

TERJEMAHAN

AUDITOR TENURE, AUDITOR ROTATION AND AUDIT QUALITY – A REVIEW

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TINJAUAN MENGENAI MASA PERIKATAN AUDITOR, ROTASI AUDITOR DAN KUALITAS AUDIT

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ABSTRAK: Argumen tentang masa perikatan auditor dan rotasi auditor berkisar tentang usaha menjaga independensi auditor dan kualitas audit. Terdapat dua hipotesa yang menjelaskan efek yang timbul dari masa perikatan auditor yang panjang. Hipotesa independensi auditor menyatakan bahwa masa perikatan auditor yang panjang akan menurunkan kualitas audit dan pelaporan keuangan karena munculnya gangguan terhadap independensi auditor. Sedangkan hipotesa keahlian menyatakan bahwa masa perikatan yang lebih panjang dapat meningkatkan kualitas audit lewat proses pembelajaran. Meskipun demikian, lama masa perikatan auditor sebaiknya cukup panjang sehingga auditor dapat menerapkan kompetensi dan keahlian mereka ke dalam proses audit serta memperoleh pemahaman yang memadai terkait perusahaan dan lingkungan yang mereka audit. Terlepas dari negara-negara yang telah menerapkan kewajiban pelaksanaan rotasi audit, masih banyak negara-negara yang menerapkan pelaksanaan rotasi sebagai tindakan eksperimen. Terlebih lagi, hasil penelitian atas pengaruh dari rotasi kantor audit/ pelaksana audit terhadap kualitas audit masih beragam dan belum meyakinkan. Secara spesifik, salah satu pendukung utama dari penerapan kewajiban pelaksanaan rotasi lewat undang-undang Sarbanes Oxley tahun 2002, Amerika Serikat, telah melakukan perubahan yang signifikan lewat amandemen undang-undang terkait pelaksanaan kewajiban rotasi kantor audit di tahun 2013. Namun, pada bulan April 2014, Parlemen Uni Eropa mengesahkan usulan tahun 2011 yang mewajibkan perusahaan eropa untuk menggunakan auditor baru setelah 6 tahun dengan 4 tahun masa peralihan. Oleh karena itu, kami menyimpulkan bahwa beragamnya hasil penelitian yang diperoleh serta perubahan-perubahan yang diterapkan pada aturan pelaksanaan kewajiban rotasi auditor sehingga hal ini memberikan peluang bagi pelaksanaan penelitian tentang masa perikatan auditor, rotasi auditor dan kualitas audit dimasa yang akan datang.

KATA KUNCI: Masa Perikatan Auditor, Rotasi Auditor, kantor audit, Pelaksana Audit, Kualitas Audit, Independensi Auditor

PENDAHULUAN

Perdebatan muncul dalam berbagai literature akademik dan profesi akuntansi tentang keterkaitan antara masa perikatan auditor, rotasi auditor dan kualitas audit (Petty and Cuganesan, 1996, Jenkins and Vermeer, 2013; Blandon and Bosch, 2015). Inti dari perdebatan tersebut adalah pertanyaan mengenai independensi auditor dalam hubungan antara auditor dengan klien; yaitu, kemampuan auditor untuk mempertahankan sikap netral dan objektivitasnya dalam menjalankan tugas-tugas audit, memberikan pendapat audit dan menjaga kualitas laporan audit. Hal ini disebabkan karena proses audit menambah keyakinan atas informasi

keuangan dengan memberikan verifikasi independen terhadap laporan keuangan yang dikeluarkan oleh pihak manajemen, dan berkontribusi dalam meminimalisir resiko kesalahan informasi yang diterima investor (Watts and Zimmerman, 1986; Johnson *et al*, 2002; Mansi, Maxwell and Miller 2004). Selain itu, pihak yang terlibat dalam pasar modal juga sangat mengutamakan kualitas audit (Teoh and Wong, 1993; Moreland, 1995; Khurana and Raman 2004; Pittman and Fortin, 2004) karena independensi dan kompetensi auditor mempengaruhi kredibilitas, keandalan dan kualitas dari laporan auditor tersebut (Watkins, Hillison and Morecroft, 2004).

Perdebatan telah lama terjadi (walaupun hanya didukung bukti-bukti empiris yang terbatas) bahwa masa perikatan auditor yang semakin panjang dapat merusak independensi auditor dan kualitas audit, karena hubungan antara auditor-klien yang semakin panjang dapat menimbulkan keakraban yang berlebihan dan membuat auditor kehilangan sikap netralnya (Mautz and Sharaf 1961; Shockley, 1982; Vanstraelen 200; Carey and Simnett 2006, Gul *et al*. 2011, Blandon and Bosch, 2015). Auditor dapat terpengaruh untuk mengikuti keinginan klien dalam hal pilihan manajemen akuntansi dan pelaporan untuk mempertahankan klien sehingga rencana program audit tidak dapat berjalan dengan baik (US Senate 1976:21; AICPA, 1978 & 1992; SEC 1994; Arrunada and Paz-Ares 1997; Morrill, 2008). Hal ini juga memperkecil kemungkinan untuk munculnya opini auditor yang berkualitas dalam hubungan auditor-klien yang panjang (Vanstraelen, 2000; Carey and Simnett, 2006; Blandon and Bosch, 2015).

Menurut DeAngelo (1981 a: 186), kualitas audit adalah nilai probabilitas auditor akan (1) menemukan pelanggaran dalam sistem akuntansi klien dan (2) melaporkan pelanggaran tersebut. Dia berpendapat bahwa kantor audit yang telah mapan dan memiliki banyak klien dianggap memiliki tingkat independensi yang lebih tinggi, karena masing-masing klien secara individu dianggap tidak signifikan terhadap keberadaan kantor-kantor audit besar. General Accounting Office – GAO (2004) berpendapat bahwa kualitas audit mengacu kepada auditor yang melaksanakan audit dan kesesuaiannya terhadap standar-standar audit yang diterima secara umum (Generally Accepted Auditing Standards – GAAS) dalam memberikan jaminan dan keyakinan yang memadai bahwa laporan keuangan yang diaudit telah (1) dilaporkan sesuai dengan Pernyataan Standar Akuntansi Keuangan (PSAK) dan (2) tidak mengandung kesalahan yang material, baik yang muncul karena ketidaksengajaan maupun kecurangan.

Ukuran kualitas audit termasuk nilai-nilai seperti: (1) akrual (Becker *et al*, 1998, Francis *et al*, 1999, Francis and Krishnen, 1999; Bartov *et al*, 2000; Myers *et al* 2003; Francis and Wang 2007). (2) Akrual perolehan modal kerja yang tidak normal (Abnormal working capital accrual – AWCA) (Defond and Park 2001) (3) Biaya tidak wajib yang telah dicatat namun belum dibayarkan (Francis and Krishnan, 1999, Johnson, Khurana and Reynolds, 2002, Hamilton *et al*, 2005 Carey and Simnett, 2006) (4) Biaya dan Jam Audit (Deis and Giroux 1996, Caramanis and Iennox 2008) (5) hubungan antara keuntungan perusahaan dan pendapatan tidak terduga (Ghosh and Moon, 2005) (6) kecenderungan untuk mengeluarkan opini audit yang telah dimodifikasi (Lim and Tan 2008, Firth, Rui and Wu, 2012). Kualitas audit tidak hanya ditentukan oleh independensi auditor tetapi juga oleh faktor-faktor seperti kualitas standar akuntansi, pendidikan akuntansi, keahlian auditor, komite audit, tata kelola perusahaan, tingkat disiplin auditor, kewajiban dan sifat dari

PSAK. Kelembagaan (kondisi ekonomi umum, cara perusahaan dikelola) dan kerangka peraturan, kondisi hukum (perlindungan bagi investor, tuntutan pasar modal, penegakan hukum) serta faktor perkembangan pasar modal juga berkontribusi dalam munculnya perbedaan kualitas akuntansi dalam sebuah Negara (Ball, Kothari and Robin, 2000, Khurana and Raman, 2004, Choi and Wong, 2007, Francis and Wang, 2008, Firth et al, 2012).

Karena laporan keuangan yang telah diaudit merupakan produk bersama yang muncul dari proses negosiasi antara auditor dengan klien, hal ini menimbulkan resiko terganggunya tingkat independensi auditor yang merupakan inti dari integritas proses audit. Independensi auditor merupakan hal utama dalam menentukan tingkat keandalan laporan auditor dan telah menjadi fondasi serta aset berharga bagi profesi akuntan. Oleh karena itu, pentingnya independensi auditor selalu menjadi sorotan dan ditegaskan secara berulang-ulang oleh pembuat kebijakan dan penulis literatur (AICPA, 1999; POB 2000). Untuk menjaga dan mengurangi resiko ancaman terhadap independensi auditor, para pengusung kebijakan rotasi auditor telah mendorong penerapan aturan yang mewajibkan pelaksanaan rotasi auditor, baik yang mengatur rotasi kantor audit maupun rotasi pelaksana audit (Azizkhani et al, 2006). Munculnya berbagai skandal dan keruntuhan perusahaan akhir-akhir ini menimbulkan keraguan terhadap kualitas audit (Hoyle 1978; Imhoff 2003), serta memberikan indikasi terjadinya penurunan tingkat independensi auditor, sehingga kebutuhan akan rotasi kantor audit maupun rotasi pelaksana audit diyakini dapat menjadi faktor yang dapat meningkatkan kualitas audit (GAO, 2003).

Di Amerika Serikat, Undang-undang Sarbanes-Oxley (SOX) tahun 2002 bagian 203 secara spesifik mengatur bahwa pelaksana audit harus dirotasi setiap 5 tahun untuk mengembalikan keyakinan atas kualitas pelaporan keuangan. Telah banyak penelitian yang dilakukan, namun masih belum bisa memberikan bukti keberhasilan atas penerapan Undang-undang SOX. Masih banyak terdapat temuan dan hasil yang kontradiktif terkait peningkatan atau penurunan penggunaan teknik manajemen laba setelah penerapan undang-undang SOX. Secara spesifik, Zhou (2008) dalam usahanya meneliti kontradiksi hasil penerapan undang-undang SOX, menemukan bahwa perusahaan tidak hanya melaporkan secara lebih konservatif (antara lain: penurunan jumlah akrual diskresioner) tetapi juga mengurangi penggunaan teknik manajemen laba. Namun sebuah kelemahan signifikan, terkait bagian 404 undang-undang SOX tentang kewajiban area Pengendalian internal, diungkapkan oleh Certified Public Accountants (CPAs). faktanya, kelemahan signifikan pada bagian 404 undang-undang SOX diyakini telah memberikan peluang lebih besar atas terjadinya manipulasi pendapatan lewat akrual diskresioner (Epps and Guthrie, 2009). Komisi Eropa (2010) dalam laporan pendahuluan mereka dan Public Company Accounting Oversight Board (PCAOB) Amerika Serikat mengusulkan kewajiban rotasi kantor Audit pada pertengahan tahun 2011. Chasan (2014) berpendapat bahwa usaha PCAOB dalam menerapkan kewajiban rotasi kantor audit pada perusahaan publik gagal setelah 2 tahun, disaat Parlemen Amerika Serikat melarang pelaksanaan rotasi kantor audit lewat amandemen bagian 103 undang-undang Sarbanes-Oxley di tahun 2013.

Terlepas dari argumen yang mendukung atau menentang pelaksanaan rotasi auditor, Morrill (2008) berpendapat bahwa pembahasan atas hasil penelitian tentang rotasi kantor audit saja masih belum bisa meningkatkan kualitas audit. Akan tetapi, isu dasar dalam argumen tersebut

adalah (1) efek apa yang ditimbulkan oleh masa perikatan audit (baik jangka pendek maupun jangka panjang) dan pengaruh apa yang ditimbulkan oleh rotasi audit (baik secara sukarela maupun secara wajib) terhadap kualitas audit? (2) Apakah masa perikatan auditor/ rotasi auditor meningkatkan atau menurunkan tingkat independensi auditor (3) apakah konsekuensi yang muncul dari hubungan klien-auditor yang panjang lebih besar jika dibandingkan dengan konsekuensi yang muncul akibat pergantian atau peralihan auditor? (4) resiko apa yang muncul akibat penggunaan auditor baru dan seberapa besar resiko terjadinya penawaran jasa audit dibawah harga normal? Makalah ini bertujuan untuk memberikan pandangan atas perdebatan terkait hubungan antara masa perikatan auditor, rotasi auditor dan kualitas pelaporan keuangan, dimana beberapa Negara mewajibkan perusahaan untuk merotasi auditor mereka secara periodik (baik secara sukarela maupun secara wajib). Makalah ini selanjutnya dibagi menjadi 5 bagian: bagian 2 membahas tentang hubungan antara masa perikatan auditor dengan kualitas audit. Bagian 3 meninjau dampak dari rotasi auditor terhadap independensi auditor dan kualitas audit. Bagian 4 membahas konsekuensi dari pergantian auditor dan kemungkinan terjadinya penawaran jasa audit dibawah harga normal, sedangkan Bagian 5 memuat kesimpulan dan rekomendasi dari makalah ini.

