

The effects of auditor reputation, financial condition, and potential intensive economy on artificial auditor rotation

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ABSTRACT

This research empirically re-tests the effects of auditor reputation, client's financial condition, and potential intensive economy on artificial auditor rotation. The issue of audit quality is still interesting for the researchers to empirically. Auditors are demanded to execute their profession independently. To maintain their being independent, this profession is regulated in the Decree by the Minister of Finance No. 17/PMK.01/2008 on public accountant service. It is mandatory for auditor rotation in that regulation and this is interesting to study more profoundly because in Indonesia this phenomenon of artificial rotation is found. Artificial auditor rotation indicates a condition in which, conceptually, there has been a change of the auditor but substantially the relationship between the auditor and the client is still going on. This research uses sample of companies listed in Indonesia Stock Exchange in 2002-2011, by purposive sampling technique. The analysis of the research was done using logistic regression. The results of the research show that auditor reputation affects auditor rotation. Yet, company's financial condition and potential incentive economy do not affect auditor rotation. This research is expected to deepen the concept of audit quality, whereas in practice it is expected to provide inputs for regulating auditor rotation. Auditors are expected to show real auditor rotation.

ABSTRAK

Penelitian ini akan menguji kembali secara empiris pengaruh reputasi auditor, kondisi keuangan klien dan insentif ekonomi potensial terhadap rotasi semu auditor. Isu tentang kualitas auditor masih menarik untuk diungkapkan dalam penelitian empiris. Auditor dituntut dapat melaksanakan profesinya secara independen. Untuk menjaga independensi, profesi ini diatur dalam Peraturan Menteri Keuangan No. 17/PMK.01/2008 tentang jasa akuntan publik. Kewajiban rotasi auditor dalam aturan tersebut menarik untuk dikaji lebih mendalam karena di Indonesia terdapat fenomena rotasi semu auditor. Rotasi semu auditor menunjukkan suatu kondisi bahwa secara konseptual telah terjadi pergantian auditor, namun secara riil hubungan antara auditor dan klien masih tetap berlangsung. Penelitian ini menggunakan sampel perusahaan yang terdaftar di Bursa Efek Indonesia tahun 2002-2011, dengan teknis purposive sampling. Analisis penelitian dengan pendekatan regresi logistik. Hasil penelitian menunjukkan bahwa reputasi auditor berpengaruh pada rotasi auditor. Sedangkan kondisi finansial perusahaan dan insentif ekonomi potensial tidak berpengaruh pada rotasi auditor. Penelitian ini diharapkan dapat memperdalam konsep tentang kualitas audit, dan secara praktis diharapkan dapat memberikan masukan tentang pengaturan rotasi auditor. Rotasi auditor seharusnya dapat menunjukkan rotasi secara riil pergantian auditor.

1. INTRODUCTION

Even though there have been many studies on auditor rotation, only a few have uncovered the exist-

tence of artificial auditor rotation in Indonesia. This research attempts to discover the effects of auditor reputation, client's financial condition, and poten-

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tial intensive economy on artificial auditor rotation. In Indonesia, there has been regulation on mandatory auditor rotation; however, the phenomenon of artificial auditor rotations still exists. In this case, artificial rotation shows a condition in which, conceptually, there has been a change of the auditor, but substantially the relationship between the auditor and the client is still going on (Junaidi et al. 2012, Junaidi 2014). That condition is suspected that either the auditor or the client tries to keep their working partnership. In addition, the relationship between auditor and client is a reciprocal relationship. Therefore, it is very possible that there exist reciprocal influence(s) between both parties. Artificial auditor rotation in Indonesia indicates that auditor and client want a long-term contract. Thus, it is important to empirically uncover some conditions that influence auditor rotation.

The issue related to audit quality is interesting for the researchers to study empirically since auditor as an independent party is demanded to run their business by prioritizing the aspect of independence. Auditor independence is a mental attitude which has to be owned by every auditor in handling their roles as a professional. To maintain audit quality, government published regulations that bond auditor and partner for running their business. Government published Decree of the Ministry of Finance No. 423/KMK.06/2002, which was changed into Decree of Ministry of Finance No. 359/KMK.06/2003 that obliged companies to limit the auditor assignment period within 5 years and the public accountant within 3 years. That decree was then revised by Decree of the Minister of Finance No. 17/PMK.01/2008 on public accountant service which limited the auditor assignment period within 6 years and public accountant within 3 years. Not only to regulate auditor and public accountant, had it also regulated foreign audit firm (foreign auditor). Thus, according to the regulation, mandatory auditor rotation must be done after the duration of the relationship period ends. Until today, the issues on mandatory auditor rotations still become a concern, especially of professional bodies of public accountant and stakeholders.

