

THE ANALYZE OF AUDIT TENURE, AUDIT FEE, AND AUDIT ROTATION ON AUDIT QUALITY (AMMAN STOCK EXCHANGE FOR 2013-2020)

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Abstract

The current paper aims to analyze the impact of Public Accounting Firm (PAF) tenure, audit fees, audit partner tenure, Public Accounting Firm (PAF) rotation, and audit partner rotation on audit quality in Jordan. Current paper used secondary data. The samples in this study were fabrication companies quoted on the Amman Stock Exchange for 2013-2020. The technique of sampling employed was the purposive sampling method and gained a sample of 272. The measurement for audit quality used total accruals, PAF tenure and audit partner tenure employed the calculation of the year of engagement with the same PAF and auditor, audit fees utilized natural logarithms, and PAF rotation and audit partner rotation employed dummy variables. The statistical method used was multiple regression. The analysis results showed that PAF tenure had a significant negative impact on audit quality. While audit partner tenure, PAF rotation, and audit partner rotation did not affect audit quality. Meantime, the audit fee had a significant positive effect on audit quality.

Keywords: PAF Tenure, Audit Partner Tenure, Audit Fee, PAF Rotation, and Audit Partner Rotation

1. Introduction

the few years earlier, the Enron case had shocked the world of auditors, but in fact, it is still the case until now. It was a leading public accounting firm in the world and was included in the big four. The reappearance of this fraud case was quite shocking to the public as the relationship between British Telecom and PWC had been at odds for approximately 33 years.

The fraud mode carried out by British Telecom tended to be common, but many auditors failed to detect it. At that time, the whistleblower, followed by KPMG's forensic accounting, could detect the fraud committed by British Telecom. The manipulations carried out increased profits from within in the past few years, using corrupt cooperation related to clients and company financial services. In 2015, the public was shocked by the scandal of a company that has been around for more than 140 years, which had a solid commitment to people and the future. The owner of this principle is TOSHIBA, which could not maintain its financial performance in 2015. It made the public wonder about its auditor performance

Therefore, audited reports are one of the things considered capable of influencing the principal's decisions. In addition, the interests of the principal and the agent should go hand in hand, but in fact, the agent tends to put his interests first. Conflicts between principals and agents are caused by information asymmetry (Jensen and Meckling, 1976).

Aside from this theory, another theory can explain agent behavior, namely positive accounting theory, which leads to an understanding of a company's policy predictions. When a company tries to minimize costs, it will choose the policy to be carried out (Watts and Zimmerman, 1978).

Regarding the agents' decision to determine policy, they will adjust to the principal expectations but try to minimize costs or keep the name in front of the principal. It relates to the financial statements that will be made by the agent and submitted to the principal. When an agent freely makes financial statements in accordance with his policies, there will be information asymmetry since the agent knows all the information, while the principal only sees the financial statement contents submitted. Here, the role of the auditor as a mediator between the agent and the principal is indispensable. The auditor is a third party who is believed to increase the principal's trust in the agent.

Therefore, In this case, the auditor's reputation is one of the principal keys to trusting the published audited reports. The information provided by the auditor must comply with the Code of Ethics of the Association of Certified Public Accountants, including the Code of Ethics for the Public Accountants Compartment (SPAP, 2001).

However, the auditor's long cooperation with the agent can lead to a decrease in trust by the principal. Therefore, it is necessary to have a rotation of auditors to restore the principal trust. Alhadab, Mohammad, and Iain Clacher. 2018 research, the provision that requires this rotation arises as the agent and auditor have a long-term cooperative relationship, potentially having closeness that can affect the auditor's independence. Thus, The obligation of audit rotation is believed to be a means that can strengthen independence, minimize audit failures, and improve audit quality. However, in several studies, much evidence states that audit rotation does not enhance audit quality but instead increases the cost of conducting audits, reduces the opportunity for auditors to specialize in specific industry areas, eliminates the audit office's knowledge of their clients gained from accumulated collaboration time, and undermine the competitive balance of audit service providers.

In contrast to Harris and Whisenant (2016), in their research related to the effect of the rotation policy and client-specific knowledge, they concluded that although the average audit rotation increased audit quality, there was still evidence of a decrease in the rotation year.

The rotation policy relates to the length of the cooperation time among the client and the auditor, commonly called audit tenure. The longer the period of audit tenure, it will indicate a negative effect on auditor independence. Shockley (1981 in Abdillah and Arifin, 2013) explained that an auditor, who works with a client being audited for more than five years, is considered too long, and it will have a negative impact on independence due to emotional closeness arising from both parties and affect the opinion that the auditor will issue. Regarding the role of audit tenure on auditor turnover, it has inconsistent results.

Research by Abdillah and Arifin (2013), which used Husserl's Transcendental Phenomenology method by interviewing people directly related to auditor rotation, revealed that auditor rotation was necessary because a long tenure would reduce auditor independence. In addition, it is related to the law that is already in effect in Jordan, so that rotation must still be carried out.

In contrast to Aminah et al. (2017), tenure audit did not affect audit turnover, while Maradona (2009) conducted a study that divided the PAF (Public Accounting Firm) tenure and audit partner tenure, with the consequences showing that there was an increase in the quality of audits done by independent auditors as the tenure of public accounting firms increased. Meanwhile, there was no alteration in audit quality as the audit partner tenure increased. It supports the audit partner rotation regulation required by the government.