Masa Perikatan Auditor dan Kualitas Audit: Sebuah hubungan yang menarik

Argumen utama yang selalu muncul dalam hubungan masa perikatan audit dengan kualitas audit adalah: apakah lama hubungan antara auditor dengan klien mempengaruhi kualitas audit (Mautz and Sharaf, 1961; US Senate, 1976; Shockey 1981; Lyner and Roma; 2004). Argumen-argumen yang muncul dalam permasalahan ini sering bertentangan. Sebagian peneliti berpendapat bahwa masa perikatan yang panjang (5-10 tahun) cenderung menurunkan kualitas audit akibat gangguan terhadap independensi auditor (hipotesa independensi auditor). Sedangkan sebagian lainnya meyakini bahwa masa perikatan audit yang lebih panjang dapat meningkatkan kualitas audit lewat proses pembelajaran yang diperoleh (hipotesa keahlian auditor). Azizkhani et al (2006) mengemukakan tiga alasan utama dalam hal independensi auditor yang dapat menyebabkan kualitas audit menurun disaat masa perikatan auditor meningkat. alasan tersebut adalah: (1) Auditor dapat memiliki ketergantungan ekonomis pada klien sehingga mengganggu independensi auditor (DeAngelo 1981a, 1981b; Magee and Tseng, 1990; Raghunathan et al, 1994) (2) auditor dapat menumbuhkan kepercayaan berlebihan pada klien (ancaman keakraban) yang dapat menyebabkan auditor lalai dalam menguji pernyataan keuangan yang disampaikan (Hoyle, 1978; Shockley, 1981) (3) Auditor dapat membangun ketergantungan psikologis atau hubungan personal yang mengakibatkan munculnya ikatan loyalitas, kepercayaan atau hubungan emosional dengan klien (Arel et al, 2005).

Hipotesa keahlian auditor didasari oleh kesenjangan informasi yang ada pada auditor dan klien. Kesenjangan ini akan terus berkurang seiring bertambahnya informasi yang diperoleh auditor terkait klien, sehingga dapat membantu auditor untuk mendeteksi kesalahan material dalam penyajian laporan keuangan klien. Hal ini menggambarkan bahwa kualitas audit dalam periode awal hubungan auditor-klien cenderung rendah, dimana kualitas audit akan terus meningkat seiring bertambahnya masa perikatan auditor karena berkurangnya kesenjangan informasi antara auditor-klien (Beck et al 1988, Solomon et al, 1999, Geiger and Raghunadan 2002).

Masa perikatan auditor memiliki dua dimensi: masa perikatan kantor audit dan masa perikatan pelaksana audit. Penelitian-penelitian yang telah dilakukan lebih menitikberatkan pada masa perikatan kantor audit. Bukti-bukti empiris atas pengaruh masa perikatan kantor audit terhadap kualitas audit masih beragam dan saling bertentangan (lihat tabel 1). Disaat sebagian penelitian menyimpulkan bahwa kualitas audit menurun seiring dengan bertambahnya masa perikatan kantor audit, sebagian penelitian lainnya seperti Casterella et al., (2002), Davis et al (2002), Johnson et al (2002), Myers, Myers, and Omer (2003), Ghosh and Moon (2005), Choi and Doogar (2005) and Gunny et al (2007) melaporkan hubungan positif antara kualitas audit dengan masa perikatan kantor audit. Pada dasarnya, sebagian besar penelitian menemukan bahwa kegagalan audit cenderung terjadi pada masa perikatan kantor audit yang pendek yaitu antara 2 sampai 3 tahun (St. Pierre and Andersen, 1984; Stice, 1991; AICPA, 1992; Raghunathan et al., 1994; Walkel et al., 2001; Geiger and Raghunathan, 2002; Carcello and Nagy 2004, Gul et al, 2006 & 2007).

Berbagai penelitian empiris atas efek dari masa perikatan audit yang panjang terhadap kualitas audit memberikan kesimpulan yang beragam dan tidak meyakinkan (lihat Chen et al, 2004; Chi and Hong, 2005; Cary and Simnett, 2006). Disaat sebagian penelitian menemukan hubungan positif antara masa perikatan auditor dengan kualitas audit yang diukur lewat akrual diskresioner (Manry et al. 2008, Chi et al., 2009; Chen et al., 2010), sebagian penelitian lainnya menemukan hubungan negatif antara kedua faktor tersebut (Carey & Simnett, 2006; Hamilton et al., 2005; Fargher et al., 2008).

Secara berimbang, terdapat hasil yang beragam dan bertentangan terkait hubungan empiris antara masa perikatan auditor dengan penilaian, manajemen pendapatan, koefisien pendapatan tidak terduga, hasil opini audit yang dikeluarkan, frekuensi perubahan pernyataan keuangan dan biaya utang. Sebagai contoh, Myers et al (2003) menemukan bahwa penggunaan akrual (faktor yang memberikan peluang terjadinya manajemen laba) menurun disaat terjadinya peningkatan masa perikatan auditor, namun sebaliknya Davis et al (2002) yang juga meneliti penggunaan akrual memperoleh hasil yang berbeda. Vanstralen (2000) menemukan bahwa masa perikatan auditor yang panjang secara signifikan mengurangi kemauan auditor untuk menghasilkan laporan audit yang berkualitas, namun Geiger and Raghunandan (2002) menemukan hasil yang bertentangan. Myers et al (2005) menyatakan bahwa hubungan antara masa perikatan audit dan kecenderungan terjadinya perubahan pernyataan keuangan dapat berupa hubungan positif atau negatif, dimana mereka juga meyakini bahwa bukti yang diperoleh tidak memberikan indikasi yang pasti. Ghosh and Moon (2005) menemukan bahwa koefisien pendapatan tidak terduga meningkat seiring bertambahnya masa perikatan kantor audit, dimana hal ini juga konsisten dengan peningkatan pendapatan yang terjadi disaat meningkatnya masa perikatan auditor. Mereka juga menemukan bahwa pengaruh besaran pendapatan terhadap rating saham Standard and Poor (S & P) meningkat disaat terjadinya peningkatan masa perikatan kantor audit. Dalam penelitian yang dilaksanakan, mereka tidak menemukan bukti yang menggambarkan dampak masa perikatan kantor audit terhadap pengaruh besaran pendapatan pada rating utang Standar and Poor (S & P), dimana hal ini bertentangan dengan hasil penelitian Mansi et al (2004) yang menyatakan bahwa peningkatan

masa perikatan auditor dapat diasosiasikan dengan peningkatan rating utang Standar and Poor (S & P). Gul et al (2009) meneliti apakah auditor dengan spesialisasi di bidang industri dan efek dari penawaran jasa audit di bawah harga normal mempengaruhi hubungan antara masa perikatan auditor dengan kualitas pendapatan. Mereka menemukan bahwa hubungan antara masa perikatan auditor yang lebih pendek dengan kualitas pendapatan yang lebih rendah cenderung lemah pada perusahaan yang diaudit oleh auditor dengan spesialisasi industri.

Crabtree et al (2006) memeriksa obligasi baru yang diterbitkan di tahun 1990 dan menemukan bahwa masa perikatan auditor memiliki korelasi positif dengan rating yang diperoleh. Brandon and Mueller (2002) menyelidiki apakah penilaian juri dalam persidangan atas kesalahan auditor dipengaruhi oleh variabel lama masa perikatan auditor dengan klien. Mereka menemukan bahwa masa perikatan yang lebih panjang memiliki dampak positif terhadap persepsi kompetensi, namun memiliki dampak negatif terhadap persepsi independensi. Oleh karena itu, dari sudut pandang proses peradilan, masa perikatan auditor dengan klien merupakan sebuah pisau bermata dua. Ruiz-Barbadillo et al (2008) meneliti apakah masa perikatan audit yang panjang dapat meningkatkan kualitas audit atau malah memberikan peluang bagi perusahaan untuk melakukan praktek manipulasi opini audit. Mereka menemukan bahwa semakin lama ikatan audit, maka semakin kecil peluang terjadinya praktek manipulasi opini audit.

Tabel 1. Rangkuman penelitian-penelitian terkait efek masa perikatan auditor terhadap kualitas audit.

Variabel yang diukur	Peneliti	Tahun	Hasil	Hubungan masa perikatan kantor audit yang lebih panjang terhadap kualitas audit
Hubungan antara kegagalan audit dengan masa perikatan auditor	Casterella et al (2002)		Menemukan bahwa kualitas audit menurun akibat kegagalan kantor audit dalam mendeteksi kecurangan dalam laporan keuangan atau dalam memberikan pendapat kesinambungan usaha (going concern)	Menurun
Kualitas audit dan kualifikasi kesinambungan usaha (going concern)	Choi and Doogar (2005)	1996 – 2001		Menurun
Masa perikatan auditor, independensi auditor dan manajemen laba	Davies et al (2002)		Hubungan positif antara masa perikatan kantor audit dengan penggunaan akrual diskresioner	Meningkat
Hubungan Auditor dengan klien dan kualitas pendapatan	Myers et al (2003)	1998 – 2001	Menemukan hubungan negatif antara masa perikatan kantor audit dengan kualitas pendapatan yang diukur lewat akrual diskresioner dan pos-pos khusus	Menurun
Masa perikatan kantor audit dan kualitas dari laporan keuangan	Johnson et al (2002)	1986 – 1995	1) Masa perikatan audit yang pendek (2-3 tahun) diasosiasikan dengan kualitas laporan keuangan yang lebih rendah, jumlah akrual yang lebih banyak di tahun-tahun awal 2) Tidak ada bukti yang ditemukan terkait penurunan kualitas laporan keuangan untuk masa perikatan	Menurun Meningkat

Variabel yang diukur	Peneliti	Tahun	Hasil	Hubungan masa perikatan kantor audit yang lebih panjang terhadap kualitas audit
			kantor audit yang lebih lama (9 tahun ke atas)	
Masa perikatan audit dan persepsi terhadap kualitas audit	Ghosh and Moon (2005)	1990 – 2000	Hubungan positif antara masa perikatan kantor audit dan beberapa variabel ukuran dengan pendapatan yang dilaporkan	Meningkat
Hubungan antara jenis opini audit atas laporan keuangan sebelum terjadinya kebangkrutan dengan auditor	Geiger and Raghunandan (2002)	1996 – 1998	(1) Auditor dengan masa perikatan lebih panjang diyakini lebih independen dan memiliki kemungkinan lebih kecil atas terjadinya kegagalan pelaporan audit	Meningkat
Masa perikatan audit, ketergantungan biaya, kerugian yang telah diidentifikasi	Gul et al (2007)		Kualitas pelaporan keuangan cenderung rendah pada masa perikatan auditor yang pendek jika dibandingkan dengan masa perikatan auditor yang panjang	Meningkat
Hubungan antara masa perikatan auditor, spesialisasi auditor dan biaya	Gunny et al (2007)		Masa perikatan auditor memiliki pengaruh positif pada kualitas audit dan pengaruh yang signifikan bagi kantor-kantor audit kecil	Meningkat
Pelaksana audit, kantor audit dan akrual diskresioner	Chen et al (2004)	1990 – 2001	Lamanya masa perikatan pelaksana audit memiliki hubungan negatif terhadap nilai absolut dari akrual diskresioner	Menurun
Hubungan antara auditor dengan spesialisasi industri, penawaran jasa audit di bawah normal, masa perikatan auditor dan kualitas pendapatan	Gul et al (2009)		Menemukan hubungan antara masa perikatan auditor yang lebih pendek dengan kualitas pendapatan yang lebih rendah cenderung lemah pada perusahaan yang diaudit oleh auditor dengan spesialisasi industri	Meningkat
Masa perikatan kantor audit dan kecurangan dalam pelaporan keuangan	Carcello and Nagy (2004)	1990 – 2001	Menemukan bahwa kemungkinan terjadinya kecurangan dalam pelaporan keuangan sangat besar di periode awal masa perikatan kantor audit (3 tahun pertama)	Meningkat
Akrual diskresioner, kantor audit dan pelaksana audit	Chi and Huang (2005)		Melaporkan bahwa tingkat penggunaan akrual tidak normal rendah di tahun-tahun awal masa perikatan audit (baik pada kantor audit maupun pelaksana audit) jika dibandingkan dengan tahun-tahun berikutnya	Menurun/ Meningkatkan
Pelaksana audit dan masa perikatan audit	Carey and Simnett (2006)		Menemukan bahwa kemungkinan penggunaan kualifikasi prinsip kesinambungan usaha (going concern) dan perbandingan pendapatan memiliki hubungan negatif dengan masa perikatan pelaksana audit, memberikan saran terkait permasalahan independensi pada masa perikatan pelaksana audit	Menurun
Pengaruh dari perubahan audit dan biaya audit, jam dan	Deis and Giroux (1992)		Dalam melaksanakan revidi atas surat pernyataan kualitas audit yang dikeluarkan oleh kantor audit publik,	Menurun

Variabel yang diukur	Peneliti	Tahun	Hasil	Hubungan masa perikatan kantor audit yang lebih panjang terhadap kualitas audit
kualitas audit			menyimpulkan bahwa kualitas audit menurun disaat terjadinya peningkatan masa perikatan audit	
Masa perikatan dan kualifikasi audit dalam proses pengadilan resiko rendah: sebuah analisa dalam pasar modal spanyol	Blandon and Bosch (2015)	Perusahaan di spanyol yang terdaftar dalam pasar modal 2001 – 2009	Hasil yang diperoleh menunjukkan kecenderungan terjadinya penurunan kualifikasi seiring terjadinya peningkatan masa perikatan audit, dan tidak adanya hubungan antara kualitas pelaporan keuangan dengan masa perikatan audit yang panjang	Menurun

Diadaptasi dari Morill (2008)

Rotasi auditor, Independensi auditor dan kualitas audit

Dalam hal hipotesa independensi auditor yang dihubungkan dengan masa perikatan auditor dalam hubungan auditor-klien, pihak akademis dan pihak praktisi memperdebatkan pernyataan tentang rotasi auditor yang dapat mempertahankan independensi, objektivitas dan profesionalisme auditor (Mautz and Sharaf 1961; U.S. Senate, 1976, Hoyle, 1978; Bates et al, 1982, AICPA, 1992,1995; Arrunada and Paz-Ares 1997; SEC, 1994; Vanaco, 1996; Pettey and Cuganesa, 1996; Dopuch et al, 2001; Hussey and Lan 2001; Gietzman and Sen, 2002, ICAEW, 2002, Healey, 2003; ICC 2005; PCAOB, 2011). Namun terdapat sebuah argumen mendasar yang mempertanyakan kualitas independensi auditor dalam hubungan auditor-klien, dimana terdapat tuntutan pada auditor untuk mempertahankan pendapatan mereka terlepas dari aturan yang mewajibkan dilaksanakannya rotasi auditor (Bazerman, Morgan and Loewenstein, 1997).