The supporters of mandatory auditor rotation assumed that the longer the relation between auditor and client, the bigger possibility of auditor independence to get lesser, because in a long period, over-familiarity between the auditor and client is likely to happen. Jackson et al. (2008) and Carey and Simnett (2006) find that there are negative relations between audit partner tenure and the tendency of going concern opinion giving. Junaidi et al. (2012, 2014) shows

that auditor tenure has negative effect on the tendency of going concern opinion giving. It shows that the longer the duration of auditor-client relationship, the less independent the auditor will be. On the other hands, the opponents of mandatory auditor rotation claim that the longer the duration of auditor-client relationship, the more competent the auditor will be, and as a result, the audit quality will also increase. The researches done by Geiger and Raghunandan (2002), Myers et al. (2003), Johnson et al. (2002) figure out that audit and financial reporting, and auditor tenure have positive relation.

Auditor reputation reflects audit quality which is measured by the size of the auditor. Regulator and small auditor state that auditor size does not influence audit quality and thus it must be irrelevant to choose the auditor. However, DeAngelo (1981a) contends that audit quality cannot be apart from the size of the auditor, even when at the beginning, the auditor has the same technological skill. The bigger the auditor, the bigger the quality supply will be given. Some studies have tested whether audit quality which is measured by auditor's brand name has positive relation(s) with audit quality. Auditor with high quality (Big N) can detect profit management since they have enough knowledge and are able to prevent opportunistic action(s) on profit management by the client (Becker et al. 1998; Francis et al. 1999).

The potential intensive economy is suspected to be a factor that influences the duration of auditor-client relationship. Certain opportunistic auditors with their individual nature do not want to lose potential income if they lose the client(s). For example, Hartadi (2009) states that the fee has significant effect on audit quality. Hoitash et al. (2007) also find the evidence that when auditor is negotiating with the management about the amount of fee which has to be paid by the management as the payment of the auditor's work, there is a big possibility of having been reciprocal concession which certainly will reduce the quality of the audited reports. This action surely leads to the action of sacrificing professionalism, in which that reciprocal concession will reduce the interests on audit quality maintenance.

Furthermore, Schwartz & Menon (1985) and Nasser et al. (2006) find that companies which face financial distress will likely change their auditor rather than companies which do not. Yet, Prastiwi and Wilsya (2009) in their research state that company's financial distress has nothing to do with auditor rotation. The researches done by Sinason et al. (2001), Setyorini and Ardiati (2006) state that

financial condition has no effect on auditor rotation. Companies which face financial distress want to be audited by the same auditor in long tenure since the auditor has better understanding on the companies' financial conditions.

This research is expected to uncover the effects of auditor reputation, client's financial condition, and potential intensive economy which are suspected as factors that influence auditor rotation. The results of this research are expected to be useful for the regulator, in this case Indonesian Public Accountant Institute, as the bases to regulate auditor rotation. The considerations of auditor rotation in Indonesia suppose to really reflect real rotation, and not the artificial one. It means, the regulation which is created has to be able to effectively bond the duration of auditor-client relationship. Furthermore, this research is expected to be useful as the bases of auditor's considerations to keep maintaining their audit quality as what is regulated on audit standard.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Audit Quality

Audit quality is probability that the auditor will uncover the breach and report the breach (DeAngelo 1981b). Audit quality is probability that the auditor will not issue an unqualified report for statements containing material errors (Lee et al. 1999). Peecher and Piercey (2008) state that audit quality is probability of an auditor to find and report violation(s) of the client's accounting system. Probability of the finding depends on auditor technical capability and auditor independence. Independence is an ethic component that has to be maintained by the public accountant. Independence means the auditor must be honest, have conviction, and not take any side of certain party's interests since the job is done for public.