Furthermore, The audit quality is also influenced by how auditors carry out their duties. When the implementer is satisfied with what he received for the results of what he did, it will make the implementer give his best performance. In addition, the provision of service fees for audit services or audit fees in accordance with the auditor's wishes can motivate them to improve their performance in providing audit services for the company's financial statements (Maharani, 2014 & Alhadab, Mohammad, and Iain Clacher. 2018).

The greater the audit fee given, the more optimal the services and performance provided in conducting the audit. Conversely, if the rewards provided have not provided satisfaction, the auditor's performance is not optimal.

For this reason, this study departed from differences in views regarding the effect of PAF tenure and audit partner tenure, as well as supporting and not supporting the rotation of auditor partners and auditor offices, which results in two opinions that these things can strengthen or weaken audit quality. In addition, current paper was built to detect the impact of changes to whether it will influence audit quality when the partner tenure can be longer. Since the previous regulation provided a limit of six years for PAF and three years for auditor partners, the current regulations only regulate audit partners and associated parties.

The establishment of this research based on the independent variables consisted of audit fees, audit tenure, and audit rotation, with the dependent variable being audit quality. The difference between current paper and previous research is separating tenure audits into two: PAF tenure and partner tenure. It was also done for audit rotation, which was divided into partner rotation and PAF rotation. The separation of partner tenure and PAF tenure has been carried out by Novianti et al. (2010).

Meanwhile, the separation of PAF and partner rotations has been conducted by Firth et al. (2010) and Prime (2014). Both studies considered it necessary to distinguish audit rotation into two parts because of the different rotation characteristics. Partner rotation is related to individual characteristics, while PAF rotation is associated with the PAF culture. In addition to the separation of audit tenure and audit rotation, another difference is in the study year, which was carried out longer for eight years, while previous studies used an average of 3-5 years. The next difference is in the measuring of audit quality. In the replicated research, the audit quality measurement used the big four or non-big four PAF specifications, while this study employed the company's total accruals.

Depending on the history of the problems and previous paper, the researcher is concerned in conducting a study entitled "*The Effect of Audit Tenure, Audit Fee, and Audit Rotation on Audit Quality: An empirical study on manufacturing companies listed on the Jordan Stock Exchange in 2013-2020*". How is the influence of Public Accounting Firm (PAF) tenure, partner tenure, audit fee, PAF rotation, and partner rotation on audit quality?

The main contribution of the research provides theoretical benefits in the knowledge development related to the role of audit tenure, audit fees, audit rotation, and audit quality. This research also provides benefits as a reference for further research to develop an existing topic more broadly. as well as this paper is expected to contribute practical benefits in assisting the government to evaluate changes to the latest public accounting firm's tenure regulations namely Government Regulation.

2. Literature review

Agency Theory

Jensen and Meckling first planed agency theory in 1976. In this theory, the relationship between managers and capital owners in running a company is explained. Agency theory focuses on the relationship between managers and capital owners, which tends to experience information asymmetry because of one party's personal interests.

An agency relationship is a contracting in which one or more shareholders hire an agent or manager to perform services on behalf of the shareholders by delegating some decision-making authorities to the manager. This authority requires the manager always to fulfill the shareholders' wishes, and if there is a failure, it will make the manager lose the facilities and rights obtained. It is what makes managers take various ways to maintain shareholder trust, so that information asymmetry arises.

Information asymmetry always exists when the information held by one party, in this case, the manager, is not given entirely to the capital owners. The inequality is caused by the personal interest of one of the parties, which will cause a moral hazard.

A moral hazard is a situation where the risk will be borne by the party who should not bear the risk. In agency theory, the capital owners must bear the events caused by the management behavior due to the non-disclosure of information by management.

According to Kayu (2012), the owner and management activities can be revealed from the financial statements within the company or organization. Meanwhile, Wahyuni and Fitriany (2012) mentioned the need for an independent party to mediate between capital owners and managers so that both parties' interests can be channeled.

The party intended as independent is the auditor, whose task is to assess the financial statements and evaluate the fairness of the financial statements prepared by management according to applicable financial reporting standards. The fairness assessment of the financial statements is to see whether the company's financial statements are free from misrepresentation. In giving an assessment, the auditor must always be careful so that the assessment carried out has a good quality. The likelihood of an auditor discovering and reporting violations in the financial reporting accounting system is referred to as audit quality.

Positive Accounting Theory

Positive accounting theory leads to an understanding of the policy predictions of a company; when a company wants to minimize costs, they will have a choice about the policies they will pursue (Watts and Zimmerman, 1978).

According to Mardiyah (2006: 49), positive accounting theory tries to show the accounting phenomenon, seen from the reasons for the occurrence of an event. In other words, this theory is intended to explain and consider the consequences when managers decide on a particular choice. The prediction is based on the contractual relationship process. Another explanation is elucidated by Deegaan (2004: 204). In positive accounting theory, as devised by Watt and Zimmerman (1978) based on a major economy, self-interest will control every individual action and opportunistic treatment at the level where the action will improve their well-being.

Concerning positive accounting theory, a hypothesis explained by Watts and Zimmerman (1978) is about the bonus plan. When a manager knows a bonus plan will be given for his performance, the manager will tend to choose accounting procedures with profit changes.

This hypothesis is reasonable as managers certainly want high rewards, and if it depends on company profits, managers tend to try to provide high net income reports. It relates to how the auditor can find matters relating to earnings manipulation for the management benefit so that the audit quality becomes good. Alternatively, it relates to how the auditor maintains his client by overriding the independence that must be possessed in assessing financial statements.