Rotasi Auditor terdiri atas rotasi kantor audit dan rotasi pelaksana audit. Alasan logis dari pelaksanaan rotasi pelaksana audit adalah untuk memberikan perspektif baru dalam pelaksanaan audit serta untuk mendorong munculnya sudut pandang baru yang dapat memperluas cangkupan teknis dalam sebuah audit (AICPA, 1978, 1992; ICAEW 2002; Dopuch et al 2001; ICC 2005). Seidman (1939: 424) menggambarkan rotasi dalam hal: “ auditor baru, seperti sapu yang baru, akan membersihkan dengan baik dan dapat menemukan hal-hal baru yang terlewatkan oleh pendahulunya.” Pada dasarnya, penelitian-penelitian terkait efek dari rotasi pelaksana audit terhadap kualitas audit masih beragam. Sebagai contoh, Monroe and Hossain (2013) menyimpulkan bahwa penerapan kewajiban rotasi pelaksana audit telah meningkatkan kualitas audit karena kantor audit cenderung mengeluarkan pendapat kesinambungan usaha (going concern) yang berkualitas pada perusahaan-perusahaan yang mengalami tekanan finansial setelah diberlakukannya kewajiban rotasi pelaksana audit. Hamilton et al (2005) dan Fargher et al (2008) juga menyimpulkan hubungan positif antara rotasi pelaksana audit dengan kualitas audit. Firth et al (2012) menemukan bahwa kewajiban rotasi pelaksana audit berhubungan dengan peningkatan kemungkinan terjadinya opini audit yang dimodifikasi dalam hal kualitas audit terutama di area-area yang belum berkembang.

Tetapi Carey and Simnett (2006) melaporkan hubungan negatif yang signifikan antara kewajiban rotasi pelaksana audit dengan kualitas audit disaat masa perikatan audit telah berjalan lebih dari 7 tahun. Lebih jauh lagi, Chen et al (2008) dan Chi et al (2009) menemukan bahwa kualitas audit menurun setelah pelaksanaan rotasi pelaksana audit dengan menggunakan akrual diskresioner sebagai ukuran kualitas pendapatan di Taiwan.

Bae, Kallapur and Rho (2013) beragumen bahwa rotasi auditor dapat mempengaruhi kualitas audit lewat beberapa cara, yaitu: (1) masa perikatan yang panjang dapat menimbulkan rasa nyaman yang berlebihan antara auditor dengan klien, sehingga mengurangi tingkat independensi mereka dan memunculkan kemungkinan terjadinya pemberian opsi saham (Ouyang and Wan, 2013) (2) kewajiban pelaksanaan rotasi auditor dapat mendorong auditor untuk berkerja secara maksimal karena mereka sadar bahwa hasil pekerjaan mereka akan di reviu oleh auditor lainnya. (3) Kewajiban pelaksanaan rotasi dapat memunculkan perubahan – klien harus dapat berkerja dengan berbagai auditor akibat kewajiban pelaksanaan rotasi (Pitt 2012:20). (Argumen kesesuaian auditor) dan (4) Rotasi dapat mempengaruhi pemusatan dan kompetisi pasar penyedia jasa audit, yang pada akhirnya dapat mempengaruhi kualitas audit.

Kewajiban rotasi juga dapat mempengaruhi kualitas audit lewat efeknya terhadap struktur pasar penyedia jasa audit dan peningkatan/penurunan jumlah pilihan klien atas auditor yang berkompeten (Bae et al, 2013). Komisi Metcalfe (1977) beragumen bahwa rotasi akan memberikan kesempatan pada lebih banyak kantor audit untuk memasuki pasar penyedia jasa audit sehingga memperluas pilihan yang tersedia bagi klien. Namun kompetisi yang berlebihan dapat berakibat buruk dan kewajiban pelaksanaan rotasi hanya akan memperburuk keadaan (Komisi Cohen, 1978). Kewajiban pelaksanaan rotasi akan menghilangkan ekspektasi atas pendapatan yang berkelanjutan, sehingga membebaskan auditor dari tekanan untuk mengikuti permintaan klien dalam hal menjaga pendapatan yang diperoleh (Bazerman, Morgan and Loewenstein 1997, PCAOB 2011), menurunkan konsekuensi atas kerusakan reputasi, memberikan dorongan pada auditor yang akan dirotasi untuk membereskan semua pekerjaannya sebelum dirotasi. Namun, Pitt (2012) mengarisbawahi bahwa auditor akan cenderung tidak memberikan usaha terbaik dan keinginan yang rendah untuk mempertahankan kualitas audit, karena mereka tidak memiliki harapan atas pendapatan yang berkelanjutan. Faktanya, penurunan dalam tingkat efisiensi dari auditor lama memiliki hubungan dengan faktor keakraban dengan klien, kurangnya tantangan dan peningkatan komitmen (Bazerman, Loewenstein and Moore, 2002)

Setelah terjadinya skandal pelaporan keuangan dan keruntuhan perekonomian di Amerika Serikat, tuntutan untuk pelaksanaan kewajiban rotasi dalam hal meminimalisir kemungkinan terjadinya kecurangan bermunculan (SOX act 2002, GAO, 2003; NYSE, 2002, TIAA-CREEF, 2004). Hal ini juga didukung dengan argumen bahwa kewajiban rotasi akan memberikan posisi yang lebih kuat bagi auditor untuk bertahan dari tekanan manajemen dan menjadi lebih independen serta dapat menerapkan penilaian profesional yang lebih objektif (Brody and Moscove, 1998, Chung, 2004). Wolf et al (1999) menyarankan bahwa untuk mempertahankan independensi dan objektivitas auditor, kantor audit seharusnya secara periode mengganti klien mereka. Namun, hanya terdapat sebagian negara dan komite audit yang telah menerapkan pelaksanaan

kewajiban rotasi pelaksana audit atau kewajiban rotasi kantor audit, seperti: Italia (1974), Brazil (1999), Perancis (1998,2003), Spanyol (1989), Singapura (2002), China (2003-2005), Inggris (2003), Austria (2004), Korea Selatan (2006), dan Kanada (sebelum 1991). Austria pada tahun 2005 dan Kanada pada tahun 1991 membatalkan penerapan kewajiban rotasi (Cameran et al, 2005). Di bulan Juli 2003, regulator pasar modal Kanada mempertimbangkan penerapan kewajiban rotasi pelaksana audit untuk semua perusahaan publik (GAO, 2003). Bae et al (2013) berargumen bahwa Spanyol telah menyatakan penggunaan kewajiban rotasi, namun tidak pernah mengimplementasikannya. Carrela et al (2007) menyampaikan bahwa kewajiban rotasi tidak pernah diterapkan bagi auditor Spanyol dan semua itu hanya sebuah proses politik. Alasan dari pembatalan penerapan kewajiban rotasi kantor audit di Spanyol dan Kanada adalah tingkat efektifitas yang rendah, biaya yang cukup besar dan keberhasilan mereka dalam mencapai tingkat kompetensi penyediaan jasa audit yang baik. Di Jepang, perubahan aturan tentang akuntan publik bersertifikat telah disetujui di bulan Mei 2003, dan sejak tanggal 1 April 2004, Pelaksana audit dilarang untuk melaksanakan audit pada perusahaan publik yang sama setelah periode 7 tahun secara berturut-turut. Di Belanda, periode maksimal untuk pelaksanaan rotasi pelaksana audit diperpendek dari 7 tahun menjadi 5 tahun. Sedangkan di Nigeria sampai sekarang belum terdapat batas waktu maksimal untuk pelaksanaan rotasi kantor audit atau pelaksana audit.

Permasalahan terkini terkait aturan Rotasi Audit

AICPA (1978) dalam aturan pelaksanaannya menyatakan bahwa kewajiban pelaksanaan rotasi pelaksana audit di Amerika Serikat adalah setiap 7 tahun. Tapi Undang-undang Sarbanes Oxley (SOX) tahun 2002 mewajibkan pelaksana audit di rotasi setiap 5 tahun dalam pelaksanaan audit untuk perusahaan publik.

Di tahun 2013, Parlemen Amerika Serikat mengusulkan rancangan undang-undang perlindungan profesi untuk mengamandemen Undang-undang SOX tahun 2002 yang mencegah PCAOB (*Public Company Accounting Oversight Board*) untuk mewajibkan perusahaan publik untuk menggunakan auditor tertentu atau menggunakan auditor yang dirotasi secara berkala. Di Inggris hal ini berlaku setiap 7 tahun untuk perusahaan publik. Sedangkan di Australia pelaksanaan rotasi dilaksanakan maksimal selama 7 tahun, dan sejak tahun 2004 periode itu diperpendek menjadi 5 tahun atau kurang. Di bulan April 2014, parlemen eropa menyetujui aturan baru (aturan yang diusulkan di tahun 2011) yang mewajibkan perusahaan eropa untuk menggunakan auditor baru dalam interval 10 sampai 24 tahun. Aturan baru ini memperpanjang masa pelaksanaan kewajiban rotasi auditor yang diusulkan di tahun 2011, yaitu selama 6 tahun menjadi 10 tahun, dengan masa peralihan selama 4 tahun (Chasan, 2014).

Efek dari Rotasi Kantor Audit (secara sukarela atau kewajiban) terhadap independensi auditor dan kualitas audit

Kewajiban rotasi audit diyakini sebagai sarana yang dapat memperkuat independensi, mengurangi insiden terjadinya kegagalan audit dan meningkatkan kualitas audit. Namun dari beberapa penelitian yang dilakukan, ditemukan bukti-bukti yang menyatakan bahwa rotasi

audit meningkatkan biaya dan harga pelaksanaan audit, mengurangi peluang auditor untuk menspesialisasikan diri pada bidang industri tertentu, menghilangkan pengetahuan kantor audit atas klien mereka yang diperoleh lewat akumulasi waktu pelaksanaan audit dan merusak keseimbangan kompetisi penyedia jasa layanan audit (Cameran et al, 2005). Hal ini diperkuat oleh pernyataan beberapa peneliti yang menyatakan bahwa usaha meningkatkan independensi lewat kewajiban pelaksanaan rotasi audit cenderung memiliki konsekuensi yang tidak diinginkan (Ball, Glover, Jamal, Kasam, Kouri, Paterson, Radhakrishnan and Sunder, nd). Harris and Whisenant (2012) menyelidiki efek pengaruh dari kebijakan pelaksanaan rotasi (yang merupakan tujuan dari penerapan aturan kewajiban rotasi dalam hal memperkuat independensi auditor dalam audit) dan efek dari pengetahuan spesifik atas klien yang rendah (kualitas audit sebelum dan setelah penerapan kewajiban pelaksanaan rotasi audit). Mereka menyimpulkan bahwa walaupun rata-rata kualitas audit cenderung meningkat setelah pelaksanaan kewajiban rotasi, masih terdapat beberapa bukti yang menyatakan bahwa kualitas audit pun mengalami penurunan di tahun-tahun tersebut.

Dalam beberapa dekade terakhir, Dewan Standar Akuntansi Internasional (International Accounting Standards Board-IASB) dan Dewan Standar akuntansi Keuangan (Financial Accounting Standards Board-FASB) telah menetapkan standar yang mempertegas pentingnya pembuktian berdasarkan penilaian pasar penyedia jasa layanan audit, terlepas dari kondisi pasar penyedia jasa layanan audit tersebut. Standar tersebut juga telah mengadopsi praktek penetapan standar detil untuk mengatasi permasalahan yang muncul dalam proses pelaksanaan audit, namun pada akhirnya malah menimbulkan permasalahan baru. Hal ini telah membuat pekerjaan auditor menjadi lebih rumit. Sehingga penerapan kewajiban rotasi kantor audit tanpa mempertimbangkan faktor-faktor penting lainnya dari kualitas audit dapat menjadi sebuah kebijakan yang tidak tepat dan dapat mengganggu independensi auditor, melemahkan bidang keahlian audit, menghambat pelaksanaan tata kelola perusahaan dan menurunkan kualitas audit. Hal ini sejalan dengan hasil survei pada 1000 perusahaan publik yang dilaksanakan oleh GAO di tahun 2003, bahwa kewajiban pelaksanaan rotasi kantor audit bukanlah cara yang paling efisien untuk memperkuat independensi auditor dan kualitas audit, terutama jika mempertimbangkan kerugian finansial dan kehilangan pengetahuan terkait klien yang diperoleh dari pelaksanaan audit pada periode sebelumnya.