Coram et al. (2008) state that audit quality is the possibility of an auditor to find unintentional/intentional error from company's financial report, and the possibility of the finding(s) to be reported and given in their audit opinion(s). Audit quality depends on auditor technical capability which is represented by experiences and professional education, and auditor independence in maintaining mental attitude. Furthermore, Peecher and Piercey (2008) state that audit quality is probability of an auditor to find and report violation(s) of the client's accounting system. Probability of the finding depends on auditor technical capability and auditor independence.

Auditor Service Providing

To maintain audit quality, government has published Decree of Ministry of Finance No. 423/KMK.06/2002, which was changed into Decree of Ministry of Finance No. 359/KMK.06/2003. The regulation states that general service on client's financial report can be done by an auditor within 5 years in succession and by a partner within 3 years in succession. That decree was then revised with Decree of the Minister of Finance No. 17 of 2008. The second part of the regulation explains about the limitation of auditor service period, in this case general audit service on financial reports as an entity, as what is written on Article 2 Verse (1) the letter "a" done by an auditor is at most within 6 years in succession and by a partner is at most within 3 years in succession.

Not only to regulate auditor and partner, has the regulation also regulated foreign audit firm (foreign auditor). Foreign audit firm is a foreign professional service firm that has a license from the authority in the country to do at least an auditing business at least on general auditing of financial reports. Practically, auditor is allowed to affiliate with foreign auditor in Indonesia. In relation with auditor and partner rotation, there has been clear regulation in Indonesia but in fact there is no clear regulation on foreign auditor. Because of that, practically, to fulfill the regulation of mandatory rotation, auditor changes its name or changes the partner, but still affiliate with the same foreign auditor in practice.

On April 6, 2015, government had published Government Regulation No. 20 of 2015 on Public Accountant Practice (President RI, 2015) which was further regulation of Law No. 5 of 2011 on Public Accountant. In relation with the regulation on public accountant service rotation, it was also regulated in the Article 11 PP 20/2015, of which in Article 11 verse (1) it is explained that: the audit service on historical financial information as what is meant in Article 10 Verse (1) the letter "a" to a certain entity by a Public Accountant is limited to be at most within 5 (five) years in succession.

Auditor Rotation

Quality of financial reporting, auditor independence, objectivity, and professional skepticism become interesting issues in relation with the regulation of auditor rotation. Until this very day, mandatory auditor rotation still becomes a hot debatable topic. Pros and cons about whether or not mandatory auditor rotation is compulsory keep going with their own empirical evidences on the impor-

tance and the unimportant of the rotation. Daugherty (2013) states that comments on mandatory auditor rotation are mainly based on issues of client familiarity decreasing, audit cost increasing, regulations, and competition between auditors.

Arguments Which Support Mandatory Auditor Rotation

Mauts and Sharaf (1961: 231) state that auditor has to realize various conditions which tend to influence their attitude and thus gradually decrease their independence. Threats on auditor independence are not only there in reporting, but are also potentially there in assessment processes done during the auditing (Dopuch et al. 2003, Bazerman et al. 1997). Because of that, it is suspected that the relation between auditor and client in a long period can influence auditor independence and objectivity. Specific argument on the consequence of independence which decreases because of a long period of tenure is auditor may give up on pressure given by the client in a situation of conflict in auditing, and in extreme term, the possibility of over-familiarity will cause collusion between the auditor and the client (McLaren 1958).

Supporters of mandatory auditor rotation show that audit quality will increase as a result of client familiarity decreasing. Nagy (2005) finds the evidence that auditor tenure has negative relation with audit quality. Furthermore, Jennings et al. (2006) using experimental approaches by analyzing 49 of judges' responses who attended advance course in National College Yudisial, finds the evidence of perceptions on auditor independence which can be increased by strengthening company management and auditor rotation. More, Fargher and Liwei (2008) find the evidence that in the beginning of auditor tenure, the quality of accounting policy decreases, but when there is an auditor rotation, the quality of accounting policy increases.