Audit Tenure (Audit Cooperation Engagement Period with the Client)

The audit tenure is the duration of the audit engagement among the PAF and the client, as it relates to previously agreed-upon audit services calculated by the number of years of engagement (Baatour, K., Ben Othman, H., & Hussainey, K. (2017).

Tenure audits experience debates associated with tenure audits with short or long periods. When the tenure is short, it will be difficult for the auditor to understand the company's operations and the client. Meanwhile, a long tenure causes a decrease in the auditor independence level when carrying out audit services.

Therefore, The existence of a short-time audit tenure will cause the auditor to need time to adjust and understand the client in the running business environment (Kurniasih and

Rohman, 2014). In short, tenure results in limited information obtained and the evidence needed so that finding data, which is lost or intentionally omitted by the client, will be difficult. On the other hand, a long tenure will reason an inappropriate emotional relationship or closeness among the auditor and the client. As a result, there will be a decrease in auditor independence. Return of trust is the expectation of financial statement users. Therefore, the short tenure will be able to increase the auditor's competence to produce audit quality that can be relied on by interested parties Al Shetwi, M. (2020).

For example, the case from British Telecom regarding the occurrence of fraud involving a well-known PAF included in the big four, namely PWC, was related to a very long engagement period, which was 33 years. Supposedly, the auditor, who acts as an independent party and has professionalism, mediates and provides increased confidence in the financial statement results instead of being the source of the problems. PWC had 33 years of auditing services at British Telecom, but it could not reveal the problems in the large British company.

It indicates that implementing audit services for too long could reduce an auditor's independence. The primary factor that can lead to a negative relationship among the auditor and the client and audit quality is the decrease in independence that will arise when there is an inappropriate emotional close relationship among the auditor and the client, resulting in a decrease in the auditor's capacity to provide critical judgment (Sinaga, 2012).

In addition, the phenomenon of audit failure in the early years of the assignment is usually because of an absence of supervision of partners in conducting audit assignments related to the company characteristics, the form of the recording system, and how habitual patterns must be given a skeptical attitude to avoid fraud that may occur in the financial statements Alzoubi, E. S. S. (2018). However, there is another opinion that too long tenure will result in the auditor's confidence level being too high, with various audit approaches used so far causing a lack of innovation and strategies developed to achieve quality audits by Novianti et al., (2010) & Carikci, O., & Ozturk, M. S. (2019).

Therefore, the enactment of government regulations regarding the tenure limit of the engagement duration among the client and the auditor is intended to overcome public opinion about the effect of tenure on independence.

The government also hopes that auditors can have innovations and new strategies related to auditing financial statements. However, these government regulations make auditors have to work even harder to understand the client's business.

Audit Fee

The audit fee is a service fee that depends on the work, services provided, and the quality provided to the audit report. Before the assignment is carried out, the audit fee approval is no less important than the audit assignment. It cannot be denied that auditors work to get compensation for their audit services. As a result, an agreement on the audit fee must be reached upon as soon as possible between the auditor and the client to prevent disputes over tariff rates that can detriment the credibility of public accountants (Kurniasih, 2014).

Determining the fee for audit services must be reasonable according to the dignity of the public accounting profession and the quality of the audit results. Too low fees will reduce the audit quality owned via the auditor and reduce the standard of competence in the auditor. The provision size of audit fees is marked by several things.

The Ethics of the Public Accountant Compartment (2000) explained that the amount of the audit fee is marked by the risk of the audit assignment, the complexity of audit services, the level of expertise provided, the form of the PAF financing procedure concerned, and several considerations related to other professionalism. Large public accounting firms invest heavily to improve the performance of their auditors to become specialist auditors.

The term specialization relates to higher audit quality when an auditor already has a specialist in a particular industry. Also, the audit fee received by the auditor should be given in accordance with the audit services performed. However, it is different on the side of the company's management trying to minimize expenses, including audit fees, so that they do not become a financial burden. Regarding the basis for determining the audit fee,

Auditor Rotation

Various cases involving well-known auditors and public accounting firms, which have

decreased the trust of financial statement users, have made mandatory rotation regulations deemed necessary. The regulations governing the change of auditors result in limited time for the engagement period so that there will be mandatory auditor rotation.

Not only mandatory but auditor rotation is divided into two: mandatory and voluntary. Mandatory rotation is due to the company's compliance with applicable government regulations, while voluntary rotation occurs due to other reasons that can come from the company's internal (Susan and Trisnawati, 2011). In Siregar et al.'s (2011) studies, the regulation of auditor rotation aims to improve audit quality. It is based on the opinion that the longer the relationship among the auditor, both auditor partners and public accounting firms, and the client, the auditor independence will decrease. However, the competence to perform rotations can also reduce audit quality because auditors have to face new companies and risks and adapt to new environments. Auditors also need more time adjusting and learning about their new clients than when auditors audit previous clients

Previous Research and Hypothesis Development

Relationship Between Public Accounting Firm Tenure and Partner Tenure on Audit Quality

Various cases of financial statement fraud involving well-known public accounting firms have an effect on decreasing public confidence in the profession of an auditor. This decrease in trust is because the financial statement users believe that long cooperative relationships result in low auditor independence so that objectivity when carrying out assignments is reduced. The longer tenure will guide to closeness and trigger the auditor to follow the client's wishes so that the financial statements reported by the auditor are considered good; it causes objectivity to decrease.

The length of a public accounting firm's engagement with a client in a company to provide audit services is referred to as audit tenure. Audit tenure is a problem because of differences in perceptions when tenure is too short or too long

Alzoubi, E. S. S. (2018). explained, the length of audit tenure can enhance audit quality. It is based on several things, such as high audit fees due to the possibility of audit failure in the early assignment period. When the audit period is long enough, it will be easier for the auditor to comprehend the client's business; thus, the audit's quality will be better.

