

**THE EFFECT OF AUDIT ENGAGEMENT PERIOD, AUDIT ROTATION,
AND FIRM SIZE ON AUDIT QUALITY WITH AUDIT COMMITTEE AS
A MODERATION (EMPIRICAL STUDY IN MANUFACTURING
COMPANIES
LISTED ON BEI 2011-2016)**

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Abstract: This study aims to determine and analyse the effect of the audit engagement period, audit rotation, and firm size on audit quality with the audit committee as moderating manufacturing companies listed on the Indonesia Stock Exchange. This research is associative causal research using secondary data. The population of this study is 149 companies which are manufacturing companies listed on the Indonesia Stock Exchange in 2011-2016. The sampling technique used was purposive side with the number of observations 168 (28 companies x 6 years). The analytical method used is logistic regression analysis and MRA (Moderated Regression Analysis) using SPSS software (Statistical Package for the Social Science). The results of this study prove that the audit engagement period has a significant effect on audit quality, while audit rotation and firm size have no significant effect on audit quality. The audit committee significantly moderates the audit engagement period with audit quality. The audit committee does not significantly moderate audit rotation on audit quality. The audit committee also does not significantly moderate the firm size on audit quality.

Keywords: Audit engagement period, audit rotation, company size, audit quality, audit committee.

1. INTRODUCTION

Independence is an attitude that is expected from a public accountant not to have personal interests in carrying out his duties, which are contrary to the principles of integrity and objectivity. Every accountant must maintain integrity and objectivity in professional duties and each auditor must be independent of all conflicting interests or improper influences. The role of competent and independent third parties is needed to conduct an examination of financial statements (Al-Thuneibat, 2011).

Financial scandals occur not only in America, but also in Indonesia. The impact of the scandal was the renewal of the conditions and regulation of business practices in the United States, such as the issuance of the Sarbanes Oxley Act (SOX) in July 2002. The Sarbanes Oxley Act (SOX) improved and tightened the audit component and its supporters. The effort to improve the quality of the audit is carried out by requiring a minimum annual education, limiting the tenure of the auditor with his client, and establishing an audit committee that oversees the internal auditor.

The collapse of large companies such as the Enron company in the United States in 2001 was associated with a lack of independence from auditors. The incident at the

Enron company involved KAP Arthur Andersen so that it made more awareness of the importance of auditor independence in a KAP. In Indonesia, increased business competition and a decline in the rupiah exchange rate against the US dollar are feared to be able to encourage entrepreneurs to commit fraud in order to sustain their business. In this case the role of the auditor is needed to minimize fraud practices carried out by the company. Client fraud is inseparable from the lack of auditor independence. Even though the company has been audited by a qualified public accounting firm but has not been able to show that the company has good audit quality. This shows that the big name of a public accounting firm is not enough to guarantee the quality of the audit conducted. Therefore a committee is required to maintain an adequate internal control system and monitor the performance of external auditors to realize good corporate governance.

2. LITERATURE REVIEW

2.1. Compliance Theory

Compliance comes from obedient words which according to the Big Indonesian Dictionary, obedient means likes to obey, obey orders or rules and be disciplined. Compliance means being obedient, obedient, submissive, obedient to the rules. Demands for compliance in complying with regulations in order to improve audit quality in accordance with those stated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 17 / PMK.01 / 2008 concerning "Public Accountant Services" article 3 which is a refinement of Minister of Finance Decree No. 423 / KMK.06 / 2002 and No. 359 / KMK.06 / 2003. This regulation requires partner auditor rotation every 3 (three) years and KAP rotation every 6 (six) years. This regulation is intended to minimize the occurrence of financial scandals involving auditors.

2.2. Signal Theory

Signal theory states that a good quality company will intentionally give a signal to the market, thus the market is expected to be able to distinguish good and bad quality companies (Al-Thuneibat, 2011), (Hartono, 2005). Signalling Theory explains that financial statements are basically used by companies to signal (both positive and negative) to its users. Signalling Theory can also help reduce information asymmetry between companies (agents), owners (principals), and parties outside the company through quality financial reports. Financial statements that have been examined by an independent party (auditor) can be used as an independent information base in describing the actual financial condition of the company.

