation of public accounting firms is implemented to reduce and avoid special relationships that exist between clients and public accounting firms—companies. The third factor is the size of the public accounting firm. Public accounting firms consist of Big Four KAPs and Non-Big Four KAPs. The quality auditors in accounting firms that have a Big Four reputation are considered to have speed, accuracy, and better facilities and infrastructure than auditors at non-big four accounting firms. This is contrary to the case that occurred with KAP Purwantono, Suherman & Surja, which is a partner of Ernst & Young (EY), one of the Big Four KAPs, which audited the financial statements of one of the telecommunications companies in Indonesia which did not have accurate data and then gave an unqualified opinion. So KAP Purwanto, Suherman, and Surya were given sanctions in the form of a fine of US\$ 1 million and a ban on practising for one year.

An audit opinion or opinion is an inseparable part of an audit report. An audit report is very important in an audit or other attestation process because the report informs the user of information about what the auditor did and the conclusions obtained. An audit opinion is given by the auditor through audit stages so that an audit can be given on the financial statements being audited. [3], stated that the audit report is the final step in the entire

audit process, thus, the auditor in providing an opinion is based on his professional beliefs. This research replicates previous research, namely research by [4], which examined the influence of audit tenure, audit rotation, and company size on the quality of audits listed on the IDX in 2018-2020 with research results. Audit tenure had a negative and significant influence on audit quality and audit rotation and size. KAP. The difference between this research and previous research is that it takes independent variables, namely audit tenure, audit rotation, size of the public accounting firm, and audit opinion and audit quality as the dependent variables. Apart from that, empirical studies with different companies, in this case, used large trading companies in different periods, namely 2020-2022.

In this research, researchers used studies on large trading companies listed on the Indonesia Stock Exchange because large trading companies have a large influence on Indonesia's economic growth. Based on the description above, researchers are interested and motivated to conduct research to determine the Influence of audit tenure, audit rotation, and the size of the public accounting firm on audit quality. Based on this, the researchers conducted research entitled "The Influence of Audit Tenure, Audit Rotation, Size of the Public Accounting Firm (KAP) and Audit Opinion on Audit Quality".

2 Problem Formulation

2.1 Signal Theory

Signal theory illustrates that a signal or signal is an action taken by company management that gives investors a clue about how management views the company's prospects. This theory reveals that investors can differentiate between companies that have high value and companies that have low value. Signals are instructions given by the company regarding management actions in efforts to assess the company's projects. The main focus of the signal theory is the communication of actions carried out by internal companies that cannot be directly observed by parties outside the company. This information can be useful for outside parties, especially investors when they capture and interpret the signal as a positive signal or a negative signal.

2.2 Audit Quality

Audit quality is a characteristic or description of audit practices and results based on auditing standards and quality control standards which are a

measure of the implementation of an auditor's professional duties and responsibilities. According to [5], audit quality is the possibility that the auditor will find and report material misstatements in the client's financial statements. Based on the Public Accountant Professional Standards (SPAP), an audit carried out by an auditor is said to be of good quality, if it meets the provisions or standards for auditing the size of a Public Accounting Firm (KAP). Audit quality is all possibilities (probabilities) where the auditor, when auditing the client's financial statements, can find violations that occur in the client's accounting system and report them in the audited financial report, where in carrying out his duties the auditor is guided by relevant auditing standards and public accountant codes of ethics.

2.3 Audit Tenure

Audit tenure is the period of engagement (involvement) between the Public Accounting Firm (KAP) and the client regarding agreed audit services, [6]. Audit tenure is the length of the relationship between the KAP partner and the client. Long audit tenure can increase audit competency and audit partners can base their audit knowledge on their audit knowledge of clients that has developed over time, [7]. Audit tenure is the length of time for an audit assignment between the auditor and the company being audited continuously without changing another auditor. Tenure itself can also have an impact on the auditor's performance at the client company, such as the auditor-client emotional relationship, independence, audit fees, work professionalism, competence, and so on.

