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**DETERMINANTS OF AUDIT QUALITY:
EVIDENCE FROM INDONESIA**

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ABSTRACT

Corporate scandal in 2018 involving well-known public accounting firm in Indonesia is predicted to be caused by the quality of audits on financial statement that distort the decision-making process by users. Meanwhile, based on agency theory, agency problems between management as the preparer of financial statements and shareholders as users of these reports can be mitigated through the high quality of audit process. Therefore, the purpose of this study is to examine the factors that affect audit quality such as audit engagement tenure, public accounting firm's rotation and size, auditee size, as well as auditee economic sector. The population in this study are companies listed on the Indonesia Stock Exchange in 2015-2017. By using secondary data sources from audited financial statements and random sampling method in obtaining the data, a total of 438 companies during 3 years of observation were used in this study. The results show that tenure and the auditee size have a negative effect on audit quality. This information can be used as a consideration for professional bodies and regulators in formulating policies related to the limit of audit engagement period to maintain the quality of audit results. In addition, the auditee size can be used by the auditor as the main indicator of audit complexity which in turn implies the audit strategy formulation.

KEYWORDS: Audit Quality, Auditee Size, Tenure



INTRODUCTION

449 In May 2018, the Financial Services Authority imposed a business suspension sanction on SNP Finance due to bad debt. Since 2012, the financial statements of SNP Finance have been audited by one of the big four accounting firms in Indonesia. This condition then directed the Ministry of Finance of the Republic of Indonesia to impose an administrative sanction on the Public Accounting Firm (PAF). There was a similar case experienced by another big four accounting firm in Indonesia, which was fined by the United States regulator as much as 1 million USD because this particular PAF was convicted of failure to audit the financial statements of a telecommunication company in Indonesia in 2011. These incidents further made audit quality a critical issue often faced by PAFs, especially PAFs that audit publicly listed companies in Indonesia. When the audit process does not run as mandated by the standards and the code of ethics, the audit results will likely not adequately reflect the actual condition of the auditee's financial statements.

The audit report is a final result of each audit assignment that PAF gives its clients their opinion about a true and fair view of its financial statements ([Tobi et al. 2016](#)). Research by [Gaynor et al. \(2016\)](#) describes that a high-quality audit can be used to assure that the auditor has obtained sufficient evidence to state that its financial statements represent the company's actual financial condition. In other words, good audit quality is an audit process and results that can represent the company's actual financial condition so that it can be used for making proper decisions. Conversely, poor audit quality will result in distortion of decision-making by the financial statement users.

Decision-making based on financial statements is not only beneficial for company management but also for investors or principals. Before making certain decisions, these parties would like to know the company's current financial condition. In contrast, the management has more information about the company's internal conditions that the principal does not know, so that information asymmetry appears, which tends to benefit management as the party who is richer in information ([Hartadi, 2009](#)). This condition is described in the agency theory as information asymmetry that potentially causes a conflict of interest between management (agent) and the owner (principal).

The agency theory was initiated to understand agency behavior seen from two sides, the agent and the principal. On the agent side, this theory focuses on identifying the main objectives of management, to whom the management works to manage company assets. While on the principal side, this theory focuses on how the company asset owner mitigates counterproductive actions from management as an agent. To meet the needs of both parties, an assurance mechanism from an independent party, such as independent auditors, is needed to examine and mitigate management's potential financial reporting irregularities.

Financial statements that are reliable for decision-making require a quality audit process. Furthermore, several factors that can affect audit quality are audit engagement period (tenure), PAF rotation, and PAF size. [Tobi et al. \(2016\)](#) argue that when the client-auditor relationship gets longer, the two parties will be less independent, so that it potentially brings up the auditor's dependency with management. This condition reduces the objectivity and quality of the audit. A case that happened to Enron in 2001 prompted several countries to tighten regulations regarding the existence of public accounting firms, especially in terms of PAF rotation. According to [Andriani and Nursiam \(2017\)](#), the application of mandatory rotation is based on a reason that mandatory rotation for auditors and Public Accounting Firms increases auditor independence to increase auditor commitment. On the other hand,

[Choi et al. \(2010\)](#) mentioned that big PAFs with international brand names (Big Four PAF) provide higher quality audit services than other PAFs.