2.3. Audit

Auditing is a systematic process for obtaining and evaluating evidence objectively regarding statements of conformity between statements with established criteria and delivery of results to interested users (Mulyadi, 2002). The definition of auditing according to Arens and Loebbecke (2009) is: a process of collecting and evaluating evidence about information that can be measured regarding an economic entity carried out by a competent and independent person to be able to determine and report conformity of information to established criteria. Auditing should be done by an independent and competent person.

2.4. Audit Quality

Quality is a component of professionalism that must be maintained by a professional Public Accountant. Independent here means that public accountants prioritize the public interest over the interests of management or the interests of the auditor itself in making audited reports. Therefore, the auditor's partiality in this matter should be prioritized on the public interest (IAI, 2001). De Angelo (1981) defines audit quality as a possibility that the auditor will detect and report material misstatements. The reporting process carried out by the auditor depends on the auditor's independence to disclose the violation.

2.5. Opinion of Going Concern

In this study, going concern opinion is used as a proxy for Audit Quality variables. Going Concern can be defined as the survival of an entity (Novalinda, 2012). In accounting, going concern means the company's ability to maintain its business activities and continue to function as a business entity (Wikipedia, 2012). An audit report with an unqualified opinion as the core of the information communicated always rests on the assumption that the company fulfills the requirements as a going concern entity. Compliance or otherwise the inadequacy of the going concern principle will influence the opinion that must be given by the auditor. The difference in auditor opinion that must be given will require changes in the auditor's report format. The auditor must make modifications to the auditor's report issued (Novalinda, 2012).

2.6. Audit Engagement Period

The audit engagement period is the length of the working relationship between the auditor and his client in terms of checking financial statements. In Indonesia, the provisions regarding the audit engagement period are stipulated in the Decree of the Minister of Finance of the Republic of Indonesia Number 359 / KMK.06 / 2003 article 2, namely the term of office for KAP for a maximum of 5 consecutive years. The Ministerial Decree also limits the auditor's tenure for 3 consecutive years to the same client. In 2008, the latest regulation was issued, namely the Regulation of the Minister of Finance of the Republic of Indonesia Number 17 / PMK.01 / 2008 article 3, namely the provision of general audit services for financial statements of an entity carried out by KAP for a maximum of 6 years and for auditors at the most 3 years in a row. This decision is intended to prevent fraud from occurring because of the closeness between the auditor and the client. This also allows the auditor to lose his independence.

2.7. Audit Rotation

The existence of regulations governing audit rotation causes a limitation in the length of the audit engagement so that the switching auditor will occur in a mandatory manner. Auditor rotation can be divided into 2, namely auditor rotation that occurs because of mandatory government regulations and auditor rotation that occur due to other reasons beyond regulation (voluntary). Companies carry out mandatory audit rotation generally due to obligations or regulations that limit the auditor's tenure. Whereas the Company rotates voluntary audits when the industry is competing in hiring auditors who have a high reputation with the aim of increasing company value in the eyes of users of financial statements. This research focuses on the study of changes in Public Accountants (PA).

2.8. Firm Size

One indicator related to audit quality is the size of the firm. Firm size can be assessed from several aspects, namely firm size can be assessed from total assets, total sales, market capitalization, number of workers, and so on. The greater the value, the greater the firm size. According to (Nasser, 2006), the firm size continues to increase and the possibility of the number of agency conflicts also increases so that it can increase the demand for differences in auditor quality.

2.9. Audit Committee

According to the decision of Bapepam-LK Number IX.1.5 No. Kep-643 / BL / 2012 understanding of the Audit Committee, namely: Audit Committee is a committee formed by and responsible to the Board of Commissioners in helping carry out the duties and functions of the Board of Commissioners. The audit committee acts independently in carrying out its duties and responsibilities. The audit committee consists of at least three members who are from Independent Commissioners and Outside Parties of Issuers or Public Companies. Independent Commissioners are members of the Board of Commissioners who come from outside the company who meet the requirements, namely not a person who works and is responsible for leading and supervising company activities, does not own shares directly or indirectly with the company, has no affiliation with the company (members of Board Commissioners, members of the Board of Directors, and the Company's Major Shareholders), and have no business relationship with the company.

