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The Effect of Audit Firm Age and Audit Tenure on Audit Quality (An Empirical Study on Trusted Company Awardees Listed in Indonesia Stock Exchange 2011-2016)

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ABSTRACT

Indonesia's go public companies are the main backbone of its economy. As of January 2019, there are 620 listed companies in Indonesia Stock Exchange. The Indonesian Institute for Corporate Directorship yearly acknowledges listed companies and gives award categorized as the most trusted, trusted and fairly trusted companies every year. This study aimed to explain the effect of audit firm age and audit tenure on audit quality for the trusted company awardees from 2011-2016. An explantory method is used in this study since it depicts the cause and effect relationship. Data gathered will be processed, analyzed, presented, interpreted and concluded in a way that it will clarifies the matters about audit firm age and audit tenure on audit quality. There were 36 firm year observation as sample which was derived the companies that were awarded for six consecutive years. A multivariate analysis was used in processing and analyzing the secondary data. The findings partially showed that audit firm age has no significant effect on audit quality while audit tenure showed that there is a significant effect on audit quality. In addition to the findings mentioned, it simultaneously showed that audit firm age and audit tenure on audit quality. When the two variables are combined it affects the audit quality. This means that the two variables, audit firm age and audit tenure should go hand in hand together in achieving audit quality. Audit firm age, although not significant, must be taken into consideration. The longer the firm, it is expected to increase audit quality. Audit tenure has to do with objectivity in which it will lead to audit quality. Long tenure is avoided by following the government regulations. As much as possible, in every audit engagement, audit work must appear to be very objective, unbiased, and impartial thus resulting to high audit quality. As for recommendation, researcher must add more samples in order to be more representative. Also, other variables may be taken into consideration as a proxy for audit quality.

Keywords: Indonesian Institute for Corporate Directorship, Most Trusted, Audit Firm Age, Audit Tenure

INTRODUCTION

Indonesia faces various kinds of challenges in this globalization era, but then the government is optimist about its economic condition because foreign investments are increasing.

Indonesia's go public companies are the main backbone of its economy. As of January 2019, there are 620 listed companies in Indonesia Stock Exchange. All listed companies are expected to publish audited financial statements as required by the government authority, Otoritas Jasa Keuangan (Financial Services Authority), in particular. Audited financial statements are the product of audit process done by auditors. Audit process prevalently applies audit procedures in order to have an output that is of quality. An audited financial statement clarifies perception about doubts and lessens economic risk. Auditors are expected to conduct audit with quality because it is essential to all entities. Auditors are responsible for the quality of individual audits, and should aim to ensure that quality audits are consistently performed. There were times that stakeholder's trust to auditors deteriorated. Companies that collapsed or went into bankruptcy blamed auditors, blamed the quality audit rendered by auditors. Such incidents have adversely affected public confidence in the reliability of corporate reporting (Haat, Rahman, and Mahenthiran, 2008). Meanwhile in 2017, public accounting firm in Indonesia, KAP Purwantono, Suherman & Surja (EY Indonesia) agreed to pay a fine of US $ 1 million to the US regulator, through the audit of the client's (telecommunications company) financial statements. The findings began when the accounting firm of EY partners in the US conducted a review of audit results of accounting firms in Indonesia.

Auditing financial statements is intended to reduce the information risk and improve the decision making (Arens, et al., 2008). High profile companies collapsed due to several reasons, and questions were raised about the quality and independence of auditors (Crockett and Ali, 2015).

A quality audit is likely to be achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team (IFAC, 2015). The quality of the audit is at stake for attracting investors, creditors, bank institution, and other that have financial interest in the business.