Apart from the auditor's side, the audit quality can be influenced by the auditee. One aspect of the auditee that supposedly impacts the audit quality is the factor of client company size; big companies generally choose auditors who are considered qualified to maintain their reputation in front of their shareholders.

The effect of the relationship between the auditee's business sector on audit quality. They obtained a result that the economic sector of the audited company affects the audit results. Regarding the auditee economic sector, to the best the researcher knows, very few studies have been done on audit quality, especially those related to audit quality in Indonesia. Meanwhile, several corporate financial scandals triggered by the quality of financial statement audits occurring in Indonesia currently are among companies operating in certain sectors, that are the financial and non-financial services sectors.

The above discussion leads the authors to re-examine several factors that influence audit quality in companies listed on the Indonesia Stock Exchange by adding one rarely discussed variable, the auditee economic sector. The factors predicted to affect audit quality in this study are tenure, PAF rotation, PAF size, auditee company size, and the economic sector of auditee company.

[Jensen and Meckling \(1976\)](#) described that an agency relationship is a contract where the owner (the principal) involves another person (the agent) for several decision-making activities in managing the assets. The contract that binds the two parties minimizes any possible negative impact resulting from information asymmetry and uncertainty conditions ([Hartadi, 2012](#)), which lead to agency conflicts between the two parties.

Conflict of interest between principal and agent as well as agency problems due to information asymmetry leads to a notion about the need for an independent third party as a mediator in minimizing these problems. In order to achieve the reliability of the financial statements made by the agent as a form of accountability to the principal upon the principal's decision-making activities, a quality audit process is required by an independent auditor. Further, the quality audit process is expected to produce quality audit reports that are relevant and reliable in the shareholders' financial decision-making activities.

Agency theory assumes a possibility of a difference of interest that creates a conflict of interest between shareholders and management; thus, it requires an independent third party to mitigate the conflict. Investors tend to trust financial information resulting from a quality audit process. Audit quality, in this case, is the auditor's capability to maintain the financial report quality to present valuable and credible information for its users ([Zwageri, 2020](#)).

The main objective of the audit task is to ascertain whether the financial statements provide a factual and fair view of the company's financial position and financial performance. If the quality of the audit is poor, the financial statements tend to contain items that do not reflect the actual financial condition of the company being audited ([Chen et al., 2008](#)). [Zwageri \(2020\)](#) explained that financial statements audited by auditors should have high credibility so that they can be used as a means of decision-making. The auditor quality and the complexity of the auditee company allegedly affect the audit quality of the financial statements produced; the higher the auditor's quality, the better the audit produced. On the other hand, the more precise the auditor in mitigating the impact of the complexity of the client's business during the audit process, the higher the degree of audit quality of the client's financial statements.

The audit tenure is the involvement or engagement periods of the Public Accounting Firm with its clients related to the agreed audit services. A long-term relationship between the auditor and the client can create a dependency between the two which is then counterproductive to the auditor independence principle ([Nadia, 2015](#)). It is supported by the study by [Al-Thuneibat et al. \(2011\)](#) that the company's audit tenure harms audit quality where it will decrease as the audit engagement periods are extended.

The studies mentioned above contradict the research by [Myers et al. \(2003\)](#) that a long audit tenure would improve audit quality. Meanwhile, in other contexts, [Lennox \(2002\)](#), and [Febriyanti \(2014\)](#) found no significant effect of audit tenure on audit quality. The inconsistency of the results of the previous studies then directs the formulation of the following hypothesis:

H1 : Audit Tenure Affects Audit Quality

[Malik et al. \(2017\)](#) stated that audit professionals recommend Mandatory Audit Rotation (MAR) to prevent accounting fraud. They believe that mandatory audit rotation will not only revive but also maintain auditor independence and skepticism. Policies related to PAF rotation implementation are applied differently in each country. Several countries, such as countries in European Union, Pakistan, Italy, and Oman, have implemented mandatory rotation requirements for all companies listed on their Stock Exchanges.

On the other hand, there are no regulations that explicitly regulate PAF mandatory rotation in Indonesia. Financial Services Authority Regulation No. 13/POJK.03/2017 concerning the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities only regulates the limitation of the use of audit services from Public Accountants (PA)/ audit partner for a maximum of 3 consecutive financial years. However, there are no restrictions on the Public Accounting Firm (PAF).