On the other hand, a short tenure will reduce audit quality because of the auditor's difficulty and time in understanding the client's business. It is supported by studies by Panjaitan (2014), Giri (2010), Mgbame (2012), and Paramitha and Latrini (2015) that audit tenure had an adverse impact on audit quality. These various studies conclude that the longer the tenure makes the auditors too confident and do not provide innovations and new strategies in their approach to examining the company's financial statements.

Similar to Kurniasih and Rohman (2014) and Maharani (2014), negative results were found for the impact of audit tenure on audit quality. Maharani (2014) explained that tenure audit does not guarantee better audit quality, even though the auditor should better understand the company characteristics to narrow the room for fraud. In contrast to Novianti's research (2010), she separated between PAF tenure and partner tenure, indicating that PAF tenure had a favourable impact on audit quality, while tenure partner had a negative impact.

From the various explanations above, only one study specifically divided PAF tenure and partner tenure according to government regulations, which distinguishes the tenure limit between offices and partners. The division of tenure into PAF and partner is necessary because there is a possibility that tenure partner or PAF separately tenure influences audit quality. Thus, the hypothesis proposed in the study is as follows:

H₁: PAF tenure has a positive effect on audit quality.

H₂: Partner tenure has a negative effect on audit quality.

Relationship of Audit Fee to Audit Quality

Agency theory has a relationship with the cost theory of transactions, where agency theory emphasizes contractual relationships, while transaction cost theory focuses more on contracts that will be carried out between public accountants and clients (Hartadi, 2012).

If it is adjusted to the circumstances that it should be, a company experiencing bad financial conditions will definitely not choose an auditor with good quality with high audit fees. It can happen because the company assumes that when the auditor has good quality, it is feared that he will detect material misstatements in the company's condition that is not good and will then convey it to the financial statement users.

Fees are given to the auditor when the audit services have been completed. The compensation given will be adjusted according to the initial contract agreement. The determination of the audit fee influences several things, such as when the audit fee is low, it will make management have the opportunity to play the company's profits, resulting in a bias in the financial statements; it indicates that when the audit fee is low, it will decrease the level of auditor independence and decrease audit quality (Fitryani et al., 2013).

The auditor's effort to provide the best performance is driven by the audit fee provided so that the auditor is motivated to provide high audit quality and strives to enhance audit quality continuously.

The total of the audit fee given to the public accountant from the client is a small part of the income of the public accounting firm. Several previous studies that discussed audit fees revealed that audit fees had a favourable influence on audit quality. These studies include Yuniarti (2014), Kurniasih and Rohman (2014), and Pratistha and Widhiyani (2014).

If the value of the audit fee is greater, it will affect the auditor's efforts to improve audit performance. The provision of audit fees will be adjusted to the number of operational costs that have been estimated during the implementation of audit services for one year period. The research above supports a study from Hartadi (2009), which stated that the greater the value of the audit fee given by management to the auditor, the higher the audit quality.

The explanation above is related to positive accounting theory, where the management behavior to take the best policy is to minimize the costs incurred. However, returning to agency theory, management must also always maintain the trust of financial statement users.

Thus, even though management minimizes costs, the quality of audited financial reports must remain reasonable. This theory also relates to auditors; if they want to get a big

reward, the quality of the resulting audit must be better. Because their performance will affect their welfare, the policies they take significantly affect the results they get. Depending on the explanation above, the hypothesis formed is as follows:

H₃: Audit fees have a positive effect on audit quality.

Relationship between PAF Rotation and Auditor Partner Rotation on Audit Quality

The obligation to rotate auditors is a government measure to prevent and reduce the too-tight relationship between clients and auditors. The policy on audit rotation should be tested for its effectiveness. Several parties state that the significant elevate in audit fees is due to audit rotation because the auditor must study the client's business at the beginning of the rotation.

In the relationship between rotational obligations and agency theory, this theory describes a company's position, how the company increases investor confidence in the company's performance, that is reflected in the audited financial statements. Therefore, the company rotates both the auditor partner and the public accounting firm, which oversees it.

The rotation policy is not supported by the research results from Kurniasih and Rohman (2014), which stated that audit rotation did not impact audit quality. Their study's results also support Siregar et al.'s (2012) study, which differs from previous research regarding audit rotation. It was found that audit rotation had a positive impact on audit quality, as in the study by Pratista and Widhiyani (2014) and Dianti (2014).

The above research is related to audit rotation in general. In contrast to a study by Firth et al. (2010), the previous rotation was PAF rotation, whereas mandatory audit partner rotation had a positive impact on audit quality. In addition, various fraud cases bearing the name of well-known PAF, such as Enron, made the government think that rotation is necessary to minimize fraud and maintain auditor independence.

If looking at the real purpose, the auditor rotation is to maintain the independence of the auditor and PAF. Supposedly, each PAF and auditor partner compete to have a high level of audit quality so that competition in the audit world will be better. When audit independence and quality are getting better, the trust of financial statement users will increase. The possibility of audit quality will be better with audit rotation, both rotation of public accounting firms and auditor partners. Depending on the explanation above, the hypothesis developed is as follows:

H₄: PAF rotation has a negative effect on audit quality.