2.4 Audit Rotation

Audit rotation is a change in KAP providing audit services to its clients. According to [8], the audit rotation regulations are designed to improve audit quality, the longer the relationship between the KAP and the client, the lower the auditor's independence. There are two audit rotations, namely voluntary and mandatory. In Indonesia, according to Minister of Finance Decree No. 423/KMK.06/2002 concerning Public Accounting Services and Minister of Finance Decree No. 359/KMK.06/2003, mandatory auditor rotation is carried out on August 21, requiring companies to limit the KAP term to a maximum of 5 years and the term limit for public accountants to 3 years.

2.5 KAP size

PP Regulation Number 20 of 2015 concerning Public Accounting Practices, Public Accounting

Firm, hereinafter abbreviated as KAP is a business entity established based on the provisions of Legislative Regulations and obtaining a business license according to Law Number 5 of 2011 concerning Public Accountants.

The size of the KAP can be measured based on the number of clients and the percentage of audit fees to retain clients from moving to another audit company, [9]. Several studies that use KAP size as a measure of audit quality have succeeded in proving empirically that there is a difference in quality between large-sized KAPs (Big 4 accounting firms) and small-sized KAPs (non-Big 4 accounting firms). The positive relationship between KAP size and audit quality is due to the reputation and deep pockets of large KAPs, [10].

2.6 Audit Opinion

An audit opinion is an opinion given by an auditor regarding the fairness of the presentation of the financial statements of the company where the auditor is conducting an audit, [11]. According to [12], an audit opinion is "The opinion of a public accountant or independent auditor on the annual financial report of the company that he has audited. The auditor as an independent party in auditing the financial statements of a public company provides an opinion on the financial statements being audited."

Framework for Thinking and Hypothesis Development

H1: Audit tenure has a positive and significant influence on audit quality

H2: Audit rotation has a positive and significant influence on audit quality

H3: KAP size has a positive and significant influence on audit quality

H4: Audit opinion has a positive and significant influence on audit quality

2.7 Research Methods



Fig. 1: Research Conceptual Framework

Figure 1 explains the conceptual framework of the research. The concept of this research aims to analyze the influence of the dependent variable on the independent variable.

This research data analysis method uses quantitative analysis techniques. In this research, quantitative analysis is carried out by quantifying research data to produce the information needed for the analysis. The dependent variable in this research is the audit quality of the company's financial reports. The independent variables in this research are as follows:

Tenure Audits. Audit tenure is the period of engagement (involvement) between the Public Accounting Firm (KAP) and the client regarding agreed audit services. Audit tenure is measured by calculating the number of years of engagement in which an auditor from the same KAP carries out an audit engagement on the auditee, [13]. The first year of engagement starts with the number 1 and is increased by one for subsequent years. This information is looked at in independent auditor reports over several years to ensure the length of time the KAP auditor has audited the company.

Audit Rotation is a change in public accounting firms in examining clients' financial reports. Therefore, audit rotation refers to research conducted by [14], namely that audit rotation is measured using a dummy variable, a value of 1 if auditor rotation occurs; and a value of 0 if no auditor rotation occurs.

The size of the KAP in this study is the size of the KAP which is divided into two groups, namely KAPs that are affiliated with the big four and KAPs that are not affiliated with the big four. If a Big Four KAP audits the company, it will be given a value of 1. Meanwhile, if a non-big four KAP audits the company, it will be given a value of 0, [15].

Audit Opinion is the final result of the audit procedure process provided by the auditor in the form of an opinion on the Company's financial statements. The audit opinion variable is measured using a dummy variable. A value of 1 is given if the company obtains an unqualified opinion. Meanwhile, a value of 0 is given if the company receives an audit opinion other than unqualified.

2.8 Population and Sample

The population and sample for this research are large trading companies listed on the Indonesia Stock Exchange (BEI) in the 2020-2022 period. Large trading companies were chosen because they are one of the sectors that influence economic growth in Indonesia. In this research, the population used is large trading companies listed on the

Indonesia Stock Exchange (BEI) in the period 2020 to 2022.

The method used in this research is Purposive Sampling, namely determining samples from the existing population based on criteria. Based on this method, the criteria set for determining the sample (20 out of 100) in this study are as follows:

1. Large trading companies listed on the Indonesia Stock Exchange (BEI) during 2020-2022.
2. Large trading companies that provide financial reports, annual reports, and reports that have been audited by independent auditors during 2020-2022.
3. The financial sector during 2020-2022 did not experience delisting from the Indonesian Stock Exchange.

