Does Audit Tenure, and Audit Firm Industry Specialization Influence Audit Quality?: Evidence From The Manufacturing Industry in Indonesia

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Abstract: Audit quality is influenced by the independence and competence of the audit firm and also an auditor. This research aims to analyze the impact of audit firm tenure, auditor tenure, and audit firm industry specialization towards audit quality. Long audit tenure of both, auditor and audit firm, merely results in a deeper understanding about the client or entity, but on the other hand, also threatens auditor independence. Audit firm industry specialization is appointed to be one of the factors increasing audit quality in terms of industry-specific knowledge owned by the audit firm. This research uses 36 manufacturing entities in financial distress listed on the Indonesian Stock Exchange in the year of 2004-2010. By using the propensity to issue a going-concern opinion as a proxy for audit quality, this research shows that audit firm tenure and audit firm industry specialization has no significant influence on audit quality. Nevertheless, auditor tenure has a positive and significant effect on audit quality.

Keywords: audit quality, audit firm tenure, auditor tenure, audit firm industry specialization, independency, audit competence


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Keywords: kualitas audit, audit tenurial perusahaan, masa kerja auditor, spesialisasi industri perusahaan audit, independensi, kompetensi audit

1. Introduction

Accounting scandals in prevailing companies such as Enron and Worldcom in the United States raise investors and other stakeholder concerns about the reliability of audit opinions given by audit firms and auditors. The involvement of audit firm Arthur Andersen in the scandal, by failing to detect Enron's accounting mistreatments, raises questions about audit quality. Audit quality is defined as the ability of auditors to detect and report material misstatements within financial reports (DeAngelo, 1981). Such ability is presented through auditor reports and their audit opinion. In providing a reliable opinion, report, and disclosure of information in light of the company's condition, in other words, high audit quality, auditors are required to answer to characteristics such as independency and as well as sufficient technical ability and knowledge (Chadegani, 2011).

Independency is crucial in facing an array of threats to the auditor profession, such as familiarity threats emerging from the close relationship developed with the auditee, primarily triggered by the period and length of involvement with the particular client. Based on the importance of independence to increase audit quality, the Sarbanes-Oxley Act has been introduced and enacted in July 2002 in the United States. This regulation required the auditor to be rotated every 5 years. Similarly, in September 2002, Indonesia has adapted such regulation following the negative market perception on audit quality as a result of the degradation of auditor independence after the Asian crisis in 1997-1998 (Siregar et al., 2012). The Finance Minister Regulation Number 17/PMK.01/2008 regulates that audit firm and auditor should be rotated or changed every 6 years and 3 years respectively.

Carey and Simnett (2006) study support the Sarbanes-Oxley Act concluding that audit services given without limitations lead to lower audit quality, resulting from a lack of auditor independence. Restriction on auditor tenure and audit firm rotation effectively affects the confidence in the regulatory system as studied by Healey dan
Kim (2003) in the context of Italy. In line with Healey and Kim, Chi et al. (2005) also found that with the implementation on such regulations, market perception on audit quality is positive, indicating an increase of independence in appearance. This should create trust in financial markets as well.

Yardly et al. (1992) as cited by Reisch (2000) stated that various factors might influence audit quality aside from independence, which is the ability and also knowledge of auditors. Libby and Frederick (1990) study’s result found that more experienced auditors have a deeper understanding about accounting or financial misconduct, underpinning the notion that audit quality increases in line with increased auditor expertise in a particular industry.

Audit quality will be especially important to market that is quite volatile. In a volatile market, such as the manufacturing industry, information provided by audit reports and opinions are used frequently to ensure the operations and going concern of a company. Indonesia’s manufacturing industry is still strengthening as an implication of the 1998 economic crisis. This is indicated by the growth in exports of manufacturing industries and Indonesia’s economic growth itself, which increased drastically in 2008 until 2011, reaching 6.46% in 2011 (Booklet BPS, 2012). Considering these conditions, this study aims to seek empirical evidence whether audit firm tenure, auditor tenure, and audit firm industry specialization affect audit quality.