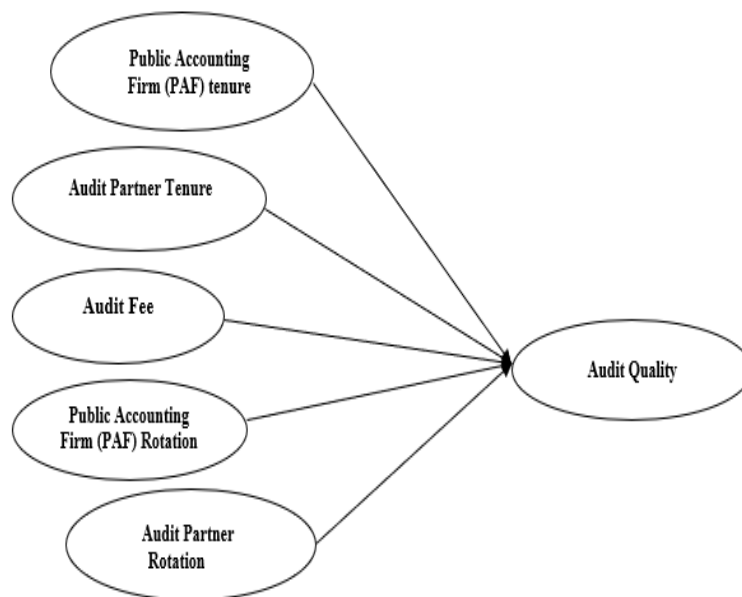
H₅: Audit partner rotation has a positive effect on audit quality.

3. Research Model

Meanwhile, the research basis depend on theory and previous papers used as a reference for formulating hypotheses, the research model is formed as follows:

Figure 3.1

Research Model



The data for this study came from the annual financial statements of manufacturing companies that were audited and quoted on the Amman Stock Exchange between 2013 and 2020. The selection of the research period was carried out to see the effect of changes in regulatory policy on the auditor tenure and rotation.

The choice of manufacturing companies was due to the scope of the manufacturing company being quite broad and could represent the entire company condition in the Jordan Stock Exchange. In this case, manufacturing companies are industrial processing companies that process raw materials into ready-to-use materials.

On the Amman Stock Exchange, manufacturing companies have the highest number compared to other company types and several business sectors. Although it consists of several sectors, manufacturing companies have similar characteristics, namely producing a product. In this paper, the kind of data utilized was secondary data.

The data were obtained from the audited annual financial statements of all manufacturing companies listed on the Amman Stock Exchange. The data sources used were from the Amman Stock Exchange website, and various journals related to this research. The samples used in current paper were attained utilizing the purposive sampling method. This sampling was done because of the diversity of the company's population listed on the Amman Stock Exchange.

The audit quality measured using total accruals was also carried out by Hartadi (2009), Chih – Ying et al. (2008), Jackson et al. (2008), and Hoitash et al. (2007). The following is the calculation of total accruals used in several previous studies.

$$TAt = \Delta CA_t - \Delta Casht - \Delta CL_t + \Delta DCL_t - DEPt$$

CA_t : change in current assets in year t

Casht : change in cash and cash equivalents for year t

CL_t : change in current liabilities in year t

DCLt : change in payables including current liabilities in year t

DEPt : depreciation and amortization expense for year t

In addition, the independent variable is a variable that will explain or give an effect to the dependent variable. In current study, the independent variables consisted of:

Audit Tenure

The engagement duration between the auditor and the client within a specific period agreed upon previously is audit tenure. Referring to research from Rozali and Prasetya (2016) and according to Sinaga (2012), the measurement of audit tenure utilized an interval scale for calculating the length of the engagement duration among PAF auditor and client.

The calculation in the measurement was by adding up the engagement years. The first year of research started with the number one for the engagement period and was added by one for the following year. It applied to the engagement period of the auditor partner and the public accounting firm overseeing it. This information provision related to audit tenure in the financial statements counted for several years was to assure the length of the audit tenure.

Audit Fee

The audit fee is the income received by the auditor as wages for audit services performed. The audit fee depends on the level of complexity job, the level of expertise of the auditor, and how the risks faced by auditors when carrying out assignments. In this study, audit fees were measured by looking at the professional fees included in the company's financial statements, which would be then calculated using the natural logarithm (Kurniasih and Rohman, 2014).

Auditor Rotation

Audit rotation is an altar of auditors, both auditor partners and PAF auditors, in cooperation with the company. Auditor rotation could be calculated using a Dummy variable with a value of 1 when rotating and 0 if the company did not rotate in year t. It applied to the

auditor partner and PAF. Auditor partner rotation was shown by looking at the audit report of the person in charge who gave the signature. For PAF rotation, it could be seen at the top of the audited report under the name of PAF providing audit services.

Hypothesis testing aims to know the relationship between the independent variables and the dependent variable (Khotimah, 2013). Current paper, hypothesis testing was performed using multiple linear regression. The regression equation for research testing is as follows.

$$KA = \beta_0 + \beta_1 TAP + \beta_2 TAK + \beta_3 FEE - \beta_4 RAP + \beta_5 RAK + e$$

KA : Audit quality

B : Constant

β1–β5 : Regression coefficient

TAP : Audit partner tenure

TAK : PAF tenure

FEE : Audit fee

RAP : Audit partner rotation

RAK : PAF rotation

e : error terms

4. RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

This study presents the total of data, maximum and minimum values, mean values, and standard deviation values for both the dependent and independent variables in descriptive statistics.