Based on these criteria, the research obtained a sample of 20 large trading companies, of which the research sample was 60 units, namely 20 companies x 3 years.

The data collection techniques used in this research are documentation and literature study methods. Secondary data in this research was obtained through documentation methods. The documentation method is carried out by collecting, recording, and reviewing secondary data consisting of annual reports, financial reports, and audit reports by independent auditors from financial sector companies listed and published by the Indonesia Stock Exchange during the research period through the Indonesia Stock Exchange (IDX).

The analysis used in this research is a legit model analysis or logistic regression (logistic regression) with the help of IBM Statistical Package for Social Sciences (SPSS) version 23. The hypothesis in this research was tested using the logistic regression method (logistic regression). Parameter estimation using Maximum Likelihood Estimation (MLE).

$$H_0 = b_1 = b_2 = b_3 = \dots = b_i = 0$$

$$H_0 \neq b_1 \neq b_2 \neq b_3 \neq \dots \neq b_i = 0$$

If the probability value (sig.) $< \alpha = 5\%$ then the alternative hypothesis is supported. If the probability value (sig.) $> \alpha = 5\%$ then the alternative hypothesis is not supported

Logistic regression is the method used to test the hypothesis of this research. Logistic regression is used because the dependent variable in this study is dichotomous, namely a variable whose measurement consists of two categories. The logistic regression model in this research is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

where:

Y: Audit quality is measured using a dummy variable, namely by giving the number 1 if the audit opinion states that it is fair without exception (WTP) the number 0 if the audit opinion is other than fair without exception

α : Constant

X1: Tenure audit

X2: Audit rotation

X3: KAP size

β_1 - β_3 : Regression coefficient, is the magnitude of the change in the dependent variable due to changes in each unit of the independent variable.

e: Error term

3 Problem Solution

Descriptive statistical analysis is used to determine the description of data as seen from the minimum, maximum, average, and standard deviation values based on the variables audit tenure, audit rotation, size of the public accounting firm, and audit quality. Based on Table 1, the descriptive analysis shows the following sample description.

Table 1. Descriptive Statistics

	N	Mini mum	Maxi mum	Mean	Std. Deviation
Audit Tenure	60	0	1	.72	.454
Audit Rotation	60	0	1	.42	.497
KAP Size	60	0	1	.10	.303
Audit Opinion	60	0	1	.87	.343
Audit Quality	60	0	1	.28	.454
Valid N (listwise)	60				

Table 2 presents data from testing the suitability of the overall model (overall model fit) based on the likelihood function. Testing the suitability of the overall model (overall model fit).

Table 2. Overall Model Fit Test

Description	-2 log-likelihood
Blok Number : 0	71.529
Blok Number : 1	62.891

Table 3. Coefisien Determination Test

Step	-2 log-likelihood	Cox & snell R square	Nagelkerke R Square
1	62.891 ^a	.134	.193

Based on Table 3, the Nagelkerke R Square statistical value is 0.193. This value is interpreted as the ability of audit tenure, audit rotation, and the size of the public accounting firm to influence audit

quality by 19.3%, other variables or factors explain the remaining 80.7%. The classification matrix shows the predictive power of the regression model to predict the possibility of a company's audit quality from going concern audit opinions and non-going concern audit opinions.

The classification matrix test results can be seen in Table 4.

Table 4. The classification matrix test results

Observed			Predicted		
			Audit Quality		Percentage Correct
Step 0	Audit Quality	Non Going Concern	Going Concern	71,7	
					43
		17	0	0	
Overall percentage					71,7

Based on Table 4, the overall percentage is 71.7%. Logistic Regression Test Results. The logistic regression model formed is presented in Table 5.