Daugherty et al. (2013) have done a survey on direct and indirect effect of partner rotation on audit quality. The survey was done on 370 partners in 14 public accountant firms with 46 percent level of response. The result shows that partner regards mandatory auditor rotation as independence increasing both in fact and appearance. Independence in fact is related to mental attitude of the auditor, and independence in appearance is related to others' perceptions on auditor independence, so that it has positive effects on audit quality. However, the partners of participants agree that certain knowledge on clients will be lost as a result of the rotation (decrease audit quality), and the duration of

auditor tenure produce higher audit quality. Audit quality will have negative effects when core members of the team which have particular knowledge on the client sign out from the audit team (Daugherty et al. 2013).

Mandatory auditor rotation is based on 2 assumptions: (1) long term auditor-client relationship will interfere auditor independence and capability to be neutral and objective, and (2) mandatory auditor rotation will overcome the problem(s) (if exist) related to long duration of relationship period between the auditor and the client (Jones et al. 2012). Junaidi et al. (2012, 2014) tested the effects of auditor tenure on audit quality which is measured by the tendency of auditor to give going concern opinion. The results of this research show that the longer the auditor tenure is, the less independent the auditor will be.

Arguments Which Do Not Support Mandatory Auditor Rotation

Studies which show the relation between auditor tenure and audit quality were done by Geiger and Raghunandan (2002), Johnson (2002), Myers et al. (2003), Manry et al. (2003), Carcello and Nagy (2004), Ghosh and Moon (2005), Carey and Simnett (2006), Knechel and Vanstraelen (2007), Shafie et al. (2009), Al-Thuneibat et al. (2010). Most of the studies in America reject the statement that the duration of relationship between auditor and client has negative effects on audit quality [for example those done by Geiger and Raghunandan (2002), Myers et al. (2003), Carcello and Nagy (2004), Ghosh and Moon (2005)].

Opponents of mandatory auditor rotation generally contends that the existence of mandatory auditor rotation increases the fee that has to be considered by the auditor, that is start-up costs, and time that has to be allocated to harmonize with the client. It means losing audit efficiency also means fee increasing. Arrunada and Paz-Ares (1995b) state that auditor will not be able to transfer knowledge well to the client because of the rotation.

Auditor Reputation on Auditor Rotation

Audit quality owned by public accountant can be measured from the size of audit firm which does auditing process (DeAngelo 1981a). Big Four auditors are regarded to do the auditing process with better quality compared to small audit firms or Non-Big Four auditors. This is caused by Big Four auditors have got more clients and more human resources so that they do not rely on a certain client or some clients only. Besides, because Big Four au-

ditors have reputation which is considered good by society, they will do the auditing process more carefully.

Mutchler et al. (1997) find the univariate evidence that big six auditors tend to give going concern opinion to companies that face financial distress rather than non-big six auditors. Auditor with big scale can provide better audit quality compared to auditor with small scale, including to give going concern opinion. DeFond et al. (2002) find the evidence that Big Four auditors are more often to report audit problems in going concern opinion rather than Non-Big Four auditors. Geiger and Rama (2006) tested the different audit quality between Big Four auditors and Non-Big Four auditors. The results show that the error rates type 1 and 2 which are made by Big Four auditor are lower than Non-Big Four auditors. Francis and Yu (2009) find that big auditors more likely give going concern opinion on audited reports, and the clients of big auditors are proved to have less aggressive profit management. Furthermore, the first hypothesis is formulated as follows.

H01: Auditor reputation does not influence auditor rotation.

Financial Condition on Auditor Rotation

Some researchers tested the effects of the conditions of financial distresses on auditor rotation have not found conclusive results. Companies which face financial distress tend to change the auditor compared to those which do not [Schwartz and Menon 1985, Nasser et al. 2006, Hudaib and Cooke 2005, Ismail et al. 2008]. Ismail et al. (2008) find that potential factors of bankruptcy with some financial ratios become the diving factors of auditor rotation of companies in Malaysia. The research of Hudaib and Cooke (2005) on companies listed in London Stock Exchange during the period of 1987-2001, which states that companies which face financial distress tend to receive qualified opinion, so it encourage the companies to change the auditor. Whereas, researches done by Sinason et al. (2001), Setyorini & Ardiati (2006), and Prastiwi and Frenawidayarti (2009) state that company's financial condition does not influence auditor rotation. Thus, the hypothesis is formulated as follows.