Table 4.1 shows the overall descriptive statistics results:

Table 4.1 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PAF tenure	272	1.00	8.00	3.1324	1.97141
Partner tenure	272	1.00	4.00	1.5846	.78278
Audit fee	272	19229000	196128000000	13157186595.15	27862465905.599
PAF rotation	272	.00	1.00	.2610	.44001
Partner rotation	272	.00	1.00	.5846	.49371
Audit quality	272	23618267000000	11377614000000	28651076158.08	2465277312356.817

Table 4.1 above reveals that there were 272 samples utilized for research. The following are the results of the descriptive statistics for each variable:

Autocorrelation Test

The autocorrelation test determines whether there is a relationship in the linear regression model between the confounding error in period t and period t-1 (previous). The Durbin-Watson

test can be used to conduct an autocorrelation test (dw test).

Table 4.2. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.268 ^a	.072	.054	.49565	2.027

Based on the Table 4.2, it can be seen that the value of the Durbin-Watson (DW) test was 2.027. The autocorrelation test formula $DU < Dw < (4 - DU)$. $DU=1.83309$, $4-DU=2.16691$. Thus, $1.83309 < 2.027 < 2.16691$ means that there was no autocorrelation.

Research Results (Hypothesis Testing)

A multiple linear regression analysis was used to investigate the impact of PAF tenure, audit partner tenure, audit fees, PAF rotation, and audit partner rotation on audit quality. The multiple linear regression analysis models were tested concurrently (F-test) or partially (P-test) (t-test). The F-test and t-test significance tests are defined as follows:

The summary of the multiple linear regression analysis results carried out is as follows:

Table 4.3

Multiple Linear Regression Test Results

Variable	B	t-count	Sig t	Description
(Constant)	-2.788			
PAF tenure	-0.158	-2.498	0.013	Significantly negative
Audit partner tenure	0.051	0.290	0.772	Not significant
Audit fee	0.968	2.933	0.004	Significantly positive
PAF rotation	0.015	0.120	0.905	Not significant
Audit partner rotation	-0.004	-0.021	0.983	Not significant
F-count	4.119			
Sig F	0.001			
Adjusted R Square	0.054			

a. Coefficient of Determination (R^2)

Table 4.4

Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.268 ^a	.072	.054	.49565

The Adjusted R Square value of 0.054 indicated the magnitude of the influence of PAF tenure, audit partner tenure, audit fees, PAF rotation, and audit partner rotation all at the same time on audit quality. It denotes that PAF tenure, audit partner tenure, audit fees, PAF rotation, and audit partner rotation influenced 5.4% of audit quality. Meanwhile, the remaining 94.6% came from other variables outside of this study (100%-5.4%).

A. Simultaneous Regression Test (F-test)

Table 4.5

Simultaneous Regression Test (F-test)

Model	Sum of Squares	Df	Mean Square	F	Sig .
1 Regression	5.059	5	1.012	4.119	.001 ^b
Residual	65.348	266	.246		
Total	70.408	271			

From simultaneous regression, the F-count value was 4.119, with probability (p) = 0.001. Based on the terms of the F-test, the probability value (p) was 0.05. Thus, PAF tenure, audit partner tenure, audit fees, PAF rotation, and audit partner rotation simultaneously had a significant impact on changes in audit quality.

Partial Regression Test (T-test)

Table 4.6

Partial Test (T-Test)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.788	1.037		-2.689	.008
	PAF tenure	-.158	.063	-.215	-2.498	.013
	Audit partner tenure	.051	.175	.044	.290	.772
	Audit fee	.968	.330	.175	2.933	.004
	PAF rotation	.015	.128	.011	.120	.905

	Audit partner rotation	-.004	.203	-.003	-.021	.983
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The test results in Table 4.6 obtained the following formula:

$$KA = -2.788 - 0.158TAK + 0.051TAP + 0.968FEE + 0.015RAK + 0.015RAP + e$$

1. PAF Tenure

The t-count value was -2.498, and the regression coefficient was -0.158, with probability (p) = 0.013, based on the partial regression test. Because the data processing results indicated a probability value (p) of 0.05, it is possible to conclude that PAF tenure had a negative and significant impact on audit quality.

It indicates that the shorter audit tenure of data on manufacturing companies quoted on the Amman Stock Exchange between 2013 and 2020 increased audit quality. According to these findings, PAF tenure had no positive impact on audit quality. As a result, the first hypothesis was ruled out.

2. Audit Partner Tenure

From the partial regression test, the t-count value was 0.290, and the regression coefficient was 0.051, with probability (p) = 0.772. Based on the data processing results where the probability value (p) was > 0.05, it can be denoted that the audit partner tenure had no significant effect on audit quality.

It signifies that the longer audit partner tenure in manufacturing company data listed on the Amman Stock Exchange in 2013-2020 had not improved audit quality. These results suggested that the second hypothesis was rejected.

3. Audit Fee

The t-count value was 2.933, and the regression coefficient was 0.968, with a probability (p) of 0.004 based on the partial regression test. Because the data processing results revealed a probability value (p) of 0.05, the audit fee had a positive and significant effect on audit quality.

It demonstrates that the higher the audit fee charged on the data of manufacturing companies listed on the Amman Stock Exchange between 2013 and 2020, the higher the audit quality. The third hypothesis was accepted based on the findings.

4. PAF Rotation

From the partial regression test, the t-count value was 0.120, and the regression coefficient was 0.015, with probability (p) = 0.905. Based on the data processing results where the probability value (p) was > 0.05 , it can be inferred that PAF rotation had no significant impact on audit quality.

It means that the more frequent PAF rotation on the data of manufacturing companies listed on the Amman Stock Exchange in 2013-2020 had not improved audit quality. Based on these results, it can be explained that the fourth hypothesis was rejected.