Table 5. Logistic Regression Test Results

		B	S.E.	Wald	D f	Sig.	Exp(B)
Step 1 ^a	Audit Tenure	.531	.794	.477	1	.504	1.701
	Audit Rotation	-.083	.708	.014	1	.907	.920
	KAP Size	20.079	16329.260	.000	1	.999	.000
	Audit Opinion	1.621	.821	3.900	1	.048	.198
	Constant	.207	.853	.059	1	.808	1.230

The results of testing the logistic regression coefficients produce the following model:

$$\ln(p/1-p) = Y = 0.207 + 0.531X_1 - 0.083X_2 - 20.079X_3 + 1.621 X_4 + e$$

Based on Table 5, shows that the independent variable, namely audit tenure, has a coefficient of 0.531 with a significance level of 0.504. Because the significance level (p) is greater than $\alpha = 5\%$, hypothesis one (H1) is not accepted, which means audit tenure has no Influence on audit quality.

The audit rotation variable as an independent variable has a coefficient of -0.083 with a significance level of 0.920. Because the significance level (p) is greater than $\alpha = 5\%$, the second hypothesis (H2) is not accepted, which means audit rotation has no Influence on audit quality.

The KAP size variable as an independent variable has a negative coefficient of -20.079 with a significant level of 0.999. Because the significance level is greater than $\alpha = 5\%$, this means that the size of the public accounting firm has no influence on

audit quality, so the third hypothesis or (H3) is rejected.

The audit opinion variable as an independent variable has a positive coefficient of 1.621 with a significant level of 0.048. Because the significance level is smaller than $\alpha = 5\%$, this means that audit opinion has a positive and significant influence on audit quality, and the third hypothesis or (H4) is accepted.

3.1 Discussion

The results of hypothesis testing developed in this research are briefly presented in Table 6 as follows:

Table 6. The results of hypothesis testing

Hypothesis	Description	Result
H ₁	Audit tenure has a positive and significant influence on audit quality.	The hypothesis is rejected
H ₂	Audit Rotation has a positive and significant influence on audit quality	The hypothesis is rejected
H ₃	KAP Size has a positive and significant influence on audit quality	The hypothesis is rejected
H ₄	Audit Opinion has a positive and significant influence on audit quality	The hypothesis is accepted

3.1.1 The Influence of Audit Tenure on Audit Quality

The results of the logistic regression coefficient test show that audit tenure has a coefficient of 0.531 with a significance level for the audit tenure variable of 0.504. The significance value is greater than 0.05. This means that audit tenure has no significant influence on audit quality. Thus, it is concluded that this research rejects H1.

This research is in contrast to the previous researcher, [16], where audit tenure has a significant influence on audit quality. This is because tenure is usually associated with its influence on auditor independence. This research is in line with [17], the relationship between KAP and clients has the potential to create distance between them, this can result in auditor independence and reduce audit quality causing short audit tenure to make auditors have a professional attitude so that carrying out the audit process is under the influence of management so that if there is an error from the company, it makes it easier for the auditor to publish it. The short period of relationship that exists between the auditor and the company will have an impact on decreasing audit quality, this is because the auditor has a close emotional relationship, which allows the quality of auditor independence to increase so that various company frauds cannot be manipulated so

that the quality of the resulting audit can increase user trust. financial statements. Also, the short period of the auditor's engagement with the client will result in the auditor being less influenced in carrying out good audit procedures so that it is possible to pass several audit procedures that have been planned so that the quality of the audit is high. Also, the short engagement period will make it difficult for the auditor to understand and detect any errors or deviations. carried out by auditors.

3.1.2 The Influence of Audit Rotation on Audit Quality

The audit rotation variable as an independent variable has a positive coefficient of -0.083 with a significance to audit quality of 0.907. The significance value is greater than 0.05. This means that audit rotation does not have a significant influence on audit quality. Thus, it can be concluded that this research rejects H2.

This research is supported by research by [16], which states that audit rotation has no significant influence on audit quality. This is because the market doesn't care whether the auditor who expressed an opinion on the annual financial report has been rotated or not. This is also due to the high professionalism of these auditors who act independently in carrying out audits, so that whether audit rotation is carried out or not if an auditor upholds independence, it will not be affected by things that can reduce audit quality. The results of this study reject previous research, [17], which found that audit rotation had a significant effect on audit quality.

Audit rotation does not affect audit quality also because the company assumes that all auditors will make every effort to examine and provide opinions according to the company's circumstances clients feel that changing auditors frequently or for a long time will be the same because all auditors want a good reputation. However, to avoid undesirable things, there are two reasons for carrying out audit rotation, namely mandatory and voluntary.