Church and Zhuang (2006) mengembangkan model teoritis untuk membuktikan bahwa kewajiban pelaksanaan rotasi akan lebih efektif jika periode kewajiban pelaksanaan rotasi lebih panjang, biaya awal pelaksanaan lebih besar, kemungkinan munculnya laporan yang tidak netral lebih tinggi, proses pembelajaran auditor yang menjadi faktor utama dalam meningkatkan efisiensi pelaksanaan audit dan manajer yang lebih cenderung bersikap myopia (fokus pada keberhasilan jangka pendek). Menurut Cameran et al (2008), mayoritas penelitian terkait kewajiban rotasi kantor audit dilaksanakan pada rotasi yang dilaksanakan secara sukarela atau wajib, dimana hasil yang diperoleh menggambarkan bahwa kualitas audit dapat

tampak menurun secara langsung atau tidak setelah pergantian auditor. Italy, sebagai salah satu contoh negara yang telah mengimplementasikan secara efektif kewajiban pelaksanaan rotasi selama lebih dari 20 tahun, menemukan bahwa (1) Kualitas audit sejalan waktu cenderung mengalami peningkatan bukan penurunan (2) dengan membandingkan efek dari rotasi audit yang dilaksanakan secara sukarela dan secara wajib, mereka menemukan bahwa rotasi audit yang dilaksanakan secara sukarela cenderung meningkatkan kualitas audit, sedangkan rotasi audit yang dilaksanakan secara wajib cenderung mengurangi kualitas audit. Kenyataannya, mereka tidak menemukan bukti apapun yang menggambarkan manfaat dari pelaksanaan kewajiban rotasi kantor audit atas kualitas audit. Hal serupa juga dinyatakan oleh Morrill (2008), yang menganalisa beberapa penelitian terkait rotasi auditor, menyimpulkan bahwa pelaksanaan rotasi kantor audit tidak meningkatkan kualitas audit, bahkan kualitas audit cenderung menurun disaat auditor diganti. Banyak yang berargumen bahwa perbedaan persepsi kualitas audit pada dua penelitian diatas terjadi karena pengaruh persepsi dan motivasi dari auditor tersebut. Hal ini dapat mempengaruhi insentif auditor dalam melaksanakan aktifitas audit terutama dalam kewajiban pelaksanaan rotasi audit (Magee and Tseng, 1990, Ghosh and Moon 2005; Cameran et al, 2008).

Cameran et al (2005) mereviu temuan dan kesimpulan dalam 26 laporan yang dikeluarkan oleh pihak-pihak pembuat kebijakan dan lembaga sejenis dari seluruh dunia. Dari 26 laporan tersebut, 22 laporan memberikan kesimpulan yang tidak mendukung pelaksanaan kewajiban rotasi kantor audit dan hanya 4 laporan yang memberikan dukungan. 4 Laporan yang mendukung terdiri atas: Assirevi (Italian Association of Audit Firms), The Galgano Commission, Monetary Authority of Singapore (MAS) dan the US Independent Conference Board and Galgano Commission yang berada di Italia dimana rotasi kantor audit wajib dilaksanakan bagi beberapa perusahaan (antara lain perusahaan yang terdaftar di pasar modal). Selain itu, di Singapura (wilayah yang berada di bawah kendali MAS), aturan yang sama juga berlaku bagi bank yang berbentuk badan hukum. Penelitian ini juga melibatkan 34 penelitian akademis yang mengandung 9 pendapat dan 25 bukti empiris. Mayoritas penelitian tersebut tidak mendukung pelaksanaan kewajiban rotasi kantor audit. Mereka menemukan bahwa penelitian yang tidak mendukung pelaksanaan kewajiban rotasi kantor audit memiliki persentase lebih besar pada penelitian berdasarkan bukti empiris (76 %) dibandingkan pada penelitian berdasarkan pendapat (56 %) (Cameran et al, 2005).

Model yang dibuat oleh Elitzur and Falk (1996) menyatakan bahwa disaat jumlah waktu total perikatan audit diketahui dan terbatas, tingkat kualitas audit yang direncanakan akan mengalami penurunan seiring waktu dimana tingkat kualitas audit pada periode terakhir merupakan yang terendah. Namun, model ini belum mempertimbangkan efek pada reputasi jika terjadi kegagalan audit, dimana hal ini akan mempengaruhi secara signifikan pendapatan auditor dari klien-klien di masa yang akan datang serta memberikan proses pembelajaran yang pada akhirnya akan meningkatkan kualitas audit dan kebebasan atas masa perikatan audit (Carcello and Nagy, 2004, Geiger and Raghunandan, 2002, DeAngelo, 1981). Selain itu, banyak pendapat yang menyatakan bahwa penurunan pada kualitas audit mungkin timbul karena konsekuensi berkurangnya independensi auditor terhadap klien serta hubungan yang erat dengan manajer pada perusahaan klien tersebut (Brody and Moscove, 1998).

Banyak penelitian-penelitian yang tidak mendukung pelaksanaan kewajiban rotasi auditor karena hal tersebut akan mengakibatkan penurunan pada kualitas audit disaat masuknya auditor baru (Geiger and Raghunandan, 2002; Myers et al 2003; Johnson et al 2002; Carcello and Nagy, 2004; Mansi et al, 2004; Ghosh and Moon, 2005). Namun, beberapa penelitian berikut ini mendukung pelaksanaan rotasi auditor, dimana mereka melihat bahwa auditor baru lebih baik dibanding auditor lama: Hamilton et al (2005) dengan menggunakan pendekatan akrual rendah, khusus dan positif; Carey and Simnett (2006) dalam hal perbandingan pendapatan; dan Gate, et al (2007) yang menemukan bahwa keyakinan atas laporan keuangan meningkat setelah pelaksanaan rotasi; Gietzman and Sen (2002) menemukan jika pasar penyedia jasa layanan audit kecil, maka kewajiban pelaksanaan rotasi audit akan meningkatkan tingkat independensi dan resiko terjadinya benturan kepentingan. Nagy (2005) menemukan hubungan yang tidak signifikan antara masa perikatan audit yang pendek dan penggunaan akrual diskresioner pada perusahaan-perusahaan kecil di Amerika Serikat. Vanstraelen (2000) menemukan masa perikatan audit yang panjang cenderung mengarah pada pendapat wajar tanpa pengecualian. Temuan dari Knechel and Vanstraelen (2007), Blouin, Grein and Rountree (2007), Johnson et al (2002) yang menggunakan tingkat penggunaan akrual sebagai ukuran dari kualitas audit dianggap berimbang; memiliki hasil yang berimbang; yaitu mendukung atau menolak pelaksanaan rotasi. Firth et al (2012) meneliti pengaruh dari berbagai bentuk rotasi audit terhadap kualitas audit dan menemukan bahwa perusahaan yang menerapkan kewajiban rotasi pelaksana audit diasosiasikan dengan kemungkinan yang lebih tinggi atas terjadinya modifikasi pendapat audit jika dibandingkan dengan perusahaan yang tidak menerapkan kewajiban rotasi pelaksana audit di Cina. Mereka tidak menemukan bukti bahwa bentuk lain dari rotasi auditor (seperti kewajiban pelaksanaan rotasi kantor audit dan rotasi pelaksanaan audit secara sukarela) memiliki pengaruh atas terjadinya modifikasi pendapat audit. Secara keseluruhan, mereka menemukan pengaruh positif dari kewajiban rotasi pelaksana audit terhadap kualitas audit di wilayah yang memiliki institusi hukum yang lemah, namun gagal dalam memperoleh bukti kuat terkait keunggulan pelaksanaan kewajiban rotasi kantor audit dibanding bentuk rotasi auditor lainnya. Pasar modal cenderung tidak mempertimbangkan pelaksanaan rotasi auditor (SDA, 2002). Bahkan pasar modal memberikan reaksi yang lebih besar terhadap besaran pendapatan yang diaudit oleh auditor jangka panjang dibanding auditor baru. Hal ini menunjukkan bahwa pengalaman auditor dapat meningkatkan nilai kredibilitas dari pendapatan dan pelaporan keuangan (Ghosh and Moon, 2005). Jumlah tuntutan hukum yang terjadi pun mengalami peningkatan disaat dilaksanakannya perikatan audit baru (St Pierre and Anderson, 1984).

Tabel 2 Rangkuman penelitian atas kualitas audit terhadap rotasi kantor audit

Ukuran dari kualitas audit	Tahun pelaksanaan	Contoh/ catatan	Hasil	Mendukung pelaksanaan rotasi (*tidak mempertimbangkan konsekuensi pelaksanaan rotasi)
Mengeluarkan Pendapat kesinambungan usaha (Going concern) sebelum terjadinya kebangkrutan	Geiger and Raghunandan (2002)	Perusahaan Publik di Amerika Serikat (1996 – 1998)	Auditor jangka panjang dianggap lebih baik dibanding auditor baru	Tidak
	Knechel and Van Straelen (2007)	Perusahaan besar di Belgia (1992 – 1996)	Auditor jangka panjang dianggap sama dengan auditor baru	Netral
Akrual total	Myers et al (2003)	Perusahaan Publik di Amerika Serikat (1998 – 2001)	Auditor jangka panjang dianggap lebih baik dibanding auditor baru	Tidak
Akrual Diskresioner	Johnson et al (2002)	Perusahaan Publik di Amerika Serikat (1986 – 1995)	Auditor jangka panjang dianggap lebih baik dibanding auditor baru	Tidak
	Myers et al (2003)	Perusahaan Publik di Amerika Serikat (1998 – 2001)	Auditor jangka panjang dianggap lebih baik dibanding auditor baru	Tidak
	Blouin et al (2007)	Contoh: publisitas perdagangan klien oleh Arthur Anderson	Auditor jangka panjang dianggap sama dengan auditor baru	Netral
Tingkat penggunaan Akrual	Johnson et al (2002)	Perusahaan Publik di Amerika Serikat (1986 – 1995)	Auditor jangka panjang dianggap sama dengan auditor baru	Netral
Tuduhan kecurangan pelaporan	Carcello and Nagy (2004)	Perusahaan Publik di Amerika Serikat (1990 – 2001)	Auditor jangka panjang dianggap lebih baik dibanding auditor baru	Tidak
Keyakinan terhadap laporan keuangan	Gates et al (2007)	Eksperimen dilakukan pada mahasiswa Master of Business Administration (MBA)	Auditor jangka panjang dianggap lebih buruk dibanding auditor baru	Ya
Koefisien pendapatan tidak terduga	Ghosh and Moon (2005)	Perusahaan Publik di Amerika Serikat (1990 – 2001)	Auditor jangka panjang dianggap lebih buruk dibanding auditor baru	Tidak
Biaya utang	Mansi et al (2004)	Perusahaan Publik di Amerika Serikat (1974 – 1998)	Auditor jangka panjang dianggap lebih buruk dibanding auditor baru	Tidak
Akrual tidak normal	Carey and Simnett (2006)	Perusahaan Australia	Auditor jangka panjang dianggap lebih baik dibanding auditor baru	Tidak

Ukuran dari kualitas audit	Tahun pelaksanaan	Contoh/ catatan	Hasil	Mendukung pelaksanaan rotasi (*tidak mempertimbangkan konsekuensi pelaksanaan rotasi)
Perbandingan pendapatan (titik keuntungan untuk mencapai pengembalian modal atau pendapatan tahun sebelumnya)		Perusahaan Australia	Auditor baru dianggap lebih baik dibanding auditor jangka panjang	Ya
Akrua tidak terduga (rendah, khusus dan positif) dan pelaporan yang lebih konservatif	Hamilton et al (2005)	Perusahaan Australia (1998 – 2003) (pergantian pelaksana audit)	Auditor baru dianggap lebih baik dibanding auditor jangka panjang	Ya
Persepsi Investor terhadap kualitas audit menggunakan koefisien pendapatan tidak terduga	Chi et al (2005)	Perusahaan di Taiwan 2004	Pelaksana audit baru diasosiasikan dengan peningkatan kualitas audit	Ya
Apakah kewajiban pelaksanaan rotasi kantor audit benar-benar dapat meningkatkan kualitas	Cameran et al (2008)	Perusahaan non-finansial Italia 1985 – 2004	Auditor jangka panjang dianggap lebih baik dibanding auditor baru	Tidak

Diadaptasi dari Morill (2008)

Pergantian atau rotasi auditor dan kualitas audit

Dalam mempertimbangkan pelaksanaan rotasi atau pergantian kantor audit/pelaksana audit, terdapat faktor lain yang juga harus diperhatikan, yaitu: konsekuensi yang muncul akibat pergantian auditor, resiko bawaan dari auditor baru terhadap kualitas audit dan penawaran jasa layanan audit di bawah harga normal. Biasanya, biaya pergantian kantor audit akan lebih besar jika dibandingkan dengan biaya pergantian pelaksana audit. Hamilton et al (2005) berargumen bahwa hal ini terjadi karena biaya yang dibutuhkan oleh sebuah kantor audit baru untuk mengenal lingkungan bisnis, pengendalian internal dan kebijakan pelaporan keuangan klien lebih besar dibanding biaya yang dibutuhkan oleh pelaksana audit baru. Hal ini menjadi latar belakang mengapa reformasi peraturan lebih menfokuskan pada penerapan kewajiban rotasi pelaksana audit dan bukan pada penerapan kewajiban pelaksanaan rotasi kantor audit. Amerika Serikat, Inggris raya dan Australia (lewat penerapan undang-undang) telah menerapkan kewajiban rotasi pelaksana audit (US Senate 1976:21; SOX 2002 Australia CPAIC, 2001 & 2004).