Firm age is well defined by Ligthelm (2012), the age of the business refers to the experience of the marketplace, maturity of the business in its life cycle and the experience of the owner in managing the business through trying economic circumstances. Businesses that have been established for a long period of time are usually successful. Established businesses were significantly associated with levels of perceived success (Lee and Lee, 2015). In other circumstances, as the business ages, the level on dependence on single decision maker declines (Feltham, Feltham, and Barnett, 2005). This means that the single decision maker is the owner itself who can let others to make decision as it gets older. Firms that have been in business longer are likely to produce better-known products, providing a brand loyalty that newer entrants are hard-pressed to match even with equal advertising budgets (Scherer, 1980: 260). Old businesses usually have advantages over new entrants or the new businesses. Strydom (2015) said that the longer the business had been in operation, the better its chances for success and survival, while Blackburn, Hart, & Wainwright (2013) and Ligthelm (2012) revealed that the longer the duration of existence, the more chance to become successful. On the other way around, the longer the duration of existence may lead also to its demise since the people who are working there may feel so confident that they knew all about. The people who are in the audit firm are the founder itself. The audit firm ages as the founder ages too. It is believed that the owners who have been in the business hold distinctive characteristics of ethical and unethical. An ethical audit firm would surely process audit with high quality, likewise, unethical firm would perform unscrupulous act during the audit. Audit firm knew what is moral and immoral. Nonetheless, Forte (2004) had not found that audit firm age influences moral reasoning. The statement of Forte (2004) can be related to moral reasoning of the auditor since it pertains to individual behavior. It emphasizes the moral reasoning of knowing what is right and wrong. Doing the audit rightly will result to high audit quality, otherwise, low audit quality.

Audit tenure or a long term auditor-client relationship is another factor that affects audit quality. Short-term relationship is good but for some audit professionals they prefer a long-term relationship because auditor feels at ease with the client and the client as well. Audit tenure brings doubt to the stakeholders since it is the length of the audit firm-client relationship. Gul, et al (2007) argued that auditors with short tenure are likely to place more emphasis on profits than reputation. Additional argument is that, auditor with short tenure are likely to be relatively unfamiliar with the client's accounting and control systems, which would make it easier for the clients to manage their reported earnings (Gul, et. al, 2007). Impairing auditors' independence because of tenure is still debatable because it is either the short-term tenure or long-term tenure. The degree of independence in the sense that a long auditor–client relationship may make the auditor financially reliant on the client (Ruiz et al., 2006) and bring about such a close relationship (Whittington, Grout, & Jewitt, 1995) that unbiased assessment is compromised (Shockley, 1981) by lack of both innovation and procedural rigour (Schockley, 1982).

This study will answer the following questions:

1. Does audit firm age affects audit quality of the trusted company awardees listed in Indonesia Stock Exchange?

2. Does a long term or short term audit-client relationship affects audit quality of the trusted company awardees listed in Indonesia Stock Exchange?
3. Does audit firm age and audit tenure affects audit quality of the trusted company awardees listed in Indonesia Stock Exchange?

LITERATURE REVIEW

Audit Quality. Financial statement users usually expect an audit opinion that is in accordance to their interest. Audit quality is needed to achieve the expectations. Audit quality supports the financial statements user's desire which is to receive a clean bill opinion.

Audit quality brings an added value to the company. Audit quality is "the market- assessed joint probability that a given auditor will both discover a breach in a client's accounting system, and report the breach," DeAngelo (1981). Higher audit quality is "greater assurance, which requires more audit work." Carcello, et al. (2002). Audit quality is a component of the quality of accounting information disclosed and higher disclosure quality leads to lower information asymmetry between traders (Clinch et al, 2010).

The above definition talks about the accounting system and discovering client's breach and reporting or diclose the breach to lessen information asymmetry, thus it requires more audit work to discover such breach.

A high-quality audit is one performed "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." GAO (2003). The degree of assurance that the accounting standards are applied in a manner that faithfully represents the client's underlying economic activities (DeFond & Zhang (2013).

The empphasis of above definitions is about the following standards in order to provide reasonable assurance that clients faithfully presents all underlying economic activities.

Public Company Accounting Oversight Board (PCAOB) (2015:3) defines audit quality as, "we define audit quality as meeting investor's needs for independent and reliable audits and robust audit committee communications. A high-quality audit as an audit that improves the reliability of financial statement information and allows investors to make more precise estimate of the firm's value. A high-quality audit as an audit that improves the reliability of financial statement information and allows investors to make more precise estimate of the firm's value.A higher quality audit increases the probability that the financial statements more accurately reflect the financial position and results of operations of the entity being audited (Titman & Trueman, 1986), Schauer (2002). Australian Public Policy Committee (2014: 3) defines audit quality as "Meeting investors' needs for independent and reliable audits and robust audit committee communications on financial statements, including related disclosures; assurance about internal control; and going concern warnings".