Researchers have supported the idea that audit quality is a multidimensional concept, and the direct measurement of such quality is difficult to find (Reisch, 2000). DeAngelo (1981) stated that the issuance of a going-concern opinion is considered one way to approach audit quality. DeFond et al. (2002) suggested that the willingness of the auditor to surface a possible doubt on the going concern of the company is an indicator that directly points to auditor's independence, which in turn signals increased audit quality. A going concern opinion requires auditors to evaluate the performance of the company objectively and withstand the pressure from the client (DeFond et al., 2002)
2. Theoretical Framework and Hypothesis Development

2.1 Agency Theory and Auditor Independence

The relationship between principal and agent to achieve a specific goal within the interest of the principal is a principal-agent relationship. This particular relationship creates a conflict of interests, and if not regulated may increase the possibility of asymmetric information. The problem arises when the agent, given the authority to act on behalf of the principal but act within their self-interest (Bebchuk dan Fried, 2004). The principal-agent relationship depicts the relation of owners or shareholders (principal) and the management (agent).

Motivational differences and asymmetrical information may create distrust of principal towards the agent (ICAEW, 2005). The audit, in this case, plays a role in decreasing asymmetrical information through mechanisms to control the agent's behavior. Therefore, the audit is an effective means in reducing agency cost and hidden information (Almutairi et al., 2009), through the delivery of assurance service. Assurance is the most prevalent service given by auditor and audit firms to ensure correct decision-making processes. Thus, audited financial statements have much higher trustworthiness compared to unaudited financial statements (Munawir, 2008).

As audit is positioned as an essential role to reduce asymmetrical information and agency cost, auditing standards have to be in place to assure correct auditing process. Generally Accepted Auditing Standards (GAAS) has identified the auditing standards into 3 categories, which will be built on the performance quality and objectives to be met during the audit process. The general standard includes requirements and qualifications for a public accountant, among others auditor's professional expertise and independence or free from conflict of interest. Independence is classified into 2 types, (1) independent. The auditor has to be objective and exhibit integrity; (2) independent in appearance, where the auditor is not involved in any financial interest or business relations with the client.

Furthermore, the Professional Standard for Public Accountants (SPAP) regulates the ethical codes involved. (1) Integrity, which translates as keep professional relations in
conducting the audit; (2) Objectivity, which is needed not to let subjectivity and conflict of interest influence professional judgement; (3) Competence and due professional care; (4) Confidentiality; (5) Professional behavior. These ethical codes are prone to threats that auditors face in their working environment and situations with regards to the relationship with the client. There are 5 classifications of various situations that may undermine the independence and ethical stand of the auditor which are self-interest threat, self-review threat, advocacy threat, familiarity threat, and intimidation threat.

In terms of the working relationship between auditors and clients most specifically advocacy threats, familiarity threats, and intimidation threats are thought to be present and becoming more prevalent in times of longer audit engagements with the client (Carey and Simnett, 2006). However, the studies on this matter are conflicting, since longer audit engagements may also provide the auditor with the necessary understanding on a client’s business environment and can ensure higher audit quality (Jackson et al., 2008). Nevertheless, the audit standards provide auditors with the specific qualities required. Performance that complies with the standards has positive implications on audit quality.

2.2 Audit Quality

DeAngelo (1981) defines audit quality as a probability that auditors will find and report material misstatements or fraud found within the financial statements of their clients. In accordance to DeAngelo (1981), Manita and Elommal’s (2010) also suggest that audit quality is determined by the auditor's professional capability and expertise to detect material misstatements (detection quality), emphasize, and report the findings throughout the audit process (discovery quality). Palmrose (1987) in Chadegani (2011) point that in light of audit as a tool for assurance, audit quality can be identified as the probability that financial reports are free from material misstatements that can decrease assurance.

Audit quality requires a multidimensional measure, therefore considering the different factors that might determine the matter is proven to be difficult. Researches
have studied audit quality through various approaches and can be grouped into two approaches: supply and demand of audit quality (Reisch, 2000). Researches focusing on the supply side have been concerned with auditor qualities and requirements to provide reliable audit opinions. Whereas researches on the side of demand point the focus on the factors that may affect audited financial statement users, such as creditors, shareholders, and regulators, in their decision making. Berdard and Michelene (1993) suggested that the evaluation of decision making can take two approaches, which are result and process oriented. In light of Berdard and Michelene (1993) study, Francis (2004) indicated that evaluation on audit quality could be measured from audit results such as audit opinion and financial statement. Hence, research on both ends, auditor's expertise and qualities, as well as effective decision-making, need to be conducted through the assessments of audit opinion and audited financial statements.