Two arguments support the mandatory policy on PAF rotation ([Nadia, 2015](#)). First, auditor independence can be challenged by a long-term relationship between auditors and management. Secondly, the quality and competence of the auditor's work tend to decrease significantly from time to time. The results of research by [Nadia \(2015\)](#) show that PAF rotation has a positive effect on audit quality. The results of an experimental study also indicate that PAF rotation can improve the audit quality of financial statements. On the other hand, research conducted by [Kwon et al. \(2014\)](#) in Korea found that the audit quality does not change significantly after PAF rotation. It means that PAF rotation does not significantly impact the audit quality. This contradictory result supports the inconclusive perspective of professionals in auditing in each country regarding the urgency of PAF rotation regulation. Based on the previous description, the second hypothesis in this study is as follows:

H2 : PAF Rotation Affects Audit Quality

[De Angelo \(1981\)](#) explains that big audit firms have better audit quality because they heavily invest in audit technology and staff training. Therefore, they are more competent and more accurate in detecting misstatement problems and going concern assumptions than small audit firms. Big PAF auditors have more experience with various clients. These audit experience diversities will improve the auditor's professional skills and contribute to the quality of the audit results.

[Choi et al. \(2010\)](#) examined the relationship between PAF size and audit quality showed that the Big Four PAFs produced better audit quality than others. The results of this study are in line with the opinion of [Francis and Yu \(2009\)](#) that big PAFs will produce better audits because the PAF auditor team has more experience with various clients. In contrast, the

study of [Nindita and Siregar \(2012\)](#) concluded that PAF size has no significant effect on audit quality, and this result is supported by research by [Al-Thuneibat et al. \(2010\)](#) and [Kono \(2013\)](#), who also did not find any effect of PAF size on audit quality. The differences in the results of these previous studies then lead to the formulation of the following hypotheses:

H3 : PAF Size Affects Audit Quality

The bigger the company size, the higher the agency costs ([Febriyanti, 2014](#)). In this case, big companies will choose quality independent audit services that produce better quality audit report. Agency costs are used to identify costs incurred by an organization as a process in dealing with information asymmetry and the difference of interest issues between management and shareholders ([Hartadi, 2009](#)).

Concerning the size of the auditee firm, companies with a larger scope of business tend to prefer quality PAFs and auditors because they consider that a quality PAF has a better reputation and resources to complete audits on their finance reports. The selection of a quality PAF is also used as a means for the company's management to maintain its financial statements' credibility in front of investors and potential investors. This study is also supported by [Febriyanti \(2014\)](#) that found the positive and significant effect of auditee firm size on audit quality. Based on this description, the fourth hypothesis in this study is:

H4. Auditee Company Size Affects Audit Quality

Some previous literature has identified a tendency for a relationship between PAF/auditor type and the economic sector of a company ([Hope et al. 2008](#), [Huang and Li, 2009](#); [Gerayli et al., 2011](#)). These studies show that PAFs adopting a specialization strategy in certain sectors tend to audit auditee companies with specific business sectors, and vice versa, auditees in certain sectors tend to choose industry specialist auditors because they hope to obtain quality audit services.

On the other hand, from the client firm's point of view, the relationship between the auditee/client economic sector and audit quality. The study indicates that the economic sector as a component of the geographical condition of the client company has a positive association with audit quality. The relationship between the industrial sector of the client and audit quality is in line with the concept of determining audit risk and complexity. It refers to the type of client company's operating activities, which will then determine the amount of effort spent by the auditor to maintain the quality of audit services ([Causholly et al., 2010](#)).

Further, companies with a high level of disruptive technologies, which part of the composition of their assets are in the form of digital assets, such as companies in the financial services sector and other services, are considered challenges for PAFs in carrying out and maintaining their audit quality. On the other hand, several cases of financial statement manipulations in Indonesia, which dragged the PAFs names related to the audit quality of financial statements, have been experienced by several companies engaged in the service sector. Some scandals meant were the SNP Finance financial scandal in 2016/2017, the Bank Bukopin Scandal in 2017, PT Asuransi Jiwasraya in 2015, PT Envy Technologies Indonesia in 2019, and the PT Garuda Indonesia financial scandal in 2019. These financial scandals also dragged the PAFs as the parties auditing the financial statements of these companies. Based on the descriptions above, the fifth hypothesis is formulated as follows:

H5 : Auditee Economic Sector Affects Audit Quality

Referring to the formulation of the five research hypotheses as described, the theoretical framework is as follows:

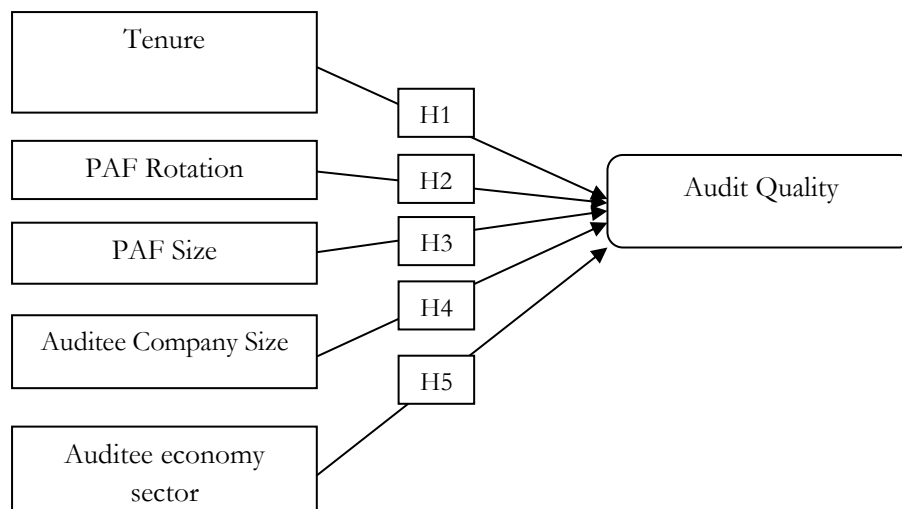


Figure 1. Research Model

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Research variable

The dependent variable in this study is audit quality proxied by discretionary accruals in the auditee’s financial statements. Discretionary accruals are used as a proxy in audit quality because audit quality is said high if it can limit the opportunities for company management to present financial information by taking extreme advantage of earnings management practices (Kwon et al., 2014 and Nadia, 2015).

The absolute value of discretionary accruals to indicate management’s success in managing earnings in two directions, increasing or decreasing. On the other hand, audit quality can be seen using the earnings quality approach; a higher company’s earnings quality reflects a higher audit quality produced by the auditor (Choi et al., 2002). In addition, high discretionary accruals may indicate higher earnings management practices within the company (Chi et al., 2017). Therefore, discretionary accruals can be used as a proxy for audit quality. The quality of financial statements can be seen from the lack of management intervention in managing earnings so that a low discretionary accrual value can indicate the quality of financial statement (Al-Thuneibat et al., 2011).

A quality audit must lead to a high quality of earnings in financial statements, known by minimizing earnings management efforts through discretionary accruals (Garsia and Argiles, 2017). On the other hand, a higher discretionary accrual value shows a lower audit quality. In other words, the value of discretionary accruals and audit quality has a negative correlation. The discretionary accruals can be calculated using the Modified Jones Model.

Independent Variables

Regarding the independent variables, this study used five independent variables, as follows:

1. The audit tenure is measured based on the duration length, equivalent to the number of consecutive financial statement periods used by the client in using the services of the same audit firm as the auditor of the financial statements (Chen et al., 2008).
2. PAF rotation is measured using a dummy variable. A value of 1 is given if there is a PAF rotation in the observation period, but a value of 0 is given if there is no PAF rotation (Andriani and Nursiam, 2017).

3. The PAF size is measured using a dummy variable. A value of 1 is given if a Big-Four PAF audits the auditee company, and a value of 0 is given if the auditee company is audited by non-Big Four PAFs ([Tobi et al., 2016](#) and [Choi et al., 2010](#)).
4. The auditee company size is measured based on the total assets (transformed into log-total assets in the calculation) of the company in the relevant year ([Tobi et al., 2016](#)).
5. The economic sector of the auditee is measured using a dummy variable referring to service companies, a value of 1 for a client company (auditee) engaged in the service sector, and a value of 0 for a client company (auditee) engaged in the non-service sector.