The above definition explain about meeting investors' needs. Investors need an independent, reliable, precise or accurate results on financial statements being audited.

Audit quality is the probability of detecting audit failure, disciplining auditors and inventivising them to constrain managerial opportunism (de las Heras, et al (2012). Audit quality is a function of the auditor's ability to detect material misstatements (technical capabilities) and reporting the errors (auditor independence)" Chadegani (2011).

Audit Firm Age. Audit firm ages along with the founder although sometimes the founder leave the firm, the firm still exist especially if it has its strong foundation. Audit firm's age is considered as one of the factors that determines its success. The longer the age of a firm in audit, the better performance in rendering assurance services.

One of the characteristics of firms is their age. The age of the business refers to the experience of the marketplace, maturity of the business in its life cycle and the experience of the owner in managing the business through trying economic circumstances (Ligthelm, 2012). There are firms that are young and old, established firms or newly-establihsed firms. Younger firms are much more likely to expire than older ones, while that established firms are more likely to survive (Brown & Medoff, 2001). Taking into account the firm´s age, the literature concentrating on small businesses' survival suggests that "younger" businesses are more likely to be concerned about survival than growth if they do not fail within the first few years of starting up (Cowling, 2006). Young firms can be considered as beginners and advanced while old firms are the so-called experienced. Based on the research made by Kozubíková,et al (2016), "beginners and advanced" are those who are in business from 1-10 years and "experienced" are those who are in business for more than 10 years." Chareonsuk & Chansa-ngavej (2010) grouped the responses in the research made as, by establishment age: old businesses (more than ten years), the case of young businesses (less than ten years).

Audit firms have been doing auditing services since mid-1800's. King, Case, & Senecker (2017) briefly elaborated about audit firm history as follows:

"Scottish accounting societies or associations originated in the 1850's. The Institute of Accountants in Edinburgh and The Glasgow Institute of Accountants and Actuaries were formed in 1854. Chartered British accountants were regular visitors to the United States in the late 1800's as they reviewed and audited the accounting records of railroads, breweries, and other large corporations in which their British clients had invested. According to Chatfield (1974)," four of the original "Big Eight" accounting firms in the United States were created by immigrant English Chartered Accountants. One of the first "Big Eight" firms in America was created by members of the Price, Waterhouse and Company arriving approximately in 1873 and opening a permanent office in 1890. In addition, Scottish accountants James Marwick and Arthur Young were founding members of major U.S. accounting firms that bore their names. These Scottish and English accountants supported the establishment of accounting associations, which they felt were both desirable and beneficial for the profession (p.372).

In other words, the age of audit firm may either be old or new. It is categorized by other authors as young firm can be considered as beginners and advanced while old firms are the so-called experienced.

Table 1. **Audit Firm Age**

Name of Audit Firm (International)	**Affiliate of Audit Firm International in Indonesia**	**Audit Firm Age (years) (Global)**	**Year Founded (Indonesia)**	**Founder (Indonesia)**
Deloitte Touche Tohmatsu (Deloitte)	Osman Bing Satrio Eny & Rekan	172	Unknown	Hans Tuanakota
Pricewaterhouse Coopers (PwC)	Tanudiredja, Wibisana, Rintis & Rekan	150	1938	Drs. Tan Eng Oen
Ernst and Young (EY)	Purwantono, Sungkoro (EY), and Surja	111	1966	Santoso Harsokusumo, CPA Firm
KPMG	Siddharta Widjaya & Rekan	100	1957	Drs. Basuki T. Siddharta
Moore Stepehens	KAP Mulyamin Sensi Suryanto	110	2003	Mirawati Sensi Idris
HLB International	HLB Hadori Sugiarto Adi & Rekan	48	1973	Hadori
RSM	Amir Abadi Jusuf, Aryanto, Mawar & Rekan	53	1985	Amir Abadi Jusuf

Source: Tabulated by the Researcher

The Table shows the audit firm age in which it starts from the date of its establishments. The audit firm mentioned above are still existing and expanding its services to audit clients.