Masih terdapat perdebatan diantara peneliti akademis terkait dasar pelaksanaan pergantian auditor secara sukarela. Sebagian berpendapat bahwa perusahaan mengganti kantor audit mereka dengan tujuan untuk mengurangi biaya audit; dimana sebagian lainnya berargumen

bahwa hal tersebut dilakukan untuk meningkatkan kualitas audit dari laporan keuangan, dimana hal ini dilaksanakan untuk memenuhi tuntutan dari pihak pembuat aturan (SEC, 1988), dan konsekuensi yang muncul akibat keinginan pihak manajemen untuk memanipulasi pendapat audit. Namun pendapat tersebut tidak didukung dengan bukti empiris yang jelas (Defond, 1992; Francis and Wilson, 1998; Johnson and Lys, 1990). Selain itu, juga terdapat pendapat yang menyatakan bahwa pergantian auditor terjadi akibat perbedaan pendapat antara manajer dengan auditor atas penerapan prinsip PSAK yang tepat, terutama disaat auditor menerapkan prinsip PSAK (pendekatan lebih konservatif) yang cenderung menurunkan besaran nilai pendapatan (Antle and Nelebuff, 1991; Dye, 1991; Krishnan, 1994; Krishnan and Stephenn1995). Hasil penelitian Defond and Subramanyan (1998) menunjukkan bahwa perusahaan yang mengganti kantor audit mereka dari 6 kantor audit terbesar ke kantor audit lainnya, cenderung menerapkan sistem akuntansi yang lebih liberal, yang terlihat dalam tingkat penggunaan akrual tidak terduga. Sebagai contoh, akrual diskresioner ditemukan sebagai faktor pengurang pendapatan yang substansial di tahun akhir pelaksanaan audit, namun tidak terlalu signifikan di periode awal perikatan auditor baru. Disaat terdapat resiko hukum yang tinggi, auditor lebih memilih menggunakan prinsip akuntansi yang konservatif dimana manajer akan cenderung memilih auditor baru yang kurang konservatif jika dibanding auditor sebelumnya. Kim et al (2004) menemukan bahwa saat auditor ditunjuk oleh regulator pasar saham di Korea, dan bukan oleh perusahaan yang diaudit, terdapat tingkat penggunaan akrual diskresioner yang lebih rendah, dimana hal ini menggambarkan bahwa penunjukan auditor dapat meningkatkan tingkat independensi auditor tersebut. Chung (2004) juga melaporkan hasil temuan yang relatif sama.

Fargher, Lee and Mande (2005) meneliti hubungan antara masa perikatan pelaksana audit dengan ukuran penggunaan akrual tidak terduga di perusahaan Australia dalam kurun waktu 1990 – 2002. Mereka menemukan hubungan positif terhadap nilai absolut dari akrual tidak terduga, namun menemukan hubungan negatif terhadap akrual tidak terduga khusus. Chen et al (2004) melaporkan hubungan negatif antara masa perikatan pelaksana audit dengan nilai absolut dari akrual tidak terduga. Chi et al (2005) menemukan kualitas audit yang lebih tinggi pada perusahaan yang diwajibkan melaksanakan rotasi, dengan mengambil contoh beberapa perusahaan Taiwan dalam kurun waktu tahun 1990 sampai 2001. Hamilton et al (2005) yang meneliti akrual tidak terduga khusus menemukan bukti terkait penggunaan akrual tidak terduga khusus yang lebih rendah pada pelaksanaan rotasi auditor di 5 kantor audit terbesar di Australia. Sedangkan kualitas pendapatan tidak mengalami perbedaan yang signifikan di tahun pelaksanaan rotasi. Selain itu mereka juga menemukan tingkat penggunaan yang lebih tinggi dari variabel pendapatan konservatif disaat terjadinya rotasi pelaksana audit, yang terjadi akibat inisiatif aturan dan lingkungan politik.

Cameran et al (2008) menemukan bahwa akrual disaat sebelum penerapan kewajiban pelaksanaan rotasi (Italia) bersifat lebih tidak konservatif (antara lain cenderung mendongkrak pendapatan) jika dibandingkan saat dimana kewajiban pelaksanaan rotasi telah diterapkan. Mereka tidak menemukan bukti yang menggambarkan pengaruh positif dari kewajiban pelaksanaan rotasi terhadap kualitas audit. Jackson et al (2007) yang meneliti pelaksanaan kewajiban rotasi kantor audit pada perusahaan Australia dalam kurun waktu tahun 1995 – 2003

menemukan bahwa, hanya terdapat sedikit keuntungan dari penerapan pelaksanaan kewajiban rotasi kantor audit. Mereka berpendapat bahwa dengan mempertimbangkan biaya yang dibutuhkan dalam pergantian auditor, maka kewajiban pelaksanaan rotasi kantor audit bukanlah hal yang menguntungkan.

Konsekuensi dari Biaya pergantian audit dan penawaran layanan jasa audit di bawah harga normal

Konsekuensi atas pelaksanaan pergantian auditor yang dihadapi oleh klien sangat besar karena efek peningkatan biaya yang harus ditanggung dan konsekuensi potensial dalam bentuk kurangnya pemahaman auditor atas proses bisnis klien, serta resiko berkurangnya kualitas audit karena tingkat kompetensi auditor baru yang lebih rendah. O'Leary (1996) menyatakan bahwa dalam pelaksanaan rotasi kantor audit, keuntungan yang didapatkan lebih kecil jika dibandingkan dengan biaya yang harus ditanggung. Kewajiban pelaksanaan rotasi kantor audit diyakini dapat menimbulkan biaya sosial yang tinggi (SDA, 2002). Pergantian pelaksana audit biasanya membutuhkan biaya yang lebih kecil jika dibandingkan dengan pergantian kantor audit. Kemungkinan munculnya usulan pergantian kantor audit dari kantor audit itu sendiri sangat kecil, kecuali jika klien tersebut menjadi sangat beresiko atau tidak sesuai lagi dengan portofolio kantor audit tersebut (Hamilton, et al 2005; Shu, 2000; Krishnan and Krishnan, 1997).

Kantor audit cenderung akan menawarkan pergantian pelaksana audit kepada klien mereka jika pergantian tersebut dapat membantu kantor audit dalam mengatur dan mengembangkan kemampuan auditor dan pelaksana utama audit. Pelaksana audit yang lebih berpengalaman dapat dirotasi ke klien yang bermasalah untuk mengendalikan penggunaan metode akuntansi yang agresif dan untuk menurunkan resiko audit yang dihadapi. Sedangkan klien dapat mengusulkan pergantian pelaksana audit jika mereka memperkirakan kemungkinan terjadinya gangguan terhadap penerapan sistem akuntansi yang digunakan atau hambatan potensial yang mungkin muncul dalam memperoleh persetujuan terkait penggunaan prinsip akuntansi (GAAP) dan estimasi yang sering diperdebatkan. Manajer dari perusahaan klien juga dapat menghambat masuknya kantor audit atau pelaksana audit yang berkeinginan untuk mengadopsi penggunaan pendekatan konservatif (akrual yang cenderung menurunkan pendapatan) setelah dilaksanakannya pergantian kantor audit atau pelaksana audit. disaat yang sama, juga ditemukan bahwa auditor bersedia untuk menghentikan kerjasama mereka dengan klien yang lebih beresiko atau cenderung memilih menggunakan sistem pelaporan keuangan yang berkualitas rendah (Ghosh and Moon, 2005).

Terlepas dari perusahaan klien, auditor juga memiliki keinginan untuk mempertahankan klien baru mereka. Hal ini dapat mendorong terjadinya kompetisi yang tidak sehat dalam bentuk penawaran jasa layanan audit di bawah harga normal (yaitu tindakan menawarkan biaya pelaksanaan audit dibawah harga pasar) untuk memperoleh klien baru. Penawaran jasa layanan audit di bawah harga normal merupakan tindakan persaingan alamiah yang dilakukan untuk mendapatkan klien baru dan hak untuk merealisasikan pendapatan mereka dari klien tersebut (Simon and Francis, 1988, Ettredge and Greenberg, 1990; Deis and Groux 1995, DeAngelo 1981c). Dye (1981c) berargumen bahwa penawaran jasa layanan audit dibawah harga normal

cenderung membuat auditor melaporkan secara lebih memihak kepada klien untuk menjaga peluang mereka dalam memperoleh pendapatan dari klien tersebut dimasa yang akan datang. Auditor menginginkan agar kerjasama dengan klien terlaksana dalam jangka waktu yang cukup panjang sehingga dapat memperoleh keuntungan yang dibutuhkan untuk menutupi kerugian yang terjadi diproses awal perikatan audit. terjadinya praktek ini dapat mengganggu penilaian professional dan independensi auditor. Perusahaan yang sedang berada dibawah tekanan finansial cenderung akan melakukan pergantian auditor jika dibandingkan dengan perusahaan yang tidak sedang berada dibawah tekanan finansial (Krishnan, 1994; Krishnan and Steven, 1995). Namun, kemungkinan ditolaknya laporan keuangan yang telah dimodifikasi pada perusahaan yang mengganti auditor lebih kecil jika dibandingkan dengan perusahaan yang tidak mengganti auditor mereka (Geiger, et al 1998). Penelitian yang dilaksanakan terhadap pergantian auditor menyimpulkan bahwa perusahaan tidak selalu berhasil dalam memperoleh laporan yang lebih memihak klien dari auditor baru mereka.

Kesimpulan dan Rekomendasi

Dalam jurnal ini, kami telah mempertimbangkan hasil penelitian-penelitian penting dari beberapa penelitian empiris dan teoritis atas masa perikatan auditor, rotasi auditor dan kualitas dari pelaporan keuangan. Walaupun terdapat beberapa hasil yang bertentangan pada penelitian terkait hubungan antara masa perikatan audit dengan kualitas audit, dimana masa perikatan auditor yang pendek cenderung diasosiasikan dengan kualitas audit yang lebih rendah sedangkan masa perikatan auditor yang panjang diasosiasikan dengan kualitas audit yang lebih tinggi. Selain itu, juga tidak ditemukan bukti yang mendukung pelaksanaan rotasi kantor audit atau rotasi pelaksana audit. bahkan, dari beberapa penelitian sebelumnya, ditemukan bahwa auditor jangka panjang dianggap lebih baik jika dibandingkan dengan auditor baru sehingga penelitian-penelitian tersebut tidak memberikan dukungan atas pelaksanaan rotasi karena kesimpulan yang diperoleh adalah rotasi auditor akan menyebabkan penurunan pada kualitas audit. Dengan mempertimbangkan biaya pergantian auditor dan kemungkinan terjadinya penawaran layanan jasa audit dibawah harga normal, keputusan pelaksanaan rotasi audit menjadi sebuah keputusan yang tidak menguntungkan dalam hal peningkatan kualitas audit. tuntutan dari undang-undang SOX tahun 2002 dan dari pihak-pihak lain yang berwenang terkait kewajiban pelaksanaan rotasi pelaksana audit masih belum bisa memberikan jaminan atas terjaganya kualitas audit dan perlindungan dari kecurangan serta praktek manajemen pendapatan (Daniel, 2009). Rotasi kantor audit sebenarnya dapat mengganggu kualitas audit lewat munculnya kemungkinan modifikasi opini audit dan penawaran layanan jasa audit dibawah harga normal. Rotasi kantor audit juga menghambat berkembangnya keahlian audit, menurunkan peran indikator-indikator utama yang terkandung dalam pergantian auditor, dan mengalihkan penggunaan sumber daya kantor audit dari verifikasi substantif dan pengujian kepada kegiatan pemasaran jasa audit (Ball et al, nd). Walaupun perikatan audit yang panjang diyakini dapat mengganggu independensi auditor, rotasi kantor audit atau pelaksana audit juga dianggap tidak memberikan pengaruh yang lebih baik terhadap kualitas audit.

Disaat tuntutan atas pembatasan masa perikatan auditor dan kewajiban pelaksanaan rotasi menjadi topik perdebatan yang besar dan diyakini dapat menjadi sarana untuk menjaga

independensi auditor dan menjamin peningkatan kualitas audit, kami lebih menganjurkan penerapan masa perikatan auditor yang cukup panjang sehingga dapat memberikan kesempatan kepada auditor untuk mengembangkan dan menerapkan keahlian dan kompetensi mereka dalam periode perikatan audit serta memahami lingkungan audit dan proses bisnis klien. Hal ini juga mendorong auditor untuk mengembangkan reputasi mereka dan menghindari praktek penawaran jasa layanan audit di bawah harga normal. Sebagai tambahan, sistem kelembagaan dan mekanisme tata kelola yang baik harus diperkuat untuk meningkatkan kualitas audit. Independensi dan kemampuan dari komite audit harus ditingkatkan dalam rangka menjalankan fungsi pengendalian mereka terhadap efektivitas dan efisiensi pelaksanaan pekerjaan auditor serta memastikan terjaganya independensi auditor. Profesi di bidang akuntansi dan auditing harus terus mendorong penerapan etika audit dan proses pembelajaran untuk menjaga kualitas pelaksanaan audit oleh profesi auditor. Auditor diharapkan bersikap secara pantas dalam masa perikatan audit. Mereka harus mempertimbangkan baik atau buruknya tindakan mereka serta pengaruhnya terhadap penyelesaian tugas dan tanggung jawab yang dibebankan.

Lebih jauh, komite-komite besar yang bertanggung jawab dalam penetapan standar akuntansi seperti FASB/IASB harus mempertimbangkan penyusunan ulang atau penetapan standar pelaporan keuangan yang akan memperkuat proses pembuktian dari laporan keuangan dan meningkatkan kualitas akuntansi dan audit. Mereka harus mengevaluasi efektifitas dari persyaratan yang digunakan saat ini untuk memperkuat independensi auditor dan kualitas audit. Kami juga mengusulkan penerapan rotasi pelaksana audit secara sukarela pada kantor audit sebagai tindakan untuk melindungi independensi auditor serta kualitas audit dari gangguan yang mungkin timbul. Menurut Harris et al (2012), untuk melindungi kualitas audit dalam proses pergantian kantor audit, dibutuhkan kerjasama yang baik antara kantor audit lama dengan kantor audit baru terutama ditahun-tahun awal pelaksanaan audit. Kesimpulannya kami mendukung munculnya perhatian yang lebih dalam perdebatan ini dan kami juga menyarankan agar dilakukan lebih banyak penelitian lanjutan dimasa yang akan datang terhadap pelaksanaan kewajiban rotasi karena penelitian-penelitian sebelumnya masih memberikan hasil yang beragam dan belum meyakinkan (Carrera et al, 2007, Firth et al, 2012) dan bahkan dalam beberapa kasus tertentu ditemukan bahwa kualitas audit mengalami penurunan setelah pelaksanaan kewajiban rotasi.

