

CHAPTER V

CONCLUSION

5.1. Conclusion

This research aims to examine and to investigate the audit quality of companies that perform audit by different size of audit firm, different length of tenure, and different types of auditor rotation. The dependent variable in this research is audit quality which is proxied by abnormal working capital accruals (AWCA). While the independent variables are public accountant firm size, audit tenure, auditor rotation, and types of auditor rotation (which is divided into mandatory rotation and pseudo mandatory rotation). Samples of this research are nonfinancial companies listed in Indonesia Stock Exchange (IDX) in the period of 2002-2015.

Based on the analysis and discussion that has been done in this research, the results of this research have the following conclusions. First, sample shows the number of company which audited by BIG4 or non-BIG4 averagely the same (696:718). The average length of tenure is 2.42 years. The company that rotates their auditor only 460 out of 1414 samples (32.53%). The different size of audit firm also shows averagely the same number of rotation been done (BIG4= 220 rotation; Non-BIG4= 240 rotation). For the types of rotation been done, it is 5.87% mandatory, 1.91% pseudo mandatory, and 26.66% voluntary.

Second, the value of adjusted-R square is 0.064. It implies low effect of independent variables in explaining dependent variable (audit quality).

Nevertheless, the F-test already shows that the model is appropriate in explaining the research itself. The probability of F value is in lower value rather than the acceptable error 5% with F value 13.100.

Third, individually, variable BIG4, MNMT, and PSEUDO are statistically significant. It implies that public accountant firm size, mandatory rotation, and pseudo mandatory rotation have significant influence on audit quality. Meanwhile, variable TEN and ROTA are not statistically significant. It implies that audit tenure and auditor rotation do not have influence on audit quality.

Fourth, public accountant firm size has negative effect with the audit quality. It implies that companies that are audited by BIG4 have lower quality than that of audited by non-BIG4. This conclusion is different from DeAngelo's (1981), Choi et al.'s (2010), and Zakaria and Daud's (2013) results that concluded that BIG4 firms will deliver better audit quality rather than non-BIG4.

Fifth, audit tenure has positive effect with the audit quality. It implies that company with longer tenure will deliver higher audit quality. The conclusion is different from Carey and Simnett's (2006), Siregar et al.'s (2012), and Panjaitan and Chariri's (2014) results that conclude that lengthy tenure might impair and deteriorate the auditor independence.

Sixth, auditor rotation has a positive effect on the audit quality. It implies that auditor rotation increase the quality of audit. It is not in accordance with Febrianto (2009), who stated that an indication of a

company that change their auditor before the maximum tenure due to previous auditor acts conservatively and not in line with the interests of the management. It might implies the tendency of a company to rotate their audit firm is reflected in a good way.

Seventh, mandatory rotation has a positive effect with the audit quality. It implies that the Indonesia's government regulation regarding mandatory rotation might have a good result because increasing the audit quality. It is in accordance with the view of longer tenure will impair auditor independence. The result also supports the regulator views that believe one solution of longer tenure is implementation of the mandatory rotation. It is because such regulation will force the company to rotate its auditor when they achieved the maximum engagement period. The result also support some studies conducted by Carey & Simnett (2006), Daniels & Booker (2009), and Wibowo & Rossieta (2009).

Eight, pseudo mandatory rotation has a negative effect on the audit quality. It implies that pseudo mandatory rotation decreases the quality of audit. Pseudo mandatory is a loophole in audit regulation in the Indonesia (Siregar et al. 2012; Junaidi et al. 2014). Even it is legal by the regulation, but it is a way to extend the period of engagement. The question relevant to this issue, among others, are (a) Why an audit firm wants to stay with a client for that long?; (b) Why a company still want to be audited by that firm even though it is exceed the maximum time of engagement? The intention by the audit firm and management that want to be still together, resulting in a negative result as found in this research.

5.2. Research Limitations

1. This research only examine and investigate the relationship between public accountant firm size, audit tenure, auditor rotation, and types of auditor rotation with audit quality in the nonfinancial sector.
2. The audit quality only measured by one proxy which is abnormal working capital (AWCA) that is also a proxy of earnings quality.
3. Autocorrelation test is not satisfied the BLUE requirements in OLS because the regression model exposes positive autocorrelation.
4. The variable for audit tenure, auditor rotation, and types of auditor rotation only assess for the audit firm, it does not include the audit partner where in Indonesia regulate for both audit firm and audit partner.
5. The variable for audit tenure and pseudo rotation did not in the same line with each other. It means, the effect of pseudo mandatory did not be added to the tenure itself to include pseudo tenure.

5.3. Suggestions

1. The next research can use another proxy for audit quality beside one is used for earnings quality, such as the auditor opinion that is become as an output of auditor work with its client. Therefore, auditor opinion might reflect the auditor performance in conducting the audit. So that, it can be used in determining the audit quality.
2. The next research can use multiple proxies from different views, in order to get comprehensive examination and analysis. It can be from earnings quality (discretionary accruals/ abnormal working capital/ earnings

surprise benchmark), audit report (going concern opinion), or market reaction (earnings response coefficient).

3. The next research may use different criteria for variable tenure, such as normal tenure which reflect in the regulation, also pseudo tenure that will extent the tenure itself.