5. Audit partner rotation

The partial regression test obtained a t-count value of -0.021 and a regression coefficient of -0.004, with probability (p) = 0.983. Based on the data processing results where the probability value (p) was > 0.05 , it can be concluded that audit partner rotation had no significant effect on audit quality.

It shows that the frequent rotation of audit partners in the data of manufacturing companies listed on the Amman Stock Exchange in 2013-2020 had not improved audit quality. These results indicate that the fifth hypothesis was rejected.

6. Overall independent variables

Simultaneous F-test obtained an F-count value of 4.119, with a significance value of 0.001. Based on the data processing results that probability (p) was < 0.05 , it can be denoted that PAF

tenure, audit partner tenure, audit fees, PAF rotation, and audit partner rotation simultaneously affected audit quality. From these results, the sixth hypothesis was accepted.

Table 4.7

Summary of Hypothesis Testing Results

Code	Hypothesis	Results
Ha1	PAF tenure has a positive effect on audit quality.	Rejected
Ha2	Audit partner tenure has a negative effect on audit quality.	Rejected
Ha3	Audit fees have a positive effect on audit quality.	Accepted
Ha4	PAF rotation has a negative effect on audit quality.	Rejected
Ha5	Audit partner rotation has a positive effect on audit quality.	Rejected

Discussion (Interpretation)

The following variables were tested in this study: PAF tenure, audit partner tenure, audit fees, PAF rotation, and audit partner rotation. According to the test results, not all independent variables had a significant positive effect on the dependent variable, which was audit quality. Audit fees were the only variable that positively influenced audit quality.

1. The Effect of PAF tenure on audit quality

The first test conducted on the effect of PAF tenure on audit quality showed that PAF tenure was significantly negative. The shorter PAF tenure would have more effect on audit quality. It indicates that the first hypothesis was rejected because the significance value was less than alpha but gave a negative direction. The research year used was for eight periods from 2013-2020, while the PAF tenure policy in Jordan has been started since 2002.

Thus, this research concerning public accounting practice, which improves the previous regulation. However, the regulation does not regulate the PAF limit, so that several companies have a relatively long tenure. From the data processing results, the longest tenure was eight years. The longer the auditor cooperates with the client, should increase the auditor's understanding of the client's business model, making it easier for the auditor to identify things that indicate fraud.

It aligns with Maharani's (2014) research. However, the results are, in fact, different regarding some impacts caused by the length of cooperation. Too long the engagement period (audit tenure) will create an emotional closeness between the auditor and the client, which is feared to reduce the auditor's independence level. In this study, audit quality was not influenced by PAF tenure because the relationship between PAF and clients was only limited to work routines.

Previous studies conducted by Panjaitan (2014), Giri (2010), Mgbame (2012), and Paramitha and Latrini (2015) have also explained that tenure did not affect audit quality. This study's results also uncovered a significance value of <0.05 but gave a negative direction.

The hypothesis rejection occurred since the longer PAF tenure was not a benchmark for increased audit quality. Supposedly, PAF's continued tenure will provide understanding to PAF to find fraud indications that the client will commit. Nevertheless, as PAF tenure has a long time, PAF does not have innovation for each strategy at the time of auditing. It is in accordance with research from Kurniasih and Rohman (2014).

2. The Effect of Audit Partner Tenure on Audit Quality

The second test was carried out on the audit partner tenure variable. It is known that the study results indicate that the audit partner tenure did not affect audit quality. It means that the second hypothesis was rejected so that audit partner tenure did not affect audit quality.

The research year used was 2013-2020, related to the regulation on the obligation to change auditor partners from PMK Number 17 of 2008, which states that public accountants may only audit the same client for three consecutive years. In the middle of the research year, there was a change in the regulation of auditor partner tenure policy, namely Government Regulation Number 20 of 2015, which states that public accountants can audit the same client for five consecutive years.

The researcher's data revealed that the longest time for an auditor partner to conduct an audit was four years. It signifies that public accountants in this study still complied with government policies. The longer a public accountant conducts an audit on a client, should impact the auditor's better understanding, making it easier to find fraud that the client will commit. However, it actually makes the auditors too confident so that they do not provide innovation for every audit examination carried out.

It corroborates with Novianti's (2010) research, which separated PAF tenure and audit partner tenure. In general, research related to tenure audit revealed that audit quality is not influenced by tenure audit. The longer a public accountant works with a client, it will make him have closeness and provide the possibility of decreased independence. Previous studies that support this study's results are Kurniasih and Rohman (2014) and Panjaitan (2014).

3. The Effect of Audit Fee on Audit Quality

The third test was carried out for the audit fee variable. The research results on audit fees indicate that audit fees affected audit quality, so that the third hypothesis was accepted. The higher the audit fee will increase audit quality because the increasing fee will motivate the auditor to provide the best performance in finding misstatements.

Research by Pratistha and Widhiyani (2014) explained that increasing audit fees would maximize auditors' performance. Auditors would also be motivated to explore matters relating to the client's business, making it easier to find misstatements that the company may commit.

The more often the auditors find misstatements, they will be considered to have good audit quality.

Regarding audit fees, the results showing audit fees had a positive influence on audit quality are also reinforced by research from Yuniarti (2011) and Kurniasih and Rohman (2014). These two studies elucidate that the higher fees adjusted to operations to conduct an audit would increase audit quality.