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AUDITOR TENURE, AUDITOR ROTATION AND AUDIT QUALITY – A REVIEW

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AUDITOR TENURE, AUDITOR ROTATION AND AUDIT QUALITY- A REVIEW

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ABSTRACT: *The arguments on auditor tenure and rotation revolved around ensuring auditor independence and promoting audit quality. Two hypotheses tend to explain the effect of longer auditor tenure. The auditor independence hypothesis argues that longer tenure decreases audit quality and financial reporting because of the impairment of auditor's independence while the expertise hypothesis posits that longer tenure improves audit quality through learning. Nevertheless, the auditor tenure be long enough for auditors to bring their competence and expertise into the auditing process and also familiarize with the audited firm and environment. Apart from the few countries where there have mandatory audit rotations, it is still under experimentation in many other countries. Moreover, the results of the impact of audit firm/partner rotation on audit quality have been mixed and inconclusive. And specifically, one of the leading advocates for mandatory auditor rotation through the Sarbanes Oxley Act of 2002, the United States, has recently made a U-turn through appropriate amendment to the mandatory rotation of the audit firm in 2013. However, in April, 2014 the European Union parliament voted in favour of 2011 proposal to force European companies to hire new auditors after six years with a four year cooling period. Therefore, we conclude that the mixed evidence and the recent regulatory changes on auditor rotation provide opportunities for future studies on auditor tenure, auditor rotation and audit quality.*

KEYWORDS: Auditor Tenure, Auditor Rotation, Audit Firm, Audit Partner, Audit Quality, Auditor Independence

INTRODUCTION

A lot of debates have evolved in the academic literatures and accounting profession on the relationship among auditor tenure, auditor rotation and audit quality (Petty and Cuganesan, 1996, Jenkins and Vermeer, 2013; Blandon and Bosch, 2015). At the core of the argument is the question of auditor's independence in the auditor-client relationship; that is, the auditor's ability to maintain an unbiased standpoint in performing his audit assignments, issuing audit opinion and ensuring high quality audit report. This is because audits add credibility to financial information by providing independent verification of management-provided financial reports, and helping to reduce investors' information risk (Watts and Zimmerman, 1986; Johnson et al, 2002; Mansi, Maxwell and Miller 2004). Besides, participants in the capital market value audit quality (Teoh and Wong, 1993; Moreland, 1995; Khurana and Raman 2004; Pittman and Fortin, 2004) because auditor's independence and competence affect the credibility, reliability and quality of the auditor's report (Watkins, Hillison and Morecroft, 2004).

It has been argued for long (though with limited empirical evidences) that longer audit tenure could impair auditor independence and lower audit quality since a longer auditor-client relationship may breed over-familiarity and make the auditor to lose his "honest disinterestedness" (Mautz and Sharaf 1961; Shockley, 1982; Vanstraelen 2000; Carey and Simnett

2006, Gul *et al.* 2011, Blandon and Bosch, 2015). The auditor could accede to the interest of the client's management accounting and reporting choice in order to retain the client that the audit plan becomes stale (US Senate 1976:21; AICPA, 1978 & 1992; SEC 1994; Arrunada and Paz-Ares 1997; Morrill, 2008). There is also less likelihood of qualified auditor's opinions in a lengthy auditor-client relationship (Vanstraelen, 2000; Carey and Simnett, 2006; Blandon and Bosch, 2015)

According to DeAngelo (1981a:186), audit quality is the market assessed joint probability that a given auditor will both (1) discover a breach in the client's accounting system and (2) report the breach. She argued that longer-term audit firms have higher audit quality due to a greater level of independence because any given client is immaterial to a large firm audit practice. The General Accounting Office –GAO (2004) says audit quality refers to the auditor conducting the audit in accordance with Generally Accepted Auditing Standards (GAAS) to provide reasonable assurance that the audited financial statements and related disclosures are (1) presented in accordance with Generally Accepted Accounting Principles (GAAP) and (2) are not materially misstated whether due to errors or fraud.

Audit quality measures include proxies such as : (1) Accruals (Becker et al, 1998, Francis et al, 1999, Francis and Krishen, 1999; Bartov et al, 2000; Myers et al 2003; Francis and Wang 2007). (2) Abnormal working capital accrual or AWCA (Defond and Park 2001) (3) Discretionary accruals (Francis and Krishnan, 1999, Johnson, Khurana and Reynolds, 2002, Hamilton et al, 2005 Carey and Simnett, 2006) (4) Audit fees and hours (Deis and Giroux 1996, Caramanis and Lennox 2008) (5) Earnings response coefficients (Ghosh and Moon, 2005) (6) Propensity to issue a modified audit opinion (Lim and Tan 2008, Firth, Rui and Wu, 2012). The audit quality is determined not only by auditor independence but also by factor such as the quality of accounting standards, accounting education, auditor expertise, audit committees, corporate governance, auditor discipline, liability and nature of GAAP. Institutional (prevailing economic conditions, the way that firms are governed) and regulatory frameworks, the legal environment (investor protection, capital market pressures, legal enforcement) and capital market development factors also help to explain differences in accounting quality across countries (Ball, Kothari and Robin, 2000, Khurana and Raman, 2004, Choi and Wong, 2007, Francis and Wang, 2008, Firth et al, 2012)

Since audited financial statements are the joint product of auditor-client negotiation process, there have been great concerns for the preservation of the auditor's independence which is at the heart of the integrity of the audit process. Auditor's independence is fundamental to the reliability of auditor's report and has been adjudged as the cornerstone of the accounting profession and one of its most precious assets. Hence its importance has been reiterated and emphasized over time by oversight boards and professional literature (AICPA, 1999; POB 2000). Following the need to preserve and reduce threats to auditors independence, proponents of auditor's rotation and regulators have pushed for mandatory auditor's rotation whether mandatory audit firm or engagement partner's rotation (Azizkhani et al, 2006). And recently, due to corporate scandals and collapses that cast doubts and eroded audit quality (Hoyle 1978; Imhoff 2003), which also revealed compromise or deficiency in auditor's independence, the need for the rotation of the audit partner was advocated in order to enhance audit quality (GAO, 2003).

In the US, Section 203 of the Sarbanes-Oxley (SOX) Act of (2002) specifies that the lead audit or coordinating partner and the review partner must rotate off the audit every five years to restore confidence to financial reporting. Various studies conducted are inconclusive on the success of the SOX Act. There are conflicting results or findings on whether firms have engaged in less or more earnings management in post SOX. In particular, Zhou (2008) in trying to reconcile conflicting prior findings on post SOX found that firms are not only reporting more conservatively (i.e. lower discretionary accruals) but also engaging in less overall earnings management. A material weakness was more perceived by the Certified Public Accountants (CPAs) in the internal control area required by section 404 of the SOX Act (McEnroe, 2009). In fact, the presence of SOX 404 material weaknesses was also found to have allowed for greater earnings manipulation using discretionary accrued (Epps and Guthrie,2009).The European Commission (2010) in their Green Paper and the US Public Company Accounting Oversight Board (PCAOB) proposed the mandatory audit firm rotation in mid 2011.Chasan (2014) argued that effort by the PCAOB to impose mandatory auditor rotation on public companies failed 2 years when the US House of Representatives prohibits audit firm rotation by amending Section 103 of the Sarbanes-Oxley Act of 2002 in 2013.

Despite the persuasive arguments for and against auditor rotation, Morrill (2008) remarked that considering researches on audit firm rotation had not improved audit quality. However, the basic issues or arguments are (1) what are the effects of auditor tenure (short or long) and auditor rotation (voluntary or mandatory) on audit quality? (2) Do auditor tenure /auditor rotation improve or impair the auditor's independence (3) Do the costs of long-term auditor client relationship outweigh the cost of changing or switching? (4) What are the risks to audit quality posed by a new auditor as well as implications of low-balling? The paper contributes to the intense debates over auditor tenure and rotation and the quality of financial reporting in that some countries and requires their companies to rotate (either voluntarily or mandatorily) their auditors periodically.The rest of the paper is divided into five sections: Section 2 reviews the relationship between auditor's tenure and audit quality. Section 3 considers the impact of auditors' rotation on auditor independence and audit quality. Section 4 looks at cost of audit switching and the consequence of low-balling while Section 5 is the conclusion and recommendations.

Auditor tenure and audit quality: the intriguing relationship

The main argument has been whether the length or duration of audit firm with a client affects the quality of the audit (Mautz and Sharaf, 1961; U.S Senate, 1976; Shockey 1981; Lyner and Roma; 2004). The argument is conflicting. While some researchers argued that longer tenure (5-10 years) decreases audit quality because of the impairment of auditor's independence (auditor independence hypothesis), others believed that longer tenure improves audit quality through learning (expertise hypothesis).Azizkhani et al (2006) posit that the auditor's independence incorporates three different arguments as to what audit quality might decrease as auditor tenure increases. These include auditors may: (1) create economic dependence on the client which may impair auditor's independence (DeAngelo 1981a, 1981b; Magee and Tseng, 1990; Raghunathan et al, 1994) (2) develop a learned confidence in the client (familiarity threat) which may result in auditor not testing financial assertions (Hoyle,1978; Shockley,1981) (3) psychological

dependence or the development of personal relationship to the extent of developing bonds of loyalty, trust or emotive relationships (Arel et al, 2005).

The auditor's expertise hypothesis is based on information asymmetry in the auditor-client relationship. This reduces over time as the auditor acquires more knowledge of the client which helps him/her to detect material misstatement in the financial report. It implies that audit quality is lower during the early years of the auditor-client relationship and the quality increases as the length of auditor tenure increases due to reduction in the information gap between them (Beck et al 1988, Solomon et al, 1999, Geiger and Raghunadan 2002).

Auditor tenure has two dimensions: the tenure of the audit-firm and the tenure of the individual partner engaged in the audit, particularly the engagement partner. More emphasis has been focused on the audit-firm tenure because of the difficulties in identifying the engagement partner. Empirical evidences of the effects of audit-firm tenure on the audit quality are mixed and conflicting (see table 1) .While some of the studies reports that audit quality decreases with increased audit-firm tenure, others like Casterella et al., (2002), Davis et al (2002), Johnson et al (2002), Myers, Myers, and Omer (2003), Ghosh and Moon (2005), Choi and Doogar (2005) and Gunny et al (2007) report a positive relationship. Basically, most studies found that audit failures are more likely to occur with short audit-firm tenure of between 2-3 years (St.Pierre and Andersen, 1984; Stice, 1991; AICPA, 1992; Raghunathan et al., 1994; Walkel et al., 2001; Geiger and Raghunathan, 2002; Carcello and Nagy 2004, Gul et al, 2006 & 2007).

Similar empirical researches on the effects of long audit tenure of the engagement audit partner on the audit quality produce mixed and inconclusive results (see Chen et al, 2004; Chi and Hong, 2005; Cary and Simnett, 2006). While some studies show positive association between audit partner tenure and audit quality measured by discretionary accrual (Manry *et al.* 2008,Chi et al., 2009; Chen et al., 2010), others recorded a negative association (Carey & Simnett, 2006; Hamilton et al., 2005; Fargher et al., 2008).

Equally, there are mixed and conflicting results on the empirical relationship between auditor's tenure and board rating, earnings management, earnings response coefficient, nature of audit opinions issued, frequency of restatements of financial statements and cost of debt. For instance, Myers et al (2003) found that accruals (proxy for earnings management) decrease with auditor tenure whereas Davis et al (2002) also using accruals arrive at different conclusion. Also, Vanstraelen (2000) found long auditor tenure significantly reduces auditor's willingness to qualify audit reports whereas Geiger and Raghunandan (2002) found the opposite. Myers et al (2005) stated that the relationship between auditor tenure and the propensity for restatement could be positive or negative and they concluded the evidence provided no clear support. Ghosh and Moon (2005) found that earnings response coefficient increases with the length of audit firm tenure, consistent with earnings being greater as auditor tenure increases. They also found that the influence of earnings on Standard and Poor (S& P) stock rating increased with the length of audit firm tenure. They found no evidence of audit firm tenure impacting on the influence of earnings on S & P debt rating unlike Mansi et al (2004) who found that increasing auditor tenure is associated with higher S & P debt rating. Gul et al (2009) examined whether industry specialization of auditors and low balling effect affect the association between auditor tenure and

earnings quality. They found that the association between shorter auditor tenure and lower earnings is weaker for firms audited by industry specialists compared to non-specialists.

Crabtree et al (2006) examined newly issued bonds in the period 1990 and found that auditor tenure was positively related to ratings received. Brandon and Mueller (2002) investigated whether jurors' judgments of auditor's blameworthiness are influenced by the length of auditor's tenure with a client. They found that longer tenure has a positive impact on perception of competence but a negative impact on perception of independence. Therefore, from a litigation perspective, the auditor's tenure with a client is a double-edge sword. Ruiz-Barbadillo et al (2008) examine whether long-term audit engagement improves quality of the service or increase the possibility of a company engaging in opinion shopping. They found that the longer the audit engagement, the lower the probability of opinion shopping.