H02: Client's financial condition does not influence auditor rotation

Potential Incentive Economy on Auditor Rotation

Supporters of mandatory auditor rotation generally contend that long term auditor-client relationship can influence auditor objectivity and independence.

Some researches, such as those done by DeAngelo 1981b, Dies & Giroux 1992, O'Kefee et al. 1994, Raganathan et al. 1994, state that the existence of rotation can decrease audit failure, push client to adopt conservative accounting practice, and produce more complete reporting (OCA 1994 in Catanach Jr. et al. 1999).

Hartadi (2009) finds the evidence that fee really significantly influences audit quality. Hoitash et al. (2007) finds the evidence that when auditor is negotiating with the management about the amount of fee which has to be paid by the management as the payment of the auditor's work, there is a big possibility that there will be reciprocal concession which certainly will reduce the quality of the audited reports. This action surely leads to the action of sacrificing professionalism, in which that reciprocal concession will reduce the interests on audit quality maintenance. Dhaliwal et al. (2008) find the evidence that audit fee significantly influences audit quality. Thus, the hypothesis is formulated as follows.

H03: Potential intensive economy does not influence auditor rotation.

3. RESEARCH METHOD

Data Samples

This research uses the samples of companies listed in Indonesia Stock Exchange in the period of 2002-2011. The selection on samples is done by purposive sampling along the observable period, considering in that period, it is suspected that the phenomena of artificial rotations happened before the occurrence of Law No. 5 of 2011 on Public Accountant which is followed by Government Regulation No. 20 of 2015 on Public Accountant Practice which is the follow-up of Law No. 5 of 2011 on Public Accountant. The selection of observable period is based on the regulation on mandatory auditor rotation which has just been regulated by Minister of Financial in 2002, which was then revised in 2003, and revised again in 2008. During the period, it is suspected that artificial auditor rotation happened.

Research Model

$$ROTATION_{it} = a + b1REP_{it} + b2FINANCIAL_{it} + b3ECOINE_{it} + \epsilon_{it} \quad (1)$$

Description:

a: constants.

ROTATION_{it}: Rotation is a dummy variable which has the value of 0 including artificial rotation, and has the value of 1 if the rotation is not artificial.

FINANCIAL_{it}: is the financial condition of the company which is measured based on Altman model.

ECOIN_{it} : shows potential intensive economy which is

got by auditor and measured based on total assets.

REPit: shows the size of auditor which audits company i in t (0 is for Big Four affiliated auditors and 1 is for Non-Big Four affiliated auditors).

b_1, b_2, b_3 : coefficient.

Eit: error.

Operational Variable Definition

Rotation: shows auditor rotation. The regulation on mandatory auditor rotation forces clients to change the auditor which is demanded to audit their financial reports. When it has to change periodically, in order to be able to audit the same client(s), auditors change their names into a new auditor. If they change their name, auditor incumbent is still able to audit the same client with a new auditor. That means, conceptually, there has been a rotation, but substantially the relationship between the auditor and the client is still going on, and this is what is meant by artificial auditor rotation. Rotation variable is a dummy variable, which has the value of 0 for artificial rotation, and the value of 1 for non-artificial rotation.

REP: shows auditor reputation variable which is measured by using dummy variable. Auditor size shows the level of auditor reputation (DeAngelo 1981a, Knechel and Vanstraelen 2007). Auditor reputation is seen from the sizes of the auditors, which are grouped into 2, there are auditor which affiliate with Big 4 and auditor which does not affiliate with Big 4. Companies which are audited by Big 4 auditor is given the value of 1, whereas companies which are audited by Non-Big 4 auditor is given the value of 0.

FINANCIAL: Financial condition is measured by using revised model of Altman (2000), and the model can be used to explain financial condition of the company. Company's financial condition measurement using the model of Revised Z Score Altman, in which $Z = 0.717 WCTA + 0.847 RETA + 3.107 EBIT + 0.420 BVED + 0.998 SATA$. $WCTA$ = working capital/total asset, $RETA$ = retained earnings/total asset, $EBIT$ = earnings before interest and tax/total asset, $BVED$ = book value of equity/book value of debt, and $SATA$ = sales/total asset. If the value of Z is < 1.21 it is predicted that the company is likely to face bankruptcy (black area), which is then given the value of 1. If the value of Z is between 1.21 - 2.90, it is predicted that the company does not have any guarantee to be always stable in their financial condition (grey area), which is then given the value of 2. If the value of Z is higher than 2.90 it is predicted that the company is not likely to be bankrupt (white area), which is then given the value of 3.

