

CHAPTER V

CONCLUSIONS

5.1 Conclusions

This research is aimed to investigate audit quality of companies that perform different types of audit rotation and is audited by audit firms with different size. Dependent variable in this research is audit quality which is proxied by discretionary accrual. While the independent variables are: 1. types of audit rotation which consist of real mandatory rotation, pseudo mandatory rotation, and voluntary rotation, and 2. audit firm's size which is observed from whether companies switch auditors among big four audit firms or not.

Samples of this research are non financial companies listed in Indonesian Stock Exchange in the period of 2002-2015. Based on the test results, the conclusions are as follow:

The value of adjusted-R square is 0.020. It shows that the ability of independent variables which are DROT, Pseudo, DBB, DBK, and DKB in explaining audit quality as dependent variable is 2.0%. while 98.0% others is determined by other variables outside of this research.

Variable DROT, DBB, and DBK are statistically significant, it implies that mandatory rotation, auditor switching among big four audit firms, and audit rotation from big four audit firms to smaller audit firms have significant influence on audit quality. Variable Pseudo and DKB are not statistically significant, it implies that pseudo-mandatory rotation and audit rotation from smaller audit firms to big four audit firms have no significant influence on audit quality.

The result of test of independent variables shows that the discretionary accrual of companies who are mandatorily rotated is lower than voluntary rotation. Lower discretionary accrual indicates higher audit quality and therefore, audit quality of companies that rotate their auditors mandatorily is higher than that of companies that rotate voluntarily. It may happens because the length of tenure in mandatory rotation is long enough for auditors to understand their client, but not long enough to build close relationship that might affect auditors independence.

Discretionary accrual of pseudo mandatory rotation is not proven to be higher than discretionary accrual of real mandatory rotation. Therefore, we can conclude that no statistical evidence that pseudo mandatory rotation results in lower audit quality.

Discretionary accrual of companies who switch auditors among big four audit firms is different than companies that switch from auditor of different size. Lower discretionary accrual indicate higher audit quality and therefore, audit quality of companies who switch auditors among big four audit firms is higher than companies that do not use audit service from big four audit firms. It may happens because bigger audit firms tend to have auditors with higher competence and independence, and therefore able provide higher audit quality for their clients.

5.2 Research Limitations

1. This research only investigates differences of audit quality of companies based on different types of audit rotation they perform and their auditor's size.

2. Normality test and heteroscedasticity test are not fulfilled since all the independent variables are dummy.
3. This research use discretionary accrual as a proxy for audit quality since there is still no absolute measurement for audit quality.

1.3 Suggestions

Since proxy to measure audit quality is still on debate, the next research can use other proxy for audit quality such as the propensity of auditor to issue a going concern opinion. It measures auditors' independence based on comparison between real financial condition of clients and its issuance of going concern or nongoing concern opinion.