3. Research Method

This research is a causal-comparative study. According to Suryabrata (2012: 84) causal-comparative research is research to investigate the possibility of causal relationships in a way based on observing the consequences of existing search for factors that might be the cause through certain data. The characteristics of comparative causal research are *ex post facto*, meaning that the data is collected after all the events that have become problems have occurred (passed). The existence of dependent variables, testing data through events in the past to look for causes, mutual relations, and meaning.

3.1. Research sites

This research was conducted at manufacturing sector companies listed on the Indonesia Stock Exchange in the period of the 2011-2016 research period and data was obtained by downloading all company annual reports published on the Indonesia Stock Exchange website (www.idx.co.id).

3.2. Population and Samples

The population in this study were manufacturing companies in the observation years of 2011, 2012, 2013, 2014, 2015, 2016 total is 149 companies. The selection and collection of sample companies needed in this study was conducted using a purposive sampling approach.

3.3. Method of collecting data

The data collection method used is by using secondary data collection methods. Secondary data is a source of data obtained by researchers indirectly through intermediary media (obtained and recorded by other parties).

3.4. Data analysis technique

In this study, the data analysis method used was the statistical analysis method using SPSS data processing program (Statistical Package for Social Science). The data analysis method used is multiple regression analysis. After that data processing is done by testing the data normality, testing the classical assumptions and testing hypotheses.

4. Result and Discussion

Descriptive Statistical Analysis Test Results

Descriptive Statistics Table of Audit Engagement Period, Firm Size, and Audit Committee

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Audit engagement period (X1)	168	1.00	6.00	2.7976	1.65084
Firm size (X3)	168	24.54	34.08	28.6222	1.93334
Audit committee (Z)	168	.33	1.33	.7047	.30414
Valid N (listwise)	168				

Based on the table, it is known that the minimum value of the audit engagement period is 1 and the maximum value is 6. While the average and standard deviation of the audit engagement period are 2.7976 and 1.65084. The minimum value of the firm size is 24.54 and the maximum value is 34.08. While the average and standard deviations of firm sizes are 28.6222 and 1.93334. The minimum value of the audit committee is 0.33 and the maximum value is 1.33. While the average and standard deviations of the audit committees are 0.7074 and 0.30414.

Frequency and Percentage Distribution Tables based on Audit Rotation

Audit Rotation (X2)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not Rotating Public Accountants	92	54.8	54.8	54.8
Rotating Public Accountants	76	45.2	45.2	100.0
Total	168	100.0	100.0	

Based on the table, from 2011-2016, 92 companies (54.8%) did not make changes to public accountants, while as many as 76 companies (45.2%) made changes to public accountants.

Frequency and Percentage Distribution Tables based on Audit Quality

Audit Quality (Y)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Doesn't accept Opini Going Concern	88	52.4	52.4	52.4
Accept Going Concern	80	47.6	47.6	100.0
Total	168	100.0	100.0	

Based on the Table, from 2011-2016, as many as 88 companies (52.4%) did not receive the going concern opinion, while as many as 80 companies (47.6%) received going concern opinion.

Multicollinearity Test

Regression that said as a good method is a regression with no symptoms of a strong correlation between the independent variables. Multicollinearity is a situation where there is a correlation between independent variables with one another.

Multicollinearity Test Table with Correlation Matrix

Correlation matrix	X1	X2	X3
X1	1.000	-.067	-.104
X2	-.067	1.000	.002
X3	-.104	.002	1.000

Symptoms of multicollinearity occur when the correlation value between independent variables is greater than 0.90 (Ghozali, 2013). Based on these results it can be concluded that it escapes the symptoms of multicollinearity.