Statistical Method

The analytical model used in this study was done through multiple linear regression analysis using the Eviews 9. The use of this software as an analytical tool is because Eviews provides a regression estimation method facility to analyze panel data which can lead to the use of one of the Common Effect Models (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). The function of Eviews for multiple regression analysis using panel data has also been carried out in research conducted by [Malik et al. \(2017\)](#).

Model Fit Test

As explained in the previous section, three possible types of panel data regression models can be used. To choose the estimation model considered the most appropriate, a series of tests were carried out as follows:

1. Chow test. This test was performed to determine individual effects in the panel regression estimation model to choose between the Common Effect Model (CEM) or the Fixed Effect Model (FEM). If the test results accept the null hypothesis/H₀ (that leads to CEM), then the Lagrange Multiplier Test is then carried out to determine between the Common Effect Model (CEM) and the Random Effect Model (REM). On the other hand, if the results of the Chow test accept the alternative hypothesis/H₁ (FEM), then the Hausman test is carried out to determine between the Fixed Effect Model (FEM) and the Random Effect Model (REM).
2. Lagrange Multiplier Test. This test was performed to determine individual effects in the panel regression estimation model to choose between the use of the Common Effect Model (CEM) or the Random Effect Model (REM).
3. Hausman test. This test was performed to determine individual effects in the panel regression estimation model to determine the choice of the estimation model between the Fixed Effect Model (FEM) or the Random Effect Model (REM).

Hypothesis Testing

Several indicators in testing the hypothesis of this study are the coefficient of determination or R² and the t-test value. The coefficient of determination is an indicator to measure how far the model can explain the variation of the dependent variable. The value of the coefficient of determination is between zero and one. The statistical t-test is to show how far the influence of one independent variable individually in explaining the dependent variable.

RESULT AND DISCUSSION

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This study was conducted by processing the data obtained from the companies' financial statements sampled from the population of companies listed on the IDX in 2015-2017. Using stratified random sampling technique, 146 companies consisting of 78 service companies and 68 non-service companies were obtained. The number of observations or samples for three years is described as follows:

Number	Description	Total
1	Total population per year	555
2	Number of service companies	345
3	The number of samples based on the slovin formula $\frac{345}{1+(345 \times 10\%^2)}$	78
4	Number of non-service companies	215
5	The number of samples based on the slovin formula $\frac{215}{1+(215 \times 10\%^2)}$	68
6	Observation for 3 years (3 points + 5 points) x 3 years	438

Table 1.
Number of Observations

Model Fit Test

Chow test

	Statistic	Prob.
Period F	0.831958	0.4359
Period Chi-square	1.691602	0.4292

Table 2.
Chow Test

Based on the table above, it can be seen that the probability value of the F test is 0.4359, and the Chi-square probability is 0.4292. From the probability of the F test and Chi-square, both are not statistically significant, so based on the results of the Chow test, the null hypothesis/H0 is accepted. Therefore, regarding the Chow test, it can be seen that the panel regression estimation model chosen in the first stage is the Common Effect Model (CEM). These results will then be compared with the Random Effect Model (REM) with the Lagrange Multiplier test in the second stage. As described in the previous section, the Lagrange Multiplier test is used to determine between CEM or REM as the final regression model used to test the hypothesis of this study.

Lagrange-Multiplier (LM) test

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	Chi-square statistic	Prob.
Breusch-Pagan	54.87890	0.000

Table 3.
Lagrange Multiplier Test

From table 3, the Chi-square probability value shows the value of 0.000, which is statistically significant. Based on this value, the null hypothesis/H₀ is rejected (alternative H₁ is accepted), and it is concluded that the effect of the panel regression estimation model used as a hypothesis testing model in this study, which is in accordance with the Lagrange Multiplier test results, is the Random Effect Model (REM).