The Effect of Audit Firm Age on Audit Quality. One of the objectives of the founder of certain company is to maintain the business for a long time period thus it transfers from one generation to next generation. Although people come to work to that company, there will come a time that people will leave the work, but, if the company is fortunate and good enough, it will be there for a long long time to conduct business. This includes the profession of Certified Public Accountant, where they work in an audit or audit firm. Audit firm has been handed down by the founder to the people who can continue to deliver professional services. When the CPAs get older, so does the audit firm where they work. There are people who are productive when they get old, on the other hand, there are people who are less productive when they get old. As adopted by Mohd Ghazali & Ismail (2013), the theory of moral development (Kohlberg, 1973, 1981) suggests that moral principles will have an influence on individuals' decisions as they grow older. Thus, it may be expected that as an individual aged and having gone through various phases and experiences in life, a person would be better equipped in deciding what is ethical and unethical. This in turn may lead an individual to be less tolerant in unethical situations. The findings on the relationship between age and ethical judgment have been fairly consistent with older respondents showing a stricter ethical stance (e.g. Vitell, Lumpkin, & Rawwas, 1991; Ruegger and King, 1992; Serwinek, 1992; Deshpande, 1997; Borkowski and Ugras, 1998; Weeks et al., 1999; Allmon, Page, & Roberts, 2000; Aldrich and Kage, 2003; Swaidan, Vitell, & Rawwas, 2003; Emerson, Conroy, & Stanley, 2007). Nonetheless Forte (2004) did not find age to be a factor influencing moral reasoning. As the majority of prior studies point to a positive relationship between age and ethical judgment (i.e. older accountants are less acceptable to questionable ethical situations).

Melancon (1998) said that "Our profession is 110 years old; what brought us here were the core values." There are certain values carried through when working in an aged firm. And when an employee is employed in an aged firm, usually salaries or wages are high. As found by Brown & Medoff (2001) "firms that have been in business longer pay higher wages (as previous studies have found), but pay if anything lower wages after controlling for worker characteristics." Brown & Medoff (2001) added that "wages firms pay reflect the quality of the workers they hire and the working conditions they offer. It thus provides a natural framework for thinking about wage differences by age of firm." This statement gives an insight that older firms employ workers that of quality, experience, and tenure with the firm. Firms that have been in business longer are likely to produce better-known products, providing a brand loyalty that newer entrants are hard-pressed to match even with equal advertising budgets

(Scherer, 1980: 260). It was found that the longer the business had been in operation, the better its chances for success and survival (Strydom, 2015). The longer the duration of existence, the more chance to become successful (Blackburn, Hart and Wainwright, 2013 and Ligthelm, 2012). Age may also contribute more directly to potential profitability (Brown & Medoff, 2001). Kozubíková et al, (2016) found out that the companies being in the market for more than 10 years think that their staff is reasonably autonomous than younger firms. This result is associated with the idea that employees of the established companies are well acquainted with their tasks, they have a decent position in the company and it could be assumed that they have a greater independence not only in the performance of repetitive tasks, but also in the implementation of new business ideas and opportunities. Establishment age is a likely factor of concerns in establishing the relationship between intangible assets and business performance (Chareonsuk & Chansa-ngavej, 2010). In other words, the age of the firm have relationship with performance, it sees to it that as the firms grows old it should perform well. With all the studies above, the following hypothesis is developed:

H1: There is a significant effect of audit firm age on audit quality.

Ho: There is no significant effect of audit tenure on audit quality.

Audit Tenure. The length of time an audit firm render services to the client. Audit tenure, whether short, medium, or long tenure contributes to the quality of the audit.

Audit tenure may impair independence because of becoming close to client by the auditor. Okolie, A.O. (2014:70) define audit tenure as follows,

"Audit tenure as the length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company. Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources."

In addition, Johnson et al. (2002) and Myers et al. (2003) define audit tenure "as the number of years an auditor is retained by a firm." The years spent with the client by the auditor may have positive and negative effects to auditor's independence and audit quality.

According to Johnson et al. (2002) the learning effect will diminish when the engagement exceeds eight years. They studied the auditor tenure divided into three categories: Short (2-3), Medium (4-8) and Long (9 or more). Upon approaching the medium tenure category and extending beyond towards the long tenure, the independence of the auditor is jeopardized as a result of the auditor's excessive familiarity with the client and its industry. The findings indicate that the auditors in our survey perceive that the length of audit tenure required to make effective audits should be between three and five years (Anis,2014).