Testing the Suitability of the Logistic Regression Model for Data with -2log-likelihood and Hosmer-Lemeshow

In logical regression, the results of the -2log-likelihood statistical difference between logistic regression models using a set of independent variables and simpler models can be used to determine whether the logistic regression model using a set of independent variables is better in terms of matching or adjust data compared to a simple logistic regression model. If the -2log-likelihood statistic in the logistic regression model that uses a set of independent variables is smaller than the simpler model, then the logistic regression model that uses a set of independent variables is better at matching data than the simpler model.

Value -2 Log likelihood Table (-2 LL Initial)

Iteration History^{a,b,c}

Iteration		-2 Log likelihood	Coefficients	
			Constant	
Step 0	1	232.516		-.095
	2	232.516		-.095

Value -2 Log likelihood Table (-2 LL Final)

Iteration History^{a,b,c,d}

Iteration		-2 Log likelihood	Coefficients			
			Constant	X1	X2	X3
Step 1	1	219.922	-1.967	.305	-.329	.041
	2	219.887	-2.126	.321	-.356	.045
	3	219.887	-2.127	.321	-.356	.045
	4	219.887	-2.127	.321	-.356	.045

Model Fit Testing Table

-2Loglikelihood Valie		Information
Initial	Final	
232,516	219,887	The decrease in the value between the initial-2LL (initial-2LL function) and the -2LL value in the next step (-2LL end) indicates that the model is hypothesized to be fit with the data (Ghozali, 2013). Decreasing the value of -2 log likelihood indicates that this research model is declared fit, meaning that the addition of independent variables namely the audit engagement period, audit rotation, and company size into the logistic model will improve the fit model in this study (fit or feasible models).

Based on the table testing the fit model, a decrease in the value of -2 log likelihood indicates that this research model is declared fit, meaning that the addition of independent variables namely audit engagement period, audit rotation, and firm size into the logistic model will improve the fit model in this study (model fit or decent).

Hosmer and Lemeshow Test Tables

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	6.935	8	.544

Based on the Hosmer and Lemeshow test table, it is known the Sig. or probability of 0.544. Note that because the probability value, which is 0.544 is greater than the significance level, which is 0.05, the overall model meets the model's eligibility requirements.

Coefficient of Determination (Nagelkerke R Square)

In logistic regression, Nagelkerke's R_N^2 statistics can be used to measure the ability of the logistic regression model to match or adjust data. In other words, the statistical value of Nagelkerke's R_N^2 can be interpreted as a value that measures the ability of independent variables to explain or explain non-independent variables.

**Nagelkerke R Square Table
Model Summary**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	219.887 ^a	.072	.097

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

Based on the table above, the Nagelkerke R Square statistical value is 0.097. The value is interpreted as the ability of the audit engagement period, audit rotation, and company size in influencing audit quality by 9.7%, the remaining 90.3% is explained by variables or other factors.

Test of Significance of Partial Influence (Wald Test)

In linear regression, both simple and multiple, the t test is used to test the significance of partial influences. In logistic regression, the test of significance of partial influence can be tested by the Wald test. In the Wald test, the statistics tested were statistical Wald (Wald statistics). Statistical values from the Wald test are chi-square distributions.

**Test of Significance of Partial Influence Test
Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a X1	.321	.101	10.092	1	.001	1.379
X2	-.356	.324	1.208	1	.272	.700
X3	.045	.084	.289	1	.591	1.046
Constant	-2.127	2.400	.786	1	.375	.119

a. Variable(s) entered on step 1: X1, X2, X3.

Based on the Table obtained the logistic regression equation as follows.

$$\ln\left(\frac{p}{1-p}\right) = -2,127 + 0,321X_1 - 0,356X_2 + 0,045X_3 + e$$

Based on Table, it is known:

- a. The coefficient value of the audit engagement period is 0.321, which is positive, then the audit engagement period has a positive effect on audit quality. The value of Sig is known. from the audit engagement period is $0.001 < 0.05$, then the audit engagement period has a significant effect on audit quality.
- b. The coefficient of audit rotation is -0.356, which is negative, then audit rotation has a negative effect on audit quality. The value of Sig is known. from audit rotation is $0.272 > 0.05$, then audit rotation does not have a significant effect on audit quality.
- c. The coefficient of the firm size is 0.045, which is positive, so the firm size has a positive effect on audit quality. The value of Sig is known. from the firm size is $0.591 > 0.05$, then firm size does not have a significant effect on audit quality.