2.3 Audit Tenure and Audit Quality

Audit tenure is the number of years or length of time a particular audit partner or audit firm has performed an audit in a specific company. Therefore, it is calculated based on the number of years audit services have been performed by the auditor consecutively. In Indonesia, Minister of Finance decree KMK No. 423/KMK.06/2002 and Minister of Finance regulation PMK No. 17/PMK.01/2008 has regulated mandatory audit partner rotation every three consecutive years and audit firm rotation for a maximum of six consecutive years in a single entity.

In Jackson et al. (2008) model, the audit partner and audit firm tenure have been addressed by the number of consecutive years audit services have been given in an incumbent manner. Similarly, Siregar et al. (2012) defined tenure as the amount derived from the calculation of years the auditors have been giving audit services to the same entity. Regulations on the length of audit services are still controversial until this date. Effectiveness is doubted but also supported by various researchers. Regulation on audit tenure has been imposed in several countries in Asian and Europe after the fall of Enron and WorldCom by the end of 2002.
Accounting scandals arising in two of the biggest companies in the world, calls for a more rigid regulation to protect stakeholders interests. Under the 5 threats that may impede auditor independence, the auditor-client relationship can be classified as a familiarity threat. Mautz and Sharaf (1961) in Carey and Simnett (2006) agree that threats are imposed in a covert and even overt manner. These threats are present in reporting processes and also in judgments during the audit process (Dopuch et al. (2003) and Bazerman et al. (1997)). Casterella et al. (2002) studied the relation between audit service provision of the audit firm and fraudulent financial reporting. They found that there is a negative correlation between audit tenure and fraud scandals. The change of audit firm affects a more innovative and efficient audit (Crabtree et al., 2006). However, other researches show opposite empirical evidence. Myers et al. (2003) suggest that at the beginning of the audit service provision will need more help from the management, for knowledge of the characteristics and environment of the company. Therefore, the independence of the auditor with a shorter tenure might be questionable.

In conducting audit service, audit firm assign an audit partner (auditor) to undertake the audit process. Audit quality, therefore, may also be influenced by individual or team of auditor's judgment and evaluation. Yazawa (2011) in the study on auditor tenure and auditor rotation in Japan companies found that tenure of auditors following Japan regulations has positive effects on audit quality. Auditor rotations in non-Big4 companies have a much higher influence since there is a higher dependency of the business on auditor capabilities and expertise. Carcello et al. (1992) and Shroeder et al. (1986) in Chadegani (2011) studied the importance of auditor or team of auditor's characteristics; their results propose that characteristics of auditors are generally important about audit quality. Influence of audit tenure has been studied in some settings and provide conflicting results. Jackson et al. (2008) investigate the relationship between audit firm tenure and audit quality in

Australian companies using two main proxies for audit quality, which are going concern opinion and discretionary accruals. Their research shows that a positive relationship between audit quality and audit tenure exists. The longer the time spent in
providing audit services, the higher the audit quality. Carey and Simnett (2006) findings contradict with Jackson et al. (2008), where longer audit tenure will decrease auditor’s tendency to give going concern opinion to companies under pressure, showing a decrease in audit quality. This situation is prevalent in non-Big 6 audit firms. Carcello and Nagy (2004) suggest an indirect relationship between audit firm tenure and fraudulent financial reporting practices. Fraud is frequently met at the beginning of an engagement and declines with the length of the auditor-client relationship. The discussion in this matter supports the first and second hypothesis, which are:

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

**H2:** Audit partner tenure has a significant and positive influence on audit quality

### 2.4 Audit Firm Industry Specialization and Audit Quality

DeAngelo (1981) identified that audit quality is influenced by two factors: auditor competence and independence. To measure competence is through industry-specific knowledge (DeFeond et al., 2000). Industry-specific knowledge refers to the capability of auditors in the evaluation of industry conditions and its effect on the client's businesses. Capabilities will increase with the professional experience of the auditors in providing audit service to other companies within the same industry. This is evident by the accuracy in the detection of misstatements, quality of risk valuations, and the choice of tests and time allocation of audit work (Minutti-Meza, 2010).