Hypothesis testing

Variable	Coefficient	Std. Error	t-statistic	Prob.	Conclusion
C	-0.388419	0.117194	-3.314315	0.0010	
X1 (Audit Tenure)	0.007778	0.003832	2.029661	0.0430**	H1 supported
X2 (PAF Rotation)	0.005810	0.019844	0.292764	0.7698	H2 not supported
X3 (PAF Size)	0.028975	0.019161	1.512132	0.1312	H2 not supported
X4 (Auditee Size)	0.024455	0.009426	2.594370	0.0098**	H1 supported
X5 (Auditee Economic Sector)	0.024219	0.016629	1.456443	0.1460	H2 not supported

Table 4.
Random Effect Model (REM) Test

Source: data processed

The equation from the estimation results of panel regression analysis using the Random Effect Model (REM) is as follows:

$$Y = -0.388 + 0.0078 X_1 + 0.0058 X_2 + 0.0290 X_3 + 0.0244 X_4 + 0.0242 X_5$$

Based on the statistical test above, the following results were obtained:

Audit Tenure and Audit Quality

The tests carried out in this study for H₁ yield a probability value of 0.0430 and a regression coefficient of 0.0078, which means a significant positive effect of the audit tenure on the value of discretionary accruals. Because discretionary accruals have an inverse relationship with audit quality, from these results, it can also be concluded that there is a negative influence between the audit tenure and audit quality. This condition indicates that the longer tenure will impact the higher discretionary accruals, resulting in lower audit quality provided by PAF during the auditing process and will be reflected in the quality of audited financial statements.

One of the underlying reasons that the audit engagement period harms audit quality is when the relationship between the client and the auditor is getting longer. It makes the relationship between the two closer and more dependent, thus allowing the emergence of the auditor's partiality to management as a preparer of the company's financial statements. This result aligns with [Al-Thuneibat et al. \(2011\)](#) that the audit engagement period negatively affects audit quality. Audit quality deteriorates when the tenure of the Public Accounting Firm is extended, which correlates with a higher proportion of discretionary accruals in the audited financial statements. This condition is undoubtedly feared to threaten the independence and objectivity of the auditors, which sequentially has the potential to cause lower audit quality ([Tobi et al., 2016](#)).

PAF Rotation on Audit Quality

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The tests carried out in this study show a probability value of 0.7698 and a positive regression coefficient of 0.0058 for H2. These results mean that this study failed to prove a significant effect of PAF rotation on discretionary accruals, so that PAF rotation also did not have a significant effect on audit quality.

[Siregar et al. \(2011\)](#) previously examined the effectiveness of the PAF rotation rules in Indonesia that were applied, based on KMK No. 423/KMK.06/2002. The results of his study concluded that the audit rotation rule was not very effective because the rotation had the potential to reduce audit quality.

In addition, audit professionals have not fully agreed on the need for PAF rotation. Some argue that this PAF rotation will have the potential to reduce the efficiency and effectiveness of the audit process. Instead, the longer the PAF audits a particular client, the more the PAF understands the business process and the business risks inherent in its client, making the audit process more effective and efficient. This condition also triggered the Public Company Accounting Oversight Board (PCAOB) to raise the theme of PAF rotation as a discussion material regarding whether or not the mandatory regulation of Public Accounting Firm rotation is necessary. Some countries also does not agree with the idea of regulating PAF rotation because it is based on each local context, such as the views given by professional associations in each relevant country. Countries that are members of the European Union are examples of countries that see the need for regulations related to PAF rotation and have applied restrictions on the length of the audit service period, both by PAFs and certain audit. Meanwhile, several other countries including Indonesia, Hongkong, Japan, and Malaysia ([Siregar et al., 2012](#)), have not implemented special PAF rotation rules but only regulate audit partner rotation.

PAF Size on Audit Quality

The results on H3 yield a probability value of 0.1312 and a positive regression coefficient of 0.0289. These values indicate that the H3 is not supported, meaning that this study failed to find a significant effect of PAF size on discretionary accruals. In other words, there is also no significant effect of PAF size on audit quality. Based on the context of this study, the quality of the audit results of companies listed on the IDX by the Big Four accounting firms is not significantly higher nor lower than that of non-Big Four Accounting Firms.

Several scandals over financial reports recently occurred in companies listed on the IDX have also involved both Big Four and non-Big Four PAFs. The case that happened to SNP finance in 2016-2017 and the fine of PAF who audited Indosat in 2011 reflects the scandal involving the Big Four PAF. On the other hand, several business suspensions carried out by the Minister of Finance of the Republic of Indonesia also affected several non-Big Four PAFs auditing companies listed on the IDX.

Auditee Size on Audit Quality

The results on H4 carried out show a probability value of 0.0098 and a positive regression coefficient of 0.0245. It indicates that H4 is supported, meaning that there is a significant positive effect of the auditee company size on the value of discretionary accruals. Because discretionary accruals have an inverse relationship with audit quality, from these results, it can be concluded that there is a negative effect between the auditee/client size and audit quality. In this context, a bigger size of the auditee company will impact higher discretionary accruals, resulting in lower audit quality produced by the PAF.