4. The Effect of PAF Rotation on Audit Quality

The auditor rotation policy was initiated by the occurrence of fraud committed by Enron, prompting several countries, including Jordan, to make regulations relating to public accounting services. The policy aims to protect the independence of public accountants.

The fourth test was carried out for the PAF rotation variable, with the results obtained that the PAF rotation did not affect improving audit quality. It indicates that the fourth hypothesis was rejected. The PAF rotation did not have any effect because the rotation did not have a notification chain for the client's business knowledge.

The point is that the old auditor does not provide knowledge about the client's business to the new auditor, so that the new auditor must study in depth the client's business, and it takes quite a long time. It causes PAF rotation to have a negative effect on audit quality.

This study's results align with Firth et al.'s (2010) research, which separated PAF rotation and audit partner rotation. Other studies in line are those of Kartikasari (2012) and Siregar et al. (2012), which showed that PAF rotation did not affect audit quality. Siregar (2012) explained that the tendency of management to reject the existence of PAF rotation is because the auditor will take a long time, which is considered to interfere with performance and incur more costs.

Thus, the rotation has not provided an increase in audit quality. On the other hand, when PAF rotation occurs too often, the audit process will take longer and tend fraud loopholes from management to go undetected due to a lack of understanding of the new PAF.

5. The Effect of Audit Partner Rotation on Audit Quality

The fifth test was conducted for the auditor partner rotation variable on audit quality. The results obtained from the tests uncovered that the auditor partner rotation did not affect audit quality. Related to this, the policy of auditor partner rotation has been carried out since 2008.

This research period relates to the regulatory policy of auditor partner rotation with PMK Number 17 of 2008, which explains that a public accountant can only audit the same client for three consecutive years. In the middle of the research period, there was a change in the regulation on partner auditor regulation to Government Regulation No. 20 of 2015, which changed the partner auditor's regulatory obligation to once every five years.

The results obtained align with research from Perdana (2014) that auditor partner rotation did not affect improving audit quality. Moreover, Perdana (2014) argued that there is a possibility that the regulations applied are less effective because, at the time of rotation, it will make the auditor experience audit failure in the first year.

The failure occurs due to the auditor's lack of understanding of the client's business so that the auditor does not detect fraud indications. This study's results are also reinforced by Sudarno (2012), who stated that management wants the maximum profit and avoids the risks so that management changes auditors, which will make it difficult for new auditors to detect fraud.

6. The Effect of PAF Tenure, Audit Partner Tenure, Audit Fee, PAF Rotation, and Audit Partner Rotation on Audit Quality

A simultaneous test was carried out to see the effect of all independent variables on the dependent variable. The results obtained revealed that all independent variables together had a significant influence on audit quality. It shows that the sixth hypothesis was accepted.

Audit quality is influenced by various things, including PAF tenure and audit partner tenure. The length of the engagement that occurs between the client and the auditor influences audit quality. According to Wibowo and Rosieta (2009) and Novianti (2010), the longer the tenure, the easier it is for the auditor to understand the client's business. Thus, the longer the auditor tenure, the easier it is to find misstatements.

Audit quality is also influenced by the number of audit fees provided by the client. The amount of the fee is influenced by the risks faced by the auditor, the complexity of the auditor's

work, and other calculations. The larger the audit fee, the more motivating the auditor to provide the best performance to improve the audit quality. It is in accordance with research from Pratistha and Widhiyani (2014). In line with that research, in Kurniasih and Rohman (2014), if the audit fee is higher and adjusted to the auditor's operations when conducting an audit, the audit's quality will be better.

Furthermore, improving audit quality is the government's expectation as a user of financial statements, which is the purpose of the audit rotation regulation. The existence of partner rotation and PAF rotation is expected so that auditors have innovations in each strategy to carry out audits to identify misstatements. The better the auditor's performance will produce a good audit quality so that the audited results can be used as a reference in making decisions by the financial statement users.

The influence of auditor rotation regulation is shown by research from Prathista and Widhiyani (2014) and Dianti (2014). Both stated that rotation had a positive effect on audit quality. Besides, every regulation made by the government must expect increasing good things.

It also applies to any applicable regulations relating to public accountants. Among these regulations are Government Regulation No. 20 of 2015 concerning the Practice of Public Accountants and Management Regulation No. 2 of 2016 from IAPI regarding Determination of Audit Fees. The two regulations relate to the tenure, compensation provided and the audit rotation regulation. The establishment of these regulations is to improve audit quality and make competition in the auditing world healthier. In addition, it is so that financial statement users always believe in the results of the auditor's performance.

5. Conclusion

The study results uncovered that tenure did not affect audit quality. It applied to PAF tenure and audit partner tenure. The longer the tenure makes the auditor unable to innovate the strategies used when carrying out audit service practices on clients.

Audit quality was also influenced by the number of fees given because the higher the audit fee, the more motivation for the auditor to explore the client's business to find

misstatements committed by the client. The more often the auditor finds misstatements, the audit quality is considered to be better. Regulations regarding the determination of audit fees have been regulated by so that the competition in the audit world is healthy.

It is because the fee determination already has a minimum limit, and management and auditors can agree according to the risk, complexity of work, length of work, and other things that need to be taken into account.

In addition, the regulation on auditor rotation is a government step to encourage auditors to innovate more on strategies to find misstatements in client companies. However, the results obtained from this study found that audit rotation, both PAF rotation and audit partner rotation, did not affect audit quality.

It could be because, in the first year of the audit, the auditor had to study the client's business, which took a long time, increasing the risk of audit failure. In addition, it was due to the absence of a notification chain from the previous auditor regarding the client's business knowledge.

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