Geiger and Raghunandan (2002) find that auditors are more likely to issue an unqualified audit opinion prior to a client filing for bankruptcy in the early years of the auditor-client relationship. Myers et al. (2003) on the other hand find that as auditor tenure increases, auditors place greater constraints on the degree of discretionary and current accruals allowed by management. As researched by Gonzalez, et al (2015), the results revealed that such a connection does exist.

In other words, it shows that a long relationship between a client and its auditor increases the likelihood of the auditor issuing a clean report.

Audit Tenure Effect on Audit Quality. Once an auditor is engaged during audit engagement, a relationship between auditor and client is being developed. Usually an auditor conducts a thorough audit for several days. The everyday transactions bring closeness to the audit and the client. Lim and Tan (2010) show that longer auditor tenure may not lead to decreased audit quality. Long auditor-client relationships have the potential to create closeness between the auditor and the client, enough to deter the auditor's independence and reduce the audit quality (Al-Thuneibat,Al Issa, & Baker (2011). Long tenure is assumed to lead to less objectivity in the auditor's behavior, where a "learned confidence" in the client is developed (Hoyle, 1978; Arrunada and Paz-Ares, 1997). Since the coefficient of long audit tenure is positive, this passes the sign test and shows that there is a positive relationship between Long audit tenure and auditors independence (Imeokparia, 2014). Some researchers concluded that audit tenure does not influence audit quality. From the mean results, it could be concluded that the long tenure increases the audit quality. While, the majority was disagreeing towards the concept that the extended tenure deteriorates and decreases the audit quality (Mostafa,et al, 2013).Statistical analysis of data shows that, audit firm tenure affects the audit quality adversely (negatively). Audit quality deteriorates, when audit firm tenure is extended as a result of the growth in the magnitude of discretionary accruals (Al-Thuneibat, et. al 2013). The study showed that the audit tenure does not have a significant influence on audit quality (Rahmina & Agoes, 2014). The study showed that the probability value of higher that 5% is an indication that audit tenure does not significantly affect audit quality (Enofe,et al, 2013).

This is an indication that audit tenure affects audit quality. Short-tenure and long affect may jeopardize the audit result. There is a need to discourage auditor on the likelihood of issuing clean report because of a long tenure. With all the studies above, the hypothesis developed are as follows:

H2: There is a significant effect of audit tenure on audit quality.

Ho: There is no significant effect of audit tenure on audit quality.

H3: There is a significant effect of audit firm age and audit tenure on audit quality.

Ho: There is no significant effect of audit firm age and audit tenure on audit quality.

METHODS

An explantory method is used in this study since it depicts the cause and effect relationship. Data gathered will be processed,analyzed, presented, interpreted and concluded in a way that it will clarifies the matters about audit firm age and audit tenure on audit quality.A purposive sample is use because the group chosen has its own characteristics and this chosen sample represents the group. Following are the criteria for the chosen sample:

1. It is listed in the Indonesia Stock Exchange.
2. The listed companies were awarded as the Most Trusted Companies from 2011-2016 by the Indonesia Institute of Corporate Goverance and SWA magazine.
3. The listed company had garnered an award for six (6) consecutive years.

Operational Variable. The variables in this research are Audit Quality (Y), Audit Firm Age (X1), and Audit Tenure (X2). Following are the variables involved:

Table 2. **Operational Variables**

Variables	**Dimension**	**Indicator (Measurement)**
Audit Quality (Y)	Auditors' Specialization (Audit firm who had done the most often (numerous) audit for specific industry or domain, Setiawan, 2016).	1 – Specialized (Audit firm who had done the most often (numerous) audit for specific industry or domain) 2- Non-specialized (Audit firm who did NOT perform the most often (numerous) audit for specific industry or domain).
Audit Firm Age (X_1)	The number of years in profession.	The total establishment age.
Audit Tenure (X_2)	The number of years an auditor had audited a company.	Short (0-3 years) – 1 Medium (4-6 years) - 2 Long (7 years above) - 3

Data gathered will be tabulated of which a regression analysis will be used as a tool for analysis. Correlation (r), coefficient of determination (R2), T-test and F-test will be used for analysis, hypothesis testing and test of significance. All the data gathered will be processed using SPSS and after that it will be analyzed and concluded. In this research, the significance level used is 0.05 ($\alpha = 5\%$). Criteria to accept of reject the hypothesis is as follows:

1. If the significance (sig.) value is > 0.05, the hypothesis is rejected.
2. If the significance (sig.) values is ≤ 0.05, the hypothesis is accepted.