Table 1 Summary of researches on the effect of auditor tenure on audit Quality.

Measure	Study	Year	Result	Longer tenure of audit-firm on audit quality
Relationship between audit failure and auditor tenure	Casterella et al (2002)		Found quality of Audit decrease due to audit firm failure to detect fraudulent financial reporting or issue going concern opinion	Decrease
Audit-quality Goingconcern Qualification	Choi and Doogar (2005)	1996-2001		Decrease
Auditor-tenure, auditor independent and Earnings management	Davies et al (2002)		A positive relationship between audit-firm tenure and discretionary accruals.	Increase
Auditor-client relationship and the quality of earning.	Myers et al (2003)	1998-2001	Found a negative relationship between audit-firm tenure and earning quality measured by discretionary accruals and special items.	Decrease
Audit- firm tenure and quality of financial report.	Johnson et al (2002)	1986-1995	1) Short audit tenure of 2-3 years associated with lower quality financial reports, unexpected accruals higher in early years. 2)No evidence of reduced financial reporting quality for longer audit firm tenures (of 9 or more years).	Decrease Increase
Audit-tenure and perception of audit quality	Ghosh and Moon (2005)	1990-2000	Positive relationship between audit firm tenure and several measures of reliance on reported earnings. (proxy for audit quality).	Increase

Association between type of audit opinion on financial statement immediately prior to bankruptcy and auditor.	Geiger and Raghunandan (2002)	1996-1998	(1) Auditors with longer tenure more independent and not associated with higher likelihood of audit reporting failure.	Increase
Audit tenure a fee dependence a timely recognizing losses	Gul et al (2007)		Quality of financial is lower when auditors tenure is short than when the tenure is long	Increase
Association between auditor tenure, industry expertise and fees	Gunny et al (2007)		Audit tenure has a favorable impact on audit quality by instigative audit and serious impact for the non –Big 4 auditor.	Increase
Audit partner,auditfirm and discretionary accrual.	Chen et al (2004)	1990-2001	Length of engagement audit partner is negatively related to the absolute value of discretionary accrual.	Decrease
Association between industry specialization and low balling and auditor tenure and earnings quality.	Gul et al (2009)		Found association between shorter auditor tenure and lower earnings quality weaker for firms audited by industry specialists than non-specialists.	Increase
Audit-firm tenure and fraudulent financial reporting	Carcello and Nagy (2004)	1990-2001	Found that the probability of fraudulent financial reporting is highest early in the audit firm's tenure (i.e the first three years and is not significantly higher for instances of longer audit engagement.	Increase
Discretionary accrual Audit firm and audit partner.	Chi and Huang (2005)		Report that the level of abnormal accruals is lower in the early years of audit tenure (either firm or engagement partner) than the latter years of firm tenure.	Decrease/ Increase
Audit partner and Audit tenure.	Carey and Simnett (2006)		Found that the probability of a going concern qualification and beating (missing) earnings benchmarks are negatively associated with engagement partner tenure, suggesting an independence concern with engagement partner tenure.	Decrease
Effect of Audit change and audit fee, hour	Deis and Giroux (1992)		In reviewing audit quality letters produced by a public audit agency concluded that audit	Decrease

and audit quality.			quality decreases as tenure increases.	
Audit tenure and audit Qualifications in a low litigation risk setting:An analysis of the Spanish market	Blandon and Bosch (2015)	Spanish listed companies 2001-2009	Result shows the likelihood of audit qualifications decreases with audit tenure and rejection that higher accounting quality is associated with lengthy audit engagements	Decrease

Adapted from Morill (2008)

Auditor rotation, auditor independence and audit quality

From the auditor's independence hypothesis associated with auditor tenure in the auditor-client relationship, the academics and accounting professions have debated and advocated that auditor rotation could help to maintain auditor's independence, objectivity and professional skepticism (Mautz and Sharaf 1961; U.S. Senate, 1976, Hoyle,1978; Bates et al, 1982, AICPA, 1992, 1995; Arrunada and Paz-Ares 1997; SEC, 1994; Vanaco, 1996; Pettey and Cuganesa, 1996; Dopuch et al, 2001; Hussey and Lan 2001; Gietzman and Sen, 2002, ICAEW, 2002, Healey, 2003; ICC 2005; PCAOB,2011).However, there is the argument whether the auditor could truly be independent in the auditor-client relationship given the pressure to maintain their stream of income in a mandatory rotation setting (Bazerman, Morgan and Loewenstein,1997).

Auditor rotation includes audit-firm and audit partner rotation. The logic behind partner rotation is to bring in fresh perspective to the audit and encourage a "fresh viewpoint" which enhances the technical rigour of an audit (AICPA,1978, 1992; ICAEW 2002; Dopuch et al 2001; ICC 2005). Seidman (1939: 424) describes rotation as: "a new auditor, like a new broom, will make a clean sweep and can pick up things not caught by the predecessor." Basically, the researches of the effects of audit partner rotation on audit quality are mixed. For instance, Monroe and Hossain (2013) conclude that the implementation of mandatory audit partner rotation has improved audit quality because audit firms were more likely to issue qualified going-concern opinions for financially distressed companies following mandatory partner rotation. Hamilton et al (2005) and Fargher et al (2008) also report a positive association between audit partner changes and audit quality. Firth et al (2012) find mandatory audit partner rotation are associated with higher modified audit opinion proxy for audit quality especially for less developed regions. But Carey and Simnett (2006) report a significant negative association between mandatory audit partner rotation and audit quality when the tenure is more than seven years. Again, Chen et al (2008) and Chi et al. (2009) find that audit quality deteriorates after partner rotation using discretionary accruals as a measure of earnings quality in Taiwan.

Bae, Kallapur and Rho (2013) argued that auditor rotation could affect audit quality in the following ways: (1) Long tenure might induce complacency among auditors and make them identify with the client, reducing their independence and could result in stock option backdating (Ouyang and Wan, 2013) (2) Mandatory rotation could keep auditors on their toes since they know that their work will be reviewed by a fresh pair of eyes.(3) Mandatory rotation might create a misalignment- if there is a single auditor best suited for a client, then the client has to

forego that auditor's services and settle for another less-well-suited auditor when subjected to mandatory rotation (Pitt 2012:20). (uniquely-well-suited-auditor argument) and (4) Rotation could affect audit market concentration and competition, which in turn might affect audit quality

Mandatory rotation could also affect audit quality through its effect on the audit market structure and the increase or decrease in the choice of qualified auditors for clients (Bae et al,2013). It was argued by the Metcalfe commission (1977) that rotation will allow more audit firms to enter the market thereby expanding the choice available to clients. However, excessive competition may be bad and mandatory rotation may worsen the problem (Cohen Commission, 1978).Mandatory rotation eliminates the expectation of a continued stream of revenues and thereby liberates auditors from the pressure to bend to clients' will to prevent the loss of the revenue stream (Bazerman, Morgan and Loewenstein 1997, PCAOB 2011), decreases the penalty for loss of reputation, gives retiring auditor the incentives to clean up before they are rotated out. However, Pitt (2012) pointed out that auditors will slack off and have lower rather than higher incentives to maintain audit quality if they lack any expectation of continued revenues. In fact, the decline in effectiveness of the old auditor is linked to familiarity with with clients, less willingness to challenge them and escalation of commitment (Bazerman, Loewenstein and Moore.2002)

Following the financial reporting scandals and collapses in the United States, there have been calls for mandatory auditor rotation to reduce the possibility of fraud (SOX Act 2002, GAO, 2003; NYSE,2002, TIAA-CREEF, 2004). Also, it has been argued that auditors will be in a stronger position to resist management pressure and be independent and exercise more objective professional judgment if there is mandatory rotation (Brody and Moscovice,1998, Chung, 2004). Wolf et al (1999) suggested that to maintain auditor's independence and objectivity, audit firms should periodically relinquish their clients. However, only a selected countries and oversight boards have implemented mandatory audit partner or audit-firm rotation such as: Italy (1974), Brazil (1999), France (1998,2003), Spain (1989), Singapore (2002), China (2003-2005), United Kingdom (2003), Austria (2004), South Korea (2006), and Canada (before 1991). Austria and Canada abandoned mandatory rotation in 2005 and 1991 respectively (Cameran et al, 2005). By July 2003, mandatory rotation of audit partners for all public companies was being considered by Canada's securities regulator (GAO, 2003). Bae et al (2013) argued that Spain announced but never implemented mandatory rotation. Carrela et al (2007) argued that at no stage was mandatory rotation of audit firms ever enforced on Spanish auditors but the whole gimmick was a politicized process. The reasons for abandoning the requirements for mandatory audit firm rotation in Spain and Canada were related to its lack of cost-effectiveness, cost, and having achieved the objective of increased competition for audit services. In Japan, the Amended Certified Public Accountant Law was passed in May 2003, and beginning on April 1, 2004, audit partners and reviewing partners were to be prohibited from being engaged in auditing the same listed company over a period of 7 consecutive years. In Netherland, the maximum period for rotation of the engagement audit partner was reduced from 7 years to 5 years while the maximum period for rotation of the other key audit partners is 7 years. There is presently no limit period for the rotation of the audit firm or partner in Nigeria.

Recent regulatory issues issues on Audit Rotation

The AICPA (1978) practice section requirement for mandatory partner rotation In the US, was every seven years. But the Sarbanes Oxley (SOX) Acts of 2002 required the lead audit partner and audit review partner to be rotated every five year for public companies engagement. Again the US House of Representative introduced the integrity or job protection bill during the first session of the 113 US congress in 2013 to amend the SOX Act of 2002 which prohibit the PCAOB from requiring public companies to use specific auditors or require the use of different auditors on a rotating basis. It is seven years in the UK for listed companies. Formerly rotation was not longer than seven years in Australia but it is now five years or less since 2004. In April, 2014, the European Parliament voted in favour of new rules (proposal of 2011) to force European companies to hire new auditors at 10 - to 24-year intervals. This new rule extends the six years period of mandatory auditor rotation proposed in 2011 with a cooling period of four years (Chasan, 2014).

The effects of audit firm rotation (voluntary and mandatory) on auditor's independence and audit quality

Mandatory audit rotation has been suggested as a means of strengthening independence, reducing the incidence of audit failure and improving the quality of audits. However, there are research evidences that show rotation increases audit costs and prices, reduces auditor incentives to invest in specific industries, destroys the knowledge of client companies that an audit firm usually accumulates over a period of years and distorts the competition in the market (Cameran et al, 2005).It has been argued by academic researchers that attempts to achieve increased independence through mandated rotation of audit firms was likely to have other unintended and undesirable consequences (Ball, Glover, Jamal, Kasam, Kouri, Paterson, Radhakrishnan and Sunder, nd). Harris and Whisenant (2012) investigate the debonding effect of a mandatory rotation policy (that is the goals of rotation rules enhancing auditor's independence in an audit market) and the low client specific knowledge effect (audit quality before and after mandatory audit rotation).They conclude that although the quality of audit market appears to improve on average from enactment of mandatory rotation rules, there were evidence of lower audit quality in both years.

Over the recent decades, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have set standards that de-emphasize verifiability in favour of the mark-to-market valuation, no matter how illiquid the market may be. It has also adopted a practice of writing detailed standards in its attempt to close loopholes but ends up creating new ones. These have made the auditors work more complex. Thus mandating audit firm rotation at the expense of other determining factors of audit quality would be a bad policy and may impair auditor independence, weaken audit expertise, undermine corporate governance and impair audit quality. This supports the survey findings of Fortune 1000 public traded companies by the GAO in 2003 that mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the public company's previous auditor of record as well as the current reforms being implemented.

Church and Zhuang (2006) developed a theoretical model to prove that mandatory rotation is preferable if rotation period is long, start up costs are high, cost of biased report is high, auditor

learning is dramatic in improving audit efficiencies and the manager is myopic (focused on short-term payoff). According to Cameran, et al (2008), most of the studies on audit firm rotation were performed under a voluntary rotation regime or under a “forced rotation setting” and the findings showed that audit quality may or may not appear to deteriorate with or immediately after the auditor change. Using Italy as one of the countries where mandatory audit firm rotation has been effective for over twenty years, their findings support that (1) audit quality tends to improve rather than worsen over time and (2) comparing the effects of voluntary and mandatory auditor’s change on audit quality, they found that while a voluntary change tends to improve audit quality, a mandatory change dampen quality. In fact, they found no evidence of any beneficial effect of mandatory audit firm rotation on audit quality. Similarly, Morrill (2008) in analysing various studies on auditor rotation came to the conclusion that audit-firm rotation does not improve audit quality but that the audit quality seems to deteriorate when the auditor is replaced. It is argued that differences in audit quality under the two regimes may be consequent of the auditor’s perceptions and motivation. This may affect auditor’s incentives in performing audit activities especially in mandatory audit rotation (Magee and Tseng, 1990, Ghosh and Moon 2005; Cameran et al, 2008).

Cameran et al (2005) review the findings and conclusions of 26 reports by regulators or other representative bodies from around the world. Of the 26 reports, 22 concluded against the benefits of mandatory audit-firm rotation and while only 4 were in favour. These four are: Assirevi (Italian Association of Audit Firms), the Galgano Commission, Monetary Authority of Singapore (MAS) and the US independent Conference Board and Galgano Commission are in Italy where firm rotation is mandatory for some companies (i.e. all listed companies). Moreover, in Singapore (area of influence of MAS), the same rule is effective for incorporated banks. The study also considered 34 academic studies which comprised 9 opinions and 25 empirical-based evidences. The majority did not support mandatory audit firm rotation. They found that studies based on empirical evidence had a larger majority against firm rotation (76%) than opinion based studies (56%) (Cameran et al, 2005).