ECOIN: Shows potential incentive economy that will be received by the auditor, measured by total asset. Big companies have high audit complexity. Because of that, the potential of income that will be got by the auditor is also high.

Hypothesis Testing

This research uses logistic regression analysis to see the effects of auditor reputation, auditor specialization, potential intensive economy, and client's financial condition on auditor rotation of companies listed in Indonesia Stock Exchange. The use of logit model is regarding to the dependent variable which is a dichotomy variable, namely artificial rotation (with the value of 0) and non-artificial rotation (with the value of 1).

Hypothesis testing using logistic regression method in steps described as follows.

Descriptive analysis. This analysis explains descriptive statistic of each variable.

Assessing the appropriateness of the logistic regression model using 'Hosmer and Lemeshow's goodness of fit' test. If the probability value based on goodness of fit test is higher than 0.05, it means the regression model is considered appropriate, since there is no difference between predictive classification and conservative classification.

Analyzing coefficient of determination (Nagelkerke R Square) to show variability of independent variable which can explain variability of dependent variable.

Analyzing predictive model classification power of each group.

Testing regression coefficient. If the significance value is not lower than alpha 5%, statistically H_{01} , H_{02} , H_{03} provided are rejected.

Before doing logistic regression test, to avoid error in model specification, multicollinearity testing is previously done.

4. DATA ANALYSIS AND DISCUSSION

The samples of this research were chosen using purposive sampling approach. This research takes samples of companies listed in Indonesia Stock Exchange during the period of 2002-2011, as many as 1831 samples. The data of financial reports were taken from the data center of Faculty of Economics and Business of Gadjah Mada University. Auditors' names, partners' names, and auditors' affiliations were taken from the website of Indonesian Public Accountant Association. The samples are shown in Table 1.

Financial conditions of the clients are measured based on Altman model (2000) and the value

Table 1
Sample Description

Description	Amount
Companies published financial statements in 2002-2011	2909
Companies with incomplete data	1078
Companies published financial statements in succession in 2002-2011 with complete data	1831
Companies with no auditor rotation	1284
Companies which have done auditor rotation, in this case the new auditor was not the same auditor that only changed the name of the firm, and the affiliation was also changed.	125
Companies which have done auditor rotation, in this case the new auditor was the same auditor that only changed the name of the firm, and the affiliation kept going.	419
Companies which were audited by an auditor in a certain period of time and after a year break the companies were audited by the same auditor again.	3
Total company samples	1831

Table 2
Clients' Financial Condition

Condition	Frequency	Percentage (%)	Cumulative Percentage (%)
Distress	789	43.1	43.1
Grey Area	632	34.5	77.6
Non-Distress	410	22.4	100.0
Total	1831	100.0	

Table 3
Auditor Description

Auditor	Frequency	Percentage (%)	Cumulative Percentage (%)
Non-Big Four Affiliated	838	45.8	45.8
Big Four Affiliated	993	54.2	100.0
Total	1831	100.0	

of Z is gained as shown in Table 2.

Then, based on the samples, there shows that most of go public companies are audited by big audit firms (affiliated with Big Four audit firms) on Table 3.

Multicollinearity

Good regression model is a model that does not contain multicollinearity, of which there is no correlation between their independent variables. Multicollinearity test on the data can be seen from the value of VIF (Variance Inflation Factor). If VIF value is less than 10, it can be concluded that there is no correlation between the independent variables or multicollinearity does not exist. Based on the test on Table 4, it is known that VIF value < 10. That means there is no multicollinearity problem on the model of the research.

Model Classification

According to the analysis which shows the Nagelkerke R Square value of 0.075, it means that reputation variable, financial condition, and potential intensive economy can explain 7.5% of auditor rotation types, and the rest is explained by other factors. The value of Hosmer and Lemeshow's goodness of fit is 0.127, which is more than 0.05. This

indicates that regression model is seen appropriate, because there is no difference between predictive classification and observable classification. All the models are able to classify auditor rotation of 77%.