Audit Committee Significance Test in Moderating the Effect of Audit Engagement Period, Audit Rotation, and Firm Size on Audit Quality

Audit Committee Significance Table in Moderating the Effect of Audit Engagement Period on Audit Quality

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.596	.146		4.091	.000
	Audit engagement period (X1)	-.053	.050	-.175	-1.062	.290
	Audit Committee (Z)	-.512	.193	-.311	-2.650	.009
	Interaction_X1Z	.188	.064	.577	2.955	.004

a. Dependent Variable: Audit Quality (Y)

Based on the table, the interaction test moderation equation is obtained as follows.

$$Y = 0,596 - 0,053X_1 - 0,512Z + 0,188X_1Z + e$$

It is known that the Sig value of the interaction_ZX1 is $0.004 < 0.05$, then the audit committee is significant in moderating the effect of the audit engagement period on audit quality.

Audit Committee Significance Table in Moderating the Effects of Rotational Audit on Audit Quality

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.432	.133		3.243	.001
Audit Rotation (X2)	.144	.197	.144	.732	.465
Audit Committee (Z)	.110	.171	.067	.645	.520
interaction_X2Z	-.316	.257	-.251	-1.226	.222

a. Dependent Variable: Audit Quality (Y)

Based on the table, the interaction test moderation equation is obtained as follows.

$$Y = 0,432 + 0,144X_2 + 0,110Z - 0,316X_2Z + e$$

It is known that the Sig of interaction_ZX2 is $0.222 > 0.05$, the audit committee is not significant in moderating the effect of audit rotation on audit quality.

Audit Committee Significance Table in Moderating the Effect of Firm Size on audit quality

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.818	1.772		-1.026	.306
Firm Size (X3)	.083	.062	.319	1.327	.186
Audit Committee (Z)	2.150	2.382	1.305	.902	.368
interaction_X3Z	-.078	.082	-1.486	-.949	.344

a. Dependent Variable: Audit Quality (Y)

Based on the table, the interaction test moderation equation is obtained as follows.

$$Y = -1,818 + 0,083X_3 + 2,150Z - 0,078X_3Z + e$$

It is known that the Sig value of interaction_ZX3 is $0.344 > 0.05$, then the audit committee is not significant in moderating the effect of firm size on audit quality.

1. Audit Engagement Period

The coefficient value of the audit engagement period is 0.321, which is positive, then the audit engagement period has a positive effect on audit quality. The value of Sig is known. from the audit engagement period is $0.001 < 0.05$, then the audit engagement period has a significant effect on audit quality. This means that the increasing period of engagement of the Public Accountant carrying out an audit of his clients will increase the audit quality, in this case the time period for the engagement does not exceed the stipulated deadline. The limitation of the engagement period regulated by the government is to maintain auditor independence. The engagement period that is too long can make the closeness between the auditor and management so that it can reduce auditor independence.

2. Audit Rotation

The coefficient of audit rotation is -0.356, which is negative, then audit rotation has a negative effect on audit quality. The value of Sig is known. from audit rotation is $0.272 > 0.05$, then audit rotation does not have a significant effect on audit quality. This means that there is no effect of audit rotation on audit quality which is proxied by going concern opinion. The rotation of the Public Accountant is expected to bring a new perspective when conducting an audit, so that the audit is expected to be more objective. Partner Auditor rotation needs to be done, considering that an auditor must be more objective when conducting an audit, because the longer the assignment of an auditor will be closer to the client, the more the auditor's independence will be lost.