3.1.3 The Influence of Public Accounting Firm Size on Audit Quality

The KAP size variable as an independent variable has a negative coefficient of -20.079 with a significance level of 0.999. The significance value is greater than 0.05. This means that the size of the public accounting firm expressed in big four KAPs and non-big four KAPs does not have a significant influence on audit quality. Thus, it can be concluded that H3 is rejected. The results of this research are by research conducted by [18]. The size of the

public accounting firm does not influence the quality of audits for examining financial reports in companies. Public accounting firms that are affiliated with the Big Four KAPs do not tend to produce better audit quality than KAPs that are not affiliated with the Big Four KAPs. From the research results several conclusions were obtained that the size of the KAP does not have a significant influence on audit quality as measured by the accrual value and the size of the KAP also does not influence the probability of issuing a going concern audit report. This means that there is no difference in the quality of accruals for companies audited by large KAPs, both Big Four KAPs and non-Big Four KAPs. Apart from that, the issuance of going concern audit reports for companies audited by large KAPs can also be said to be the same as for small KAPs. Overall, it was concluded that the test results could not provide evidence that was consistent with previous research. Sensitivity testing of KAP size measurements also does not provide evidence that a larger KAP will produce better audit quality. This most likely happens because there are factors that influence audit quality more than the size of the KAP. These factors are competence and independence. Apart from that, to survive in business competition, public accounting firms, both big four and non-big four, will make every effort to maintain their existence in the public accounting services business so that they will work by good audit procedures to produce quality audit reports to gain the trust of the public client.

3.1.4 The Influence of Audit Opinion on Audit Quality

Based on the test results, the audit opinion variable as an independent variable has a positive coefficient of 1.621 with a significance to audit quality of 0.048. The significance value is greater than 0.05. This means that audit opinion has a significant influence on audit quality. The Researchers [7], support the conclusions of this research, which states that giving opinions \pm opinions on financial reports is carried out using the same procedures. An audit opinion is an opinion regarding the fairness of the financial statements issued by the auditor, and whether the financial statements comply with generally accepted accounting principles in Indonesia. The results of the opinion given by the auditor have no Influence on the length of the audit time. This is because regardless of the results of opinions issued by auditors, whether qualified opinions or unqualified opinions, auditors use similar procedures in the audit process and in issuing audit reports. In the audit process, the

auditor will carry out his work professionally so that any type of opinion expressed will not affect the length of time for completing the audit. the collection of accurate and complete evidence will be carried out by the auditor, which will require a longer time so that the expected evidence can be collected, whether the opinion that will be expressed later by the auditor does not affect the length of time for completing the audit. This is because the opinions that will be conveyed, whether qualified opinions or unqualified opinions, will be carried out in the same procedures in the audit process.

4 Conclusion

This research was conducted to determine the Influence of audit tenure, audit rotation, and the size of the public accounting firm on audit quality. This research uses large trading sector companies listed on the Indonesia Stock Exchange for the 2020-2022 period as the research population, namely 47 large trading sector companies and 20 companies that meet the criteria to be the research sample.

Here are some things that can be concluded, including:

1. The results of the logistic regression test show that audit tenure has no significant influence on audit quality.
2. The results of the logistic regression test show that audit rotation has no significant influence on audit quality.
3. The results of the logistic regression test show that the size of the public accounting firm has no significant influence on audit quality.
4. The results of the logistic regression test show that audit opinion has a positive and significant influence on audit quality.

4.1 Suggestion

Suggestions that can be considered for future researchers who conduct research related to this research:

1. Future researchers are advised to add other variables that are closely related in theory to the audit quality variable and expand the scope of the research so that the research results can be expanded. This is intended to ensure that the results of determining audit quality are better.
2. This research only uses a sample of large trading sector companies. Future researchers can consider expanding the research sample by using a sample of companies from all sectors listed on the IDX

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- Sita Yubelina Sabandar: Ideas, formulation or evolution of overarching research goals and aims. Also, preparation, creation and/or presentation of the published work by those from the original research group, specifically critical review, commentary or revision – including pre- or post-publication stages.
- Kordiana Sambara : Development of methodology and formal techniques to analyze study data.
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