Chan et al. (2006) state that auditor needs to conform to client characteristics to fit the client's needs. The industry-specific knowledge enables the auditor to show a differentiation strategy in auditing to a relatively higher proportion of clients with similar characteristics within the same industry (Dunn and Mayhew, 2004). For these reasons, industry specialization has been frequently used as a proxy for audit quality. However, contradiction lay within the empirical evidence provided. Schauer (2002) research, using the bid-ask spread as a proxy of audit quality, found evidence that asymmetric information is lower when audited by audit firms with industry-specific knowledge compared to firms without industry specialization. Similar to that finding,
Dunn and Mayhew (2004) propose that audit firms with industry specialization encourage companies in losing regulate environments to provide a higher quality of disclosure, although not applicable to companies in tightly regulated conditions. However, Minutti-Meza (2010) found differing empirical evidence that industry specialization has no impact on audit quality of companies using specialized and non-specialized audit firms. To find more evidence on this matter, the third hypothesis is:

H3: Audit firm industry specialization has a positive influence on audit quality

3. Methodology

3.1 Data Collection

The sample for this study uses financial and audit data from manufacturing companies listed in the Indonesian Stock Exchange between 2004 – 2010. The observation begins with the year 2004 to study audit tenure since in the year 2002 and 2003 regulations on mandatory audit partner and audit firm rotation have been signed. Both years are considered as probation years, therefore unreliable to be included in the sample. Data on the sample are gathered from the Indonesian Stock Exchange, IAPI, and the Indonesian Capital Market Directory.

3.2 Research Method

To derive conclusions and test whether there is a positive relationship between audit partner tenure, audit firm tenure, audit firm specialization, and audit quality, this research follows a cross-sectional approach. The logistic regression is utilized and tested through the two-tailed test. The model used in this study modifies the model used in Jackson et al. (2008) to a logistic regression model, as stated below:

\[
\ln \frac{AQ}{1-AQ} = \alpha + \beta_1 \text{TENKAP} + \beta_2 \text{TENAD} + \beta_3 \text{SPEC} + \beta_4 \text{SIZE} + \beta_5 \text{FRISK} + \varepsilon
\]

The independent variable is AQ which is the audit quality. Whereas independent variables are TENKAP which is the amount of years an audit firm has been engaged in an audit service with one particular company in a continuous manner, TENAD which
is audit partner tenure calculated by the amount of years an audit partner has been engaged with the same company, SPEC which is audit firm specialization which is based on the market share approach. Audit firm specialization influences and predict audit quality through the possession of client-specific knowledge. Such expertise ensures auditors quality in conducting and reporting audit. Audit firm specialization is measured through the market share approach (Gul et al., 2009). Primadita and Fitriany (2012) suggest that calculation of the market share should be based on the proportion of client's total asset to a total asset of all companies within the same industry. This is in line with the notion that audit firm specialization is a result of the experience in conducting an audit in a higher volume of the business. Audit firms are deemed to have specialization if the market share is higher than 20% (Carcello and Nagy, 2004). This study will assign dummy variables, 1 if the audit firm is specialized, and 0 if otherwise.

Two control variables are included in this model. First is SIZE which is the natural log of total assets. The size of a company is argued to possibly affect the need for capital, pressure from shareholders and investment analysts for increased disclosure, tighter control from regulators, cost structure complexity, and demand for wider disclosure. Second is FRISK which is the financial risk faced by companies and calculated through Zmijewski’s (1984) financial distress score. This control variable is used because clients with a higher possibility of bankruptcy will have a higher propensity to be given a going concern opinion (Jackson et al., 2008).

To measure audit quality, the propensity of auditors to issue a going-concern opinion for companies in financial distress is utilized. Audit quality is defined as the ability of auditors to detect and report any material misstatements. Referring to its multi-faceted nature, audit quality can be measured in some ways. Most used proxies are bid-ask spread and discretionary accruals. However, the propensity to issue going-concern opinion comes third, although perceived difficult to relate to audit quality. Nevertheless, it has gained support from various literature such as DeFond (2002), Carey and Simnett (2006), Francis and Yu (2009), and Many et al. (2008). The issuance of a going concern opinion by the auditor depicts a high level of auditor
independence because auditors need to exercise their expertise and professional behavior to withstand pressure from clients to issue a “clean opinion” (Carey and Simnett, 2006). Therefore, the sample is restricted only to companies experiencing financial distress in more than 2 year period.