3. Firm Size

The coefficient of the firm size is 0.045, which is positive, so the size of the firm has a positive effect on audit quality. The value of Sig is known. from the firm size is $0.591 > 0.05$, then firm size does not have a significant effect on audit quality. From the perspective of perceived quality when small companies gain the trust of users of financial statements, that trust is not only able to promote their investment but it will also make their company more public and investors more attention (Jackson, 2008). For large companies that have become the spotlight and public attention, this level of trust only helps in promoting their investment.

4. The period of the audit engagement with the audit committee as moderating

The value of Sig from the audit committee interaction with the audit engagement period is $0.004 < 0.05$, the audit committee is significant in moderating the effect of the audit engagement period on audit quality. These results support the hypothesis which states that the existence of an audit committee is able to moderate the influence of the audit engagement period on audit quality. The test results show that the audit committee as a moderating variable strengthens the relationship between tenure and audit quality. These results can be interpreted that the higher percentage comparison between audit committees and commissioners leads to a stronger relationship between audit engagement periods and audit quality.

5. Audit rotation with the audit committee as moderating

It is known that the Sig value of the audit committee interaction with audit rotation is $0.222 > 0.05$, then the audit committee is not significant in moderating the effect of audit rotation on audit quality. The audit committee does not moderate the relationship between audit rotation to audit quality or it can be stated that the audit committee variable does not strengthen or weaken the rotation audit relationship with audit quality. Although the audit committee has carried out its duties, namely overseeing the compliance of auditors and management of the Minister of Finance Regulation Number 17 / PMK.01 / 2008. But in this study, the role of the audit committee did not affect audit rotation on audit quality, this was because the quality of the auditors was indeed good.

6. Firm size with audit committee as moderating

It is known that the value of Sig from the interaction of the audit committee with company size is $0.344 > 0.05$, then the audit committee is not significant in moderating the effect of firm size on audit quality. The absence of the influence of the moderation of the existence of the audit committee with the effect of firm size on the provision of going concern opinion can be caused by the absence of significant differences in the composition of audit committee members in both small companies and large companies.

5. Conclusion and Suggestion

5.1. Conclusion

Based on the results of data analysis and discussion in the previous chapter, this study produces several conclusions including the following:

1. Based on the test results it can be concluded that the audit engagement period has a significant effect on audit quality at manufacturing companies listed on the Stock Exchange in 2011-2016.
2. Based on the test results it can be concluded that audit rotation does not have a significant effect on audit quality in manufacturing companies listed on the Stock Exchange in 2011-2016.
3. Based on the test results it can be concluded that firm size does not have a significant effect on audit quality in manufacturing companies listed on the Stock Exchange in 2011-2016.
4. Based on the test results it can be concluded that the interaction of the audit committee with the audit engagement period is able to moderate the audit quality of the manufacturing companies listed on the Stock Exchange in 2011-2016.
5. Based on the test results it can be concluded that the interaction of the audit committee with audit rotation is not able to moderate the audit quality of the manufacturing companies listed on the Stock Exchange in 2011-2016.
6. Based on the test results it can be concluded that the interaction of the audit committee with firm size is not able to moderate the audit quality of the manufacturing companies listed on the Stock Exchange in 2011-2016.

5.2. Research Limitations

Weaknesses or shortcomings found after data analysis and interpretation are as follows:

1. Short research period. The period observed in this study was only 6 (five) years, starting from 2011 to 2016.
2. This study only uses the independent variable audit engagement period, audit rotation, and firm size with the possibility that there are still many other independent variables that influence audit quality.

5.3. Suggestion

To add a reference to further research, there are several suggestions put forward as follows:

1. Further research needs to consider a broader sample. This is so that the conclusions generated from the researcher have a broader scope.
2. Researchers are then advised to add longer periodization of data to make predictions.
3. Further researchers are advised to look at factors that influence other audit quality, such as the auditor's ability in the audit process, the reputation of the public accounting firm, the level of auditor independence, audit capacity stress, and so on.
4. If the next researcher wants to develop this research, it might be possible to change the calculation method of each of these variables with other calculations that might be more accurate.

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