H1: There is a significant effect of audit firm age on audit quality.

Ho: There is no significant effect of audit tenure on audit quality.

H2: There is a significant effect of audit tenure on audit quality.

Ho: There is no significant effect of audit tenure on audit quality.

H3: There is a significant effect of audit firm age and audit tenure on audit quality.

Ho: There is no significant effect of audit firm age and audit tenure on audit quality.

RESULTS

Audit Firm Age on Audit Quality. Audit firm age is the year when it was first established. It is known that audit firms have been rendering audit services since mid-1800s. There are audit firm that existed for more than a hundred years. Audit firm age pertains to the length of audit firm from its established date. Audit firms that have been established for long period of time are quite doing fine in the business. Most of the audit firms are performing well in which this resulted to gaining of trust from every clients. As shown in Table below, the minimum number of years of the audit firm since its establishment is 41 years while the maximum years in its existence is 170.

Table 3. **Variable *Audit Firm's Age (Establishment Age)***

Audit Firm	**Establishment Age**	**Audit Firm's Age**					
		2010	**2011**	**2012**	**2013**	**2014**	**2015**
Deloitte	1845	165	166	167	168	169	170
PWC	1867	143	144	145	146	147	148
EY	1906	104	105	106	107	108	109
HLB	1969	41	42	43	44	45	46
RSM AAJ	1964	46	47	48	49	50	51

Based on the Table above, it shows that the oldest audit firm falls on Deloitte, because it has been existing for 170 years (as of year 2015), and the youngest firm falls on HLB International because it has been existing for 46 years (as of 2015). When it comes to its correlation (r), audit firm age is slightly correlated yet positive to audit quality with a correlation of 0.282. The coefficient of determination (r2) is 0.079 or 7.9%. This indicates that 7.9% of audit firm age explains its effect on audit quality while the remaining balance is explained by other factors not included in this study. For its significance, the significance resulted to 0.096 which means that audit firm age has no significance effect on audit quality at a significance level of 5%, thus Ha is rejected. In some circumstances, the longer the audit firm exist the better (audit quality) in rendering audit services. The moral reasoning conveys that moral principles are applied by individual as they grow older. Once an auditor has moral principles, audit quality is reasonably assured. Also, auditors are more equipped with everything (e.g technology, innovative, creative) when audit firm gets old. But the findings in this study do not support the statement previously rather it opposed. The result indicated that the audit firm age do not affect significantly audit quality. The older the audit firm the quality decreases. This is supported by Forte (2004) that age is not a factor in influencing moral reasoning. Moral principles can be compromised by audit firm auditors just like what happened to Deloitte in 2017 with PT Sunprima. Deloitte was accused of being negligent during the audit (Purnomo, 2018). The audit process was not properly done because it lacks professional skepticism on the part of the auditor.

Audit Tenure on Audit Quality. Audit tenure is the length of time an auditor renders an audit service. The audit tenure talks about the number of years a client retains the service of an auditor. The following is the calculation result for variable audit tenure:

Table 4. **Variable *Audit Tenure***

Audit Tenure	**Total**	**Percentage**
Short (0-3 years)	18	50,0
Medium (4-6 years)	15	41,7
Long (7 years above)	3	8,3
Total	36	100,0

Based on the Table above, it is known that there are 36 firm year observations of which 18 firm year observation belongs to the category of short term tenure (0-3 years), 15 firm year observation belongs to the medium category (4-6 years), and 3 firm year observation belongs to the category of long term audit tenure (7 years above). According to the Minister of Finance Regulation of the Republic of Indonesia No. 17/PMK01/2008, audit firms are allowed to render general audit services for a period of six consecutive years and Public Accountants are allowed for a period of three consecutive years. The regulation was changes to Peraturan Pemerintah No.20/2015 Article 10, stating that Public Accountants are rotated every after 5 years of auditing the financial statement and there is no more audit rotation for audit firm. Some of the companies followed the government regulation strictly.