Initially, 156 manufacturing companies were listed within the Indonesian Stock Exchange. However, companies which listed and delisted within the period of observation and which did not disclose complete audited financial statements were excluded. Then, the restriction was applied to the sample, where financially distressed companies were taken as samples. In the end, a total of 36 companies were observed within 6 consecutive years from 2004 – 2010.

4. Results, Analysis, and Discussion

The descriptive statistics from the data gathered (table 1) show the characteristics distribution of the data. The average audit firm tenure (TENKAP) is 2.81 years, and audit partner tenure (TENAD) reaches only 1.86 years. Observation on the data unfolds that the majority of companies perform rotations less than the average audit firm tenure. This is also true for audit partner rotation, where the majority of companies do the rotations less than the mandatory rule of 3 years. Mandatory rotation rules obliged by the Indonesian government, based on the average measures of both audit firm tenure and audit partner tenure, are followed by companies. The maximum length of service provision is 6 years for audit firms, and 3 years for audit partner. This shows that all companies have followed the regulation for maximum mandatory audit partner and audit firm rotation within the sample.

Table 1.
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AQ</td>
<td>0</td>
<td>1</td>
<td>0.56</td>
<td>0.504</td>
</tr>
<tr>
<td>TENKAP</td>
<td>1</td>
<td>6</td>
<td>2.81</td>
<td>1.818</td>
</tr>
</tbody>
</table>
Descriptive statistics for audit quality (AQ) shows a mean of 0.56 meaning that the majority of the sample has received a going concern opinion. Audit firm industry specialization (SPEC) descriptive statistics indicate that the average is 0.44 which suggests that the majority of companies have been audited by specialized audit firms based on the market share approach.

Control variables descriptive statistics exhibit that size (SIZE) on average is 27,142. It is also observed within the data that less than half of the sample size have less than the average size of the firms. The bankruptcy risk score computed using the Zmijewski (1984) score show that the average is 0.248. A higher score indicates a higher probability of bankruptcy.

Table 2.
Logistics Regression Results for Audit Quality Model

<table>
<thead>
<tr>
<th>Variabel</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TENKAP</td>
<td>0.049</td>
<td>0.297</td>
<td>0.027</td>
<td>1</td>
<td>0.868</td>
<td>1.051</td>
</tr>
<tr>
<td>TENAD</td>
<td>1.450</td>
<td>0.764</td>
<td>3.598</td>
<td>1</td>
<td>0.058</td>
<td>4.262</td>
</tr>
<tr>
<td>SPEC</td>
<td>-1.656</td>
<td>1.106</td>
<td>2.244</td>
<td>1</td>
<td>0.134</td>
<td>0.191</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.658</td>
<td>0.456</td>
<td>2.080</td>
<td>1</td>
<td>0.149</td>
<td>1.931</td>
</tr>
<tr>
<td>FRISK</td>
<td>0.638</td>
<td>0.284</td>
<td>5.036</td>
<td>1</td>
<td>0.025</td>
<td>1.892</td>
</tr>
<tr>
<td>Constant</td>
<td>-19.417</td>
<td>12.717</td>
<td>2.331</td>
<td>1</td>
<td>0.127</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The model can predict 80.6% and fits the observed data, where the variables included in the model can explain 50.7% variability of the dependent variable. Table 2 shows the result of the logistic regression model. Wald's significance test exhibits the partial correlation between the dependent and independent variable. The two-tailed test is utilized based on a 10% level of significance. The coefficient for audit firm
tenure (TENKAP) indicated a positive sign and proved insignificant at either 5% or 10%. The Exp (B) value is very close to 1 showing that longer or shorter audit firm tenure does not result in any difference of the audit quality. Audit partner tenure (TENAD) shows a positive coefficient and significant for the level of 10%. Therefore, it predicts the same situation with the hypothesis. The Exp (B) value of 4,262 suggests that if the audit partner tenure is longer, it will increase the audit quality of 4,262 times compared to companies with lower audit partner tenure. The audit firm industry specialization (SPEC) has a negative coefficient, which is also insignificant on the significance level of 10%. Control variables SIZE and FRISK result in only FRISK being significant at 5% level of significance and shows a positive coefficient. Whereas, SIZE does not show any significance in either 5% or 10%.