Companies with smaller business scales tend to have better quality audited financial statements because smaller companies have a more limited and simple scope of financial information. On the other hand, small companies are also interested in obtaining quality audit report and ensuring that their financial statements are adequately free from material misstatement, as an attraction in obtaining new investors to generate additional funds and expand its business (Putri and Cahyonowati, 2014).

In contrast, if the size of the auditee gets bigger, the complexity and scope of the audit will be broader. On the other hand, auditors are limited by time and audit fees in carrying out their audit services. This condition then raises the possibility of a greater potential related to the auditor's failure to detect material misstatements in the client's financial statements. The task complexity in the audit is important because the high complexity of the task can distort the opinion made by the auditor.

Economic Sector of Auditee on Audit Quality

From the results on H5, the probability value is 0.1460, and the positive regression coefficient is 0.0242. These conditions indicate that H5 in this study is not supported, or this study fails in proving a significant influence from the auditee economic sector on audit quality. In other words, the audit quality of the financial statements of auditee operating in certain economic sectors (such as the service sector) is not empirically proven to be higher or lower than that of auditee operating in other sectors (such as the non-service sector).

The results above are in line with several financial statement scandals of public companies in Indonesia, which involved several PAF names and happened to service companies and non-service companies. In addition to the cases involving SNP, Indosat, Bank Bukopin, Asuransi Jiwasraya, and PT Garuda Indonesia, scandals related to the quality of financial reports also occurred in several other companies operating in the non-service sector. In 2016 the Indonesian Stock Exchange was shocked by the manipulation of financial statements by PT. Hanson Internasional, which caused some losses to the company's financial statement users, including the Financial Services Authority. In addition, a financial scandal also hit PT. Tiga Pilar Sejahtera Food Tbk. in 2017, there is a case of overstatement of several asset accounts in the company's audited financial statements.

CONCLUSION

This study was conducted to assess the relationship between audit tenure, PAF rotation, PAF size, auditee size, and auditee economic sector on audit quality proxied by discretionary accruals. This study empirically proves that the audit tenure and the auditee size have a negative and significant effect on audit quality. On the other hand, this study failed to empirically prove the relationship between PAF rotation, PAF size, and the auditee economic sector on audit quality.

Some of the practical implications of this study are that companies must pay attention to the length of the audit engagement period with the PAF or the same audit partner to maintain the reliability of its financial statements in the shareholders' perceptive and gain the potential investors' trust. A more extended engagement period/tenure will potentially erode the auditor's independence, make the auditor biased towards the management personnel interests, as well as distort the quality of the audited financial statements. These results can also be used as references for professional bodies to design a series of rules and policies related to the audit engagement period between PAF or audit partner and their clients.

The following implication of this research is related to the auditee size factor, which must be used as the focus for audit partner or PAF to maintain the quality of the audits they produce. Because it is empirically proven that the size of the auditee has a negative effect on audit quality, it can be interpreted that a broader business scope of the client will potentially reduce the audit quality if it is not mitigated by an adequate risk assessment and audit complexity. In other words, when the auditor wants to engage with a client, the size of the client must be used as one of the determinants of audit risk and complexity, which will later influence the determination of the amount of audit fees and the formulation of audit strategies.

Further, several limitations in this study are the use of service and non-service criteria for operational definitions of auditee economic sector. This categorization is considered to oversimplify the actual conditions. Meanwhile, on the other hand, each service sector and the non-service sector also consists of various kinds of sub-sectors. One sub-sector with another has different operational characteristics and may have different impacts on the audit quality of its financial statements. Therefore, related to the auditee economic sector, further researchers need to consider the differences among these sub-sectors, including the differences in operational characteristics that occur in the financial services sub-sectors with the non-financial services sub-sectors. Moreover, the use of independent variables in this study was only limited to five independent variables and ignored the other variables that might also have a relationship with audit quality. Further researchers can also add other independent variables to detect factors that may influence audit quality, such as audit partner work experience and the amount of audit fees as well as expand the criteria for PAF size to PAF with international affiliation level and PAF without international affiliation.

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