Audit Quality. Audit Quality is represented by one indicator, that is, Auditor's Specialization. Audit quality is the proxy of auditor's specialization in this research. Auditor's specialization is gained through experiences, trainings, and seminars. An auditor is specialist if he is capable of doing the audit effectively (Thongchai, 2015). Audit specialization plays role in driving audit success (Thongchai & Ussahawanitchakit, 2015). Auditor's specialization was measured through an audit firm who had done audit for a specific industry or domain. Audit specialization involves audit firm that numerously perform audits to particular industry. The more often the audit firm performs the audit the more chances to develop its specialization (Setiawan, 2016). A score of 1 is given to audit firm that had performed numerous audit to specific industry and 2 for the audit firm that did not perform numerous audit to specific industry. Following is the calculation result for the indicator of variable Audit Quality:

Table 5. **Variable *Audit Quality***

Audit Quality	Total	Percentage
Specialized (audit firm that performed numerous audit to specific domain)	13	36,1
Non Specialized (audit firm that did not perform numerous audit to specific domain)	23	63,9
Total	36	100,0

Based on Table above, it is known that there are 36 firm year observations of which 13 or 36.1% were audited by specialized auditor (audit firm that performed numerous audit to specific domain), while 23 or 63.9% were audited by not specialized auditor (audit firm that did not perform numerous audit to specific domain).

Audit Firm Age and Audit Tenure on Audit Quality. Multi-variate analysis shows that audit firm age has no significant effect on audit quality at significance level of 5% (as shown in Table below). It resulted to 0.084 of which it is above the significance level. On the other hand, audit tenure has significance effect on audit quality at significance level of 5% (as shown in Table below). It resulted to 0.000 of which it is above the significance level. Audit firm age has no effect on audit quality due to the fact that the longer the firms have the tendency of being bored thus causing the audit to do the audit routinely. Deloitte was accused of being negligent during the audit (Purnomo, 2018). This is in contrast with the theory that the longer the audit firm is the better the performance. In addition, the sample size was small giving the possibility of rejecting H1. Audit tenure has significance effect on audit quality thus accepted the H2. The significance was due to some reasons. Clients retain audit services in accordance to government regulations. Auditors must adhere to the regulation about audit tenure in which auditors must be rotated to avoid biases thus giving the auditor to be more objective and will surely increase the audit quality. Díaz, Fernández, & Díaz, (2014) found out that audit quality decreases as tenure length increases. Long auditor-client relationships have the potential to create closeness between the auditor and the client, enough to deter the auditor's independence and reduce the audit quality (Al-Thuneibat, Al Issa, & Baker, 2011).

Tabel 6. **T-test**

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.922	.286		6.718	.000
AFA	.003	.002	.242	1.784	.084
AT	-.422	.102	-.563	-4.143	.000

a. Dependent Variable: AQ

The following Table is the result of the F-test or the significance result done simultaneously:

Table 7. **F-test**

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.276	2	1.638	10.749	.000[b]
	Residual	5.029	33	.152		
	Total	8.306	35			

a. Dependent Variable: AQ

b. Predictors: (Constant), AT, AFA

The Table above showed that audit firm age and audit tenure have significant effect on audit quality simultaneously at the significance level of 5% thus accepting H_3. When the two variables are combined it affects the audit quality. This means that the two variables, audit firm age and audit tenure should go hand in hand together in achieving audit quality.

DISCUSSION

Audit firm age, although not significant, must be taken into consideration. The longer the firm, it is expected to increase audit quality. Audit firm that has been established for a long period of time have skilled personnel, technologies are more advanced and produces audit quality. Audit tenure has to do with objectivity in which it will lead to audit quality. Long tenure is avoided by following the government regulations. As much as possible, in every audit engagement, audit work must appear to be very objective, unbiased, and impartial thus resulting to high audit quality.

Recommendation

As for recommendation, researcher must add more samples in order to be more representative. Also, other variables may be taken into consideration as a proxy for audit quality.

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