The results of this study support some and at the same time inconsistent to other studies. Audit firm tenure (TENKAP) is seen to be insignificant thus rejecting the first hypothesis. The audit firm tenure result is different to the results shown in Jackson et al. (2008), where they have found that longer audit firm tenure will result in higher propensity to issue going-concern opinion, thus higher audit quality. This also rejects the findings of Carey and Simnett (2006) where the audit firm has a negative and significant correlation with audit quality. However, the finding in this study is consistent with Knechel and Vanstraelen (2007) and Siregar et al. (2012) which did not find any significant and strong correlation between audit firm tenure and audit quality.

Audit firm industry specialization (SPEC) also demonstrates a negative and insignificant correlation towards audit quality, thus rejecting the third hypothesis. However, it should be understood that this study limits the sample to companies with financial distress. Therefore, some arguments might explain the results of the audit firm specialization. First, audit firms whether specialized or not, tend to act with caution in issuing an opinion for financially distressed companies. This consequently shows an insignificant result in the correlation of industry specializations of audit firms. Second, audit firm specialization is based on the market share approach, which might cause distortions since specialization criteria are prone to bias from market
perception, client perception, or perceived reputation of the audit firm. This finding is consistent with Minutti-Meza (2010). However, it is inconsistent with Schauer’s (2002) findings suggesting that, if using a bid-ask spread as a proxy of audit quality, there is a positive and significant correlation of audit firm industry specialization and audit quality.

Nevertheless, audit partner tenure (TENAD) has shown a significant and positive correlation with audit quality, therefore supporting the second hypothesis that longer audit tenure will lead to higher audit quality. This finding is consistent with Siregar et al. (2012) findings, where they argue that after the implementation of the Finance Minister Regulations audit tenure has a negative relation with audit quality. They suggest that the restriction of audit partner tenure resulted in lower audit quality. Therefore longer tenure will show increased audit quality. Yazawa (2011) found similar results in Japan companies, where the mandatory audit partner rotation of maximum 5 years increases audit quality compared to companies with shorter audit partner tenure.

5. Conclusion, Implication, and Limitation

This study is conducted with the purpose to understand the relation of audit firm tenure, audit partner tenure, audit firm industry specialization, and audit quality. The Finance Minister Regulation on audit firm and audit partner tenure mandatory rotation and restriction of audit tenure are designed to increase independence which have implications on audit quality, financial statement disclosure, and disclosure on any other information important to aid decision making of stakeholders. Audit firm industry specialization is also a critical aspect that may support higher audit quality based on audit firm industry-specific knowledge.

This study has been undertaken in manufacturing companies experiencing financial distress. The results show that audit firm tenure does not influence audit quality, longer audit partner tenure has a positive correlation to audit quality, and audit firm industry specialization does not have a significant relation to audit quality. Results suggested within this study are in line with Siregar et al. (2012), Knechel and
Vanstraelen (2007), Yazawa (2011), and Minutti-Meza (2011). However, it indicates different results to Jackson et al. (2008), Carey and Simnett (2006), and Schauer (2002).

Specifically, on the findings of industry specialization, other implications need to be considered. First, industry-specific knowledge might not be significant in the case of financially distressed companies, as used in this study, where audit firms both specialized and not need to act with caution in presenting an opinion. Second, a distortion might occur in the market share approach used as a proxy for audit firm specialization since it may be biased by client preferences or the perceived reputation of the audit firm.

It can be concluded that audit firm tenure and industry specialization does not indicate a higher audit quality. It is more important to focus on audit partner tenure, because audit partners are involved within the auditing process, and are in the position to provide more significant decision making and influence audit quality. However, audit partners also are the most vulnerable to the independency threats.

This study is not without limitations. Researches within the issues of audit quality in the future should utilize other proxies for audit quality such as discretionary accruals or bid-ask spread. Audit firm industry specialization could also be measured through different approaches that could decrease the bias of clients and the perceived reputation of the audit firm. Studies in the future should include samples not only from manufacturing companies but also other sectors, since audit quality is required in every company, regardless of the industry.

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