Hypothesis Testing

The tests on hypothesis 1, 2, and 3 are based on the results of logistic regression test as what is shown on Table 5. According to Table 5, it can be seen that the variable of REP (auditor reputation) shows coefficient value of 1.106 with p value of 0.000. Because the p value is not more than alpha 0.05 hypotheses which states that auditor reputation does not influence auditor rotation is rejected.

This means clients audited by the auditors which affiliate with the Big Four tend to have artificial auditor rotation(s). If it is seen from client distribution, it shows that 54.2% of them chose auditor which affiliate with the Big Four. Company complexity needs a good audit quality to make the published financial reports are trusted by public. Thus, company client feels more comfortable and has more trust if the company is audited by a big audit firm (Big Four affiliated). Since clients feel comfortable with a big audit firm, the clients tend to maintain the auditor in order to be audited by the same auditor. This comfortable relationship can also be seen from

Table 4
Multicollinearity Test

Variable	Beta	Colinearity Statistic	
		Tolerance	VIF
REP	-0.182	0.953	1.049
FIN	0.006	0.968	1.033
ECOIN	0.007	0.957	1.045

Table 5
The Results of Logistic Regression Test

Variable	B	S.E.	P Value
REP(1)	1.106	0.000	0.000
FIN	0.037	0.615	0.615
ECOIN	0.040	0.169	0.169
Constants	0.301	0.346	0.385

the side of the auditor. When auditing the same client, auditor will feel more efficient from the side of expense because the auditor has known deeper about the client's condition. Besides, big audit firms usually do some big investments for their human resource developments to be able to audit well. Because of that, the human resources will be more professional in auditing certain industries since the company clients are not likely to change. It is surely in line with the statements of DeAngelo (1981a) that the quality of audit which is done by a public accountant can be seen from the size of audit firm which does auditing process, whether it is a big audit firm or Big Four Auditor, which is considered will do more qualified auditing process rather than small audit firm or Non-Big Four Auditor.

FINANCIAL variable (financial condition) shows p value of 0.615 which is bigger than alpha 0.05. This indicates that financial condition does not significantly influence auditor rotation. This result is different with the findings of Ismail et al. (2008), and Hudaib and Cooke (2005), of which potential factors of bankruptcy with the standards of some financial ratios become encouraging factors of auditor rotation to happen in a company. However, this research supports the statements of Sinason et al. (2001), Setyorini and Ardiati (2006), and Prastiwi and Frenawidayuarti (2009), which state that financial condition does not influence the rotation of auditor. Companies which face financial distress want to be audited by the same auditor in a longer period, since the auditor has got better understanding on the financial conditions of the companies.

Furthermore, the factor of potential incentive economy (ECOIN) shows the p value of 0.169 which is also bigger than alpha 0.05. It indicates that this variable does not significantly influence auditor rotation. Statistically, there are not enough evidences that potential intensive economy influences artificial auditor rotation. This is very possi-

ble that the fee or client service which is got by the auditor of which it has no standardization becomes the factor that causes the difficulties to exactly measure the effects of it towards auditor rotation.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This research empirically studies the phenomena of artificial auditor rotations in Indonesia. Although there has been a regulation on mandatory auditor rotation, there are only a few researches that uncover artificial auditor rotation. Based on the results of this research, auditor rotation is statistically significant in influencing auditor rotation. This research is expected to deepen the concept of audit quality and in practical to give inputs to the regulation on auditor rotation. Auditor rotation supposes to show the real rotation of auditor. This finding is in line with the Law No. 5 of 2011 on Public Accountant which is followed by Government Regulation No. 20 of 2015 on Public Accountant Regulation. At the end of the day, what is regulated in there is public accountant rotation and not auditor rotation, in which a public accountant can audit the client for no more than 5 (five) years in succession.

This research takes the samples by purposive sampling, so that the results cannot be generalized on different sample setting. Furthermore, this research only tests three factors that are suspected statistically influence auditor rotation. It is very possible that there are other suspected factors that influence auditor rotation, such as going concern opinion. Other than that, the occurrences of Law No. 5 of 2011 on Public Accountant and Government Regulation No. 20 of 2015 are needed to be studied on the effectiveness in creating audit quality.

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