Elitzur and Falk (1996) model proposed that when total auditing engagement is known and finite, the level of planned audit quality will decrease over time and the level for the last period is the lowest. However, the model did not consider the reputation effects of an audit failure which may have significant impact on the auditor’s future payoffs from other clients and the learning process which can lead to improved audit quality, independent from the existence of a finite engagement time (Carcello and Nagy, 2004, Geiger and Raghunandan, 2002, DeAngelo, 1981). Also, it has been suggested that decrease in audit quality may be consequent of an auditor becoming less independent from the client’s firm and getting into a closer relationship with the managers (Brody and Moscové, 1998).

Many of the studies do not support auditor rotation as it eventually leads to decrease in audit quality if new auditors takes over (Geiger and Raghunandan, 2002; Myers et al 2003; Johnson et al 2002; Carcello and Nagy, 2004; Mansi et al, 2004; Ghosh and Moon; 2005). However, the following studies support auditor rotation, in that they perceive new auditors are better than long-term auditors- Hamilton et al (2005) by using unexpected small, signed and positive accruals; Carey and Simnett (2006), in meeting or beating earnings bench marks; and Gate, et al (2007) found confidence in financial statement increased following rotation; Gietzman and Sen (2002)

found that if the audit market is thin mandatory rotation increases the independence and risk of collision. Nagy (2005) found insignificant relationship between short audit tenure and discretionary accruals for small US companies. Vanstraelen (2000) found long-term relationship leads to unqualified report. The findings of Knechel and Vanstraelen (2007), Blouin, Grein and Rountree (2007), Johnson et al (2002) when they used persistence of accruals as measure of audit quality were neutral; that is, neither support or refute rotation. Firth et al (2012) examine the effects of the various forms of audit rotation on audit quality find that firms with mandatory audit partner rotations are associated with a significantly higher likelihood of an modified audit opinion (MAO) than are no rotation firms in China. They find no evidence that other forms of auditor rotation (i.e., mandatory audit firm rotation and voluntary audit partner rotation) have an effect on the issuance of a MAO. Overall, they document a positive effect of mandatory audit partner rotation on audit quality in regions with weak legal institutions but fail to find robust evidence that mandatory audit firm rotation is significantly superior to other forms of auditor rotation. The stock market seems not to value auditor's rotation (SDA,2002). In fact, the market reacts more strongly to earnings audited by long-term auditors than new auditors. This suggests that auditor retention improves the perceived credibility of earnings and financial reporting (Ghosh and Moon,2005).The number of lawsuits has been found to increase with new engagements (St Pierre and Anderson, 1984).

TABLE 2 Summary of audit quality research study for audit firms rotation

Measure of audit quality	Study of year	Sample /notes	Result	Support Rotation (*Cost of Switching excluded)
Issuing going concern opinion prior to bankruptcy	Geiger and Raghunandan (2002)	US public companies (1996-1998)	Long- term auditors better than new auditors.	No
	Knechel and Van Straeelen (2007)	Large Belgian private firms (1992-1996)	Long- term auditors same as new auditors.	Neutral
Total Accruals	Myers et al (2003)	US public companies (1998-2001)	Long- term auditors better than new auditors.	No
Discretionary Accruals	Johnson et al (2002)	US public companies (1986-1995)	Long- term auditors better than new auditors.	No
	Myers et al (2003)	US public companies (1998-2001)	Long- term auditors better than new auditors.	No

	Blouin et al (2007)	Ex. Arthur Anderson Publicity traded clients	Long- term auditors same as new auditors.	Neutral
Persistence of Accruals	Johnson et al (2002)	US public companies (1986-1995)	Long- term auditors same as new auditors.	Neutral
Alleged fraudulent reporting	Carcello and Nagy (2004)	US public companies (1990-2001)	Long- term auditors better than new auditors.	No
Confidence in financial statements	Gates et al (2007)	Experiment on MBA students	Long- term auditors perceived as worse than new auditors.	Yes
Earnings response coefficient	Ghosh and Moon (2005)	US public companies (1990-2001)	Long- term auditors perceived as worse than new auditors.	No
Cost of debt	Mansi et al (2004)	US public companies (1974-1998)	Long- term auditors perceived as worse than new auditors.	No
Abnormal accruals	Carey and Simnett (2006)	Australian firms	Long term auditors is better than new auditor	No
Beating earnings benchmark (Breakeven profit or prior year earnings)		Australian firms	New auditor perceived as better than long term auditor	Yes
Unexpected accrual (small signed and positive) and more conservative reporting	Hamilton et al (2005)	Australian firms (1998-2003) (audit partner changes)	New auditor perceived as better than long term auditor	Yes

Investors perception of audit quality using earnings response coefficient	Chi, et al (2005)	Taiwanese companies 2004	New audit partner perceive to increase audit quality	Yes
Does Mandatory Audit Firm Rotation Really Improve Audit Quality	Cameran et al (2008)	Non-financial Italian listed companies 1985-2004	Long-term auditor perceived better than new auditor	No

Adapted from Morill (2008)

Auditor change or switch and audit quality

In considering rotation or change of audit firm or partner, the cost of switching auditors, the risk to audit quality posed by the new auditor and low balling must also be examined. Usually, the costs are likely to be higher when an audit firm rather than an existing partner, is removed. Hamilton et al (2005) argued that because of the direct financial costs associated with a new audit firm in familiarizing itself with client's business environment, internal controls and financial reporting policies are higher than partner change. It is not surprising that regulatory reforms have focused on mandatory partner rotation rather than mandatory audit firm rotation. The USA, UK and Australia (though legislation) have introduced mandatory audit partner rotation (US Senate 1976:21; SOX 2002 Australia CPAICC, 2001& 2004).

There are continuing debates among academic researchers on the basis for voluntary auditor change. There are suggestions that companies change audit firm in order to reduce audit fees; other argued that it is meant to improve the quality of the financial reports, for opportunistic reasons which is a concern for regulators (SEC, 1988), and consequence of management motivation for opinion shopping. Empirical evidences to support above claims are not clearcut (Defond,1992; Francis and Wilson, 1988; Johnson and Lys, 1990). Also, there are arguments that auditor change occurred due to the divergent opinions between managers and auditor on the appropriate application of GAAP, especially when auditors applies more income decreasing (more conservative) GAAP rules (Antle and Nalebuff, 1991; Dye, 1991; Krishnan,1994;Krishnan and Stephen 1995). Defond and Subramanyan (1998) showed that firms which switch from Big 6 to non-Big 6 audit firms appear to implement more liberal accounting, evidenced by unexpected accruals. That is, discretionary accruals are found to be income decreasing in the last year of the audit service but insignificant in the first year of the new auditor's service. Where there is perceived high litigation risk, auditors prefer conservative accounting but managers prefer a less conservative successor when they dismiss the incumbent auditors. Kim et al, (2004) found that where a designated auditor is appointed by securities regulator in Korea, and not by the client firm, relatively lower discretionary accruals was reported, suggesting auditor designation improves the independence of designated auditor. Chung (2004) reported similar findings.

Fargher, Lee and Mande (2005) examined the relationship between partner tenure and a measure of unexpected accrual for Australian firms between 1990 and 2002. They found positive association with absolute value of unexpected accruals but negative association with signed unexpected accruals. Chen et al (2004) reported a negative relationship between audit partner tenure and the absolute value of unexpected accruals. Chi et al (2005) found higher quality auditing for firms subjected to mandatory rotation for sampled Taiwanese firms from 1990 to 2001. Hamilton et al (2005) using signed unexpected accruals found evidence of lower signed unexpected accruals at the time of rotation for the Big 5 auditors in Australia. Earning quality was not significantly different in rotation years. There were also more conservative contemporaneous earnings when partner rotation occurs due to regulatory initiatives and the political environment.

Cameran et al (2008) found that accruals before a voluntary change in a mandatory rotation environment (Italy) were less conservative (ie income increasing) than after the audit change. They found no evidence of any beneficial effect of mandatory auditor change on audit quality. Jackson et al (2007) on investigating mandatory audit –firm rotation for Australian firms from 1995-2003 found that there are minimal, if any, benefits of imposing mandatory audit firm rotation. They argued that given the costs involved in switching auditor, it does not appear that mandatory audit firm rotation would be beneficial to the market.

Cost of audit switching costs and low-balling

The cost associated with the switching of auditors by client is enormous because of the direct financial cost and the potential costs associated with reduced familiarity and the risk to audit quality posed by a new auditor due to less competence. O'Leary (1996) argued that in considering compulsory rotation of audit firms, the benefits of mandatory rotation are outweighed by the associated costs. Mandatory rotation is found to generate high social cost (SDA, 2002). A partner's switch or change is usually less costly than audit firm switch. And unless the client becomes very risky or ceases to fit the existing audit-firm's client portfolio, it is unlikely that an audit firm will propose that the client makes a change of audit-firm (Hamilton, et al 2005; Shu, 2000; Krishnan and Krishnan, 1997).

Audit firms are more likely to propose a change of audit partner to an audit client firm if the change will help the audit firm to manage and develop key staff and partners. More experienced partners can be rotated to problem clients to restrain aggressive accounting and to reduce audit risk. Clients could oppose switch or change of audit partner if they foresee disruption to the smooth running of the audit or potential difficulties in gaining approval of contentious accounting policies (GAAP) and estimates. Managers of client firm may restrict an incoming audit firm or partner who wishes to adopt a more conservative (income decreasing accruals) approach after the switch or auditor change. At the same time, it was found that auditors are willing to terminate their relationship with clients that prefer low quality of financial reporting or more risky clients (Ghosh and Moon, 2005).

Apart from the client's firm, the auditor may also want to retain their new client. This may lead to the competitiveness of low-balling (which is pricing the initial audit fee below the avoidable costs of the audit) in order to attain the client. Low-balling is a natural competitive response of

auditors in order to obtain a new client and the rights to future quasi-rents to be received from that client (Simon and Francis, 1988, Ettredge and Greenberg, 1990; Deis and Groux 1995, DeAngelo 1981c). Dye (1981c) argued that low-balling makes auditor to report more favourably on the financial condition of clients in order to enjoy more-quasi-rent from the client. Auditors want a client long enough to be able to offset the high initial start-off costs of engagement. This practice could impair the auditor's professional judgment and independence. Financially stressed firms were more likely to switch auditors than nonstressed financials firms (Krishnan, 1994; Krishnan and Steven, 1995). However, switching companies were less likely to have their modified report removed than un-switched companies (Geiger, et al 1998). Researches on auditor switching suggest companies are not generally successful in obtaining more client reporting treatment from their new auditors.

CONCLUSION AND RECOMMENDATIONS

In this paper, we have considered a critical review of some of the empirical and theoretical researches on auditor's tenure, auditor's rotation and the quality of financial reporting. Although there is conflicting evidences on the association between auditor's tenure and the audit quality, shorter auditor tenure tends to be associated with low audit quality whereas longer tenure results in high audit quality. Similarly, there is no general support for rotation of audit firm or partner. In fact, from researches reviewed, long-term auditors tend to be better than new auditors and hence they provide no support for rotation because of the conclusion that auditor rotation will lead to lower audit quality. When the cost of switching or changing auditors and consequences of low balling are considered, decisions about audit rotation will not be favourable in enhancing audit quality. The call by SOX Act of 2002 and other regulatory and oversight bodies for the mandatory rotation of the lead or review partner may be far from guaranteeing the audit quality and curtailing the incidences of fraud and earnings management practices (Daniel,2009). Rotation of audit firm actually impairs audit quality by enabling more frequent opinion shopping and low-balling. It also discourages accretion of audit expertise, downgrades the valuable signal of auditor change, and shifts even more resources from substantive verification and tests to marketing of audit services (Ball et al, nd). Although, long-term audit engagements is argued to impair auditor independence, the rotation of the audit firm or partner does not seem to have a better effect on audit quality

While the push for auditor tenure and mandatory auditor rotation have often been hotly debated or canvassed following corporate frauds and collapses in order to preserve auditors' independence and guarantee increased audit quality, we would advocate auditor tenure long enough to enable bring their expertise and competence to bear on the auditing engagement as well as familiarize with client's audit environment. This may also make auditors to build on their reputations and avoid low-balling. In addition, the institutions and code of corporate governance mechanisms must be strengthened to improve audit quality. The independence and capacity of the audit committee must be enhanced to perform their oversight functions of the auditor's work effectively and efficiently and ensure auditors independence. The accounting and auditing profession must continue to emphasize auditing ethics and education to guarantee best practices by auditors in the profession. Auditors are to be ethical in the conduct of audit engagements. They should consider the rightness or wrongness of their actions, which does not necessarily

depend on the consequence of their action but on the fulfillment of the intended duty rather than on the outcome of their opinion.

Moreover, the major accounting standards boards like the FASB/IASB should consider rewriting or issuing standards of financial reporting that will enhance the verifiability of financial reports and improve both accounting and audit quality. They should evaluate the effectiveness of existing requirements for enhancing auditor's independence and audit quality. We also suggest voluntary audit partner rotation within an audit firm as a safeguard to reduce the potential compromise of auditor independence and audit quality. According to Harris et al (2012), to arrest erosion of audit quality around audit firm changes, there might be need for the use of two files by predecessor and successive audit firms or the "four-eyes principles" in the initial audit years. In conclusion, we support the call for caution in the debates and suggest more studies into the proposition for mandatory rotation because of the mixed and inconclusive results (Carrera et al , 2007, Firth et al, 2012) and in some cases deterioration of audit quality after mandatory audit rotation.

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