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Audit Tenure and Investor's Perception on Audit Quality Before and After Implementation of The SA 240

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Abstract

Rampant cases of fraud in financial reporting raises questions about the independence and quality of the audit. Some parties claimed that audit quality may increase in line with a longer time of audit engagement. However, others believe that audit quality is getting worse by the longer time of audit engagement because it may reduce the independence. The financial statements resulting from a quality audit process is important because the information will be used by investors in making economic decisions. The present study aims to see the influence of public accountant audit tenure and public accounting firm audit tenure toward the perception of investors about the quality of audit as reflected from the earning response coefficient. This study also aims to find out the difference in influence of audit tenure on the perception of audit quality before and after implementation of the SA 240. This study was conducted by using multiple regression analysis on manufacturing companies listed in the Indonesia Stock Exchange in 2012 and 2013. The results of the study cannot prove the influence of public accountant audit engagement toward the audit quality perception. However, the result of this study proves that company profits that are audited by longer time audit engagement actually have a negative effect on investors' perception on the quality of audit. The study also proves that the public accountant engagement during the period of implementation of the SA 240 has a significant negative effect, but there is no significant effect on the period before the SA 240 implementation. The implication of this study is that the rules of the audit engagement should be reassessed to determine the appropriate time length of the audit engagement in order to improve the audit quality, thereby reducing the capital cost and does not create any false rotation.
Keywords: Audit Tenure, Audit Quality and Earning Response coefficient

1. Introduction

The emergence of various accounting scandals that occurred in the last 15 years, such as Enron, WorldCom, Satyam, Adelphia and JP Morgan is part of the accounting scandal that dragged the reputation of the big five public accounting firms. This is a big question for the public regarding auditor's independence and audit quality because the audit process is done in an effort to improve the quality of information for users of financial statements. Quality of the audit, according to (De Angelo 1981), will reflect the auditor's ability to detect errors and fraud that occur in the process of accounting of the company being audited.

Quality of the audit is increasingly in close relation with the audit engagement. According to (Ghosh and Moon 2005), a longer audit engagement can help auditors to better understand the company's financial accounting system and internal control, when the auditor can well understand the business risk and audit risk, the auditor will be easier to find any material misstatement. However, according to (Lim & Tan 2010), a too long audit engagement is considered to potentially reduce the auditor's independence. A reduced auditor independence may lead to a more tolerant auditor for errors and fraud committed by the company.

The emergence of the economic consequences concept caused the information in the financial statements produced by the management has an important impact for the users of financial statements, including investors, in making economic decisions. However, the difference in interest motive between providers with users of financial statements can lead to increasing asymmetry information. An audit is carried out in an effort to reduce asymmetry information. Changes in Auditing Standard 240 in Indonesia regarding the auditor's responsibilities relating to fraud in an audit of financial statements is set for the rise of these actions that are not able to be identified by the auditor. Those cases raised public concerns, especially investors, regarding the information in the financial statements that are not able to assist investors in making investment decisions. Therefore, a longer audit tenure is assessed as an indicator that can improve investors' perception on a better audit quality.

Previous studies used various proxies for measuring the quality of the audit including the discretionary accrual value, the restatement report, audit opinion and Earning Response Coefficient. Studies using an audit proxy by the size of discretionary accrual still show mixed results. Several studies suggest that audit tenure has a positive effect on audit quality improvement, as found by (Johnson et al 2002; Myers et al 2003; Monterrey and Sanchez Segura 2007; Fitriany 2011; Foley & Cebula 2013). A research conducted by (Lim & Tan 2010) states that the

audit tenure has a negative effect on the audit quality. Meanwhile, other researches state that the audit tenure has no significant effect on the audit quality as measured by the accrual value, as found by (Carey & Siminett 2006; Jackson et al 2008; Al Thuneibat, Issa & Baker 2010, Li 2010; Siregar et al 2012; and Diaz, Fernandez and Diaz 2014).

According to (B. Ghonzalez-Diaz et al 2014), a study using discretionary accruals as a measure of the quality of the audit is a study with the highest number. On the other hand, researches focused on Earning Response Coefficient as a measure of the perceived quality of the audit are still relatively small in numbers. This motivates the present researcher to conduct a research to see if investors feel that the quality of the profits of a company are influenced by the audit tenure. This study also aims to look at the effect of audit tenure difference on the perception of the quality audit before and after the implementation of Auditing Standard No. 240 (hereafter: SA 204). This standard specifies that the auditor has a duty to identify any potential fraud measures in the financial statement (fraudulent financial report). Thus, market response will be more affected by the audit tenure in the period after the implementation of the SA 240.

This study is a replication of the study conducted by (Ghosh and Moon 2005), but the main difference in this research is the analysis that separates the engagement of public accounting firms and the engagement of public accountants. Another difference is the use of data research conducted in Indonesia, and it is interesting to do because of the local market share of public accounting firm (hereafter: KAP) in Indonesia compared to the international KAP affiliates differ significantly, so the issue of the audit engagement is important in promoting and protecting local KAP to be able to compete. In Indonesia, under the rules of the Ministry of Finance No. 359/KMK.06/2003 it is explained that the maximum engagement that can be performed by the same KAP for companies listed on the Indonesian stock exchange is five (5) consecutive years with three (3) consecutive years for the same public accountants participated in one KAP. Yet in reality, there are many international affiliate KAP engagements that exceeds the existing rules despite their local KAP difference in names. This shows the weakness of the audit engagement regulations in Indonesia.

A research in Indonesia on audit tenure and ERC has also been carried out by (Fitriany 2011). The different with her study is about focus analyze and research sample. This study only focused to analyze the relationship with the ERC and only used manufacturing companies as the research sample. Manufacturing companies are selected because they have more complex accounting systems and cost compared to other types of companies, thus audit tenure is expected to have a significant influence on those companies. The observation period was conducted in 2012 and 2013 because SA 240 is effective for audits of financial statements for periods beginning on 1 January 2013 (for the issuer). Implementation of SA 240 is considered to have a response coefficient higher than the period before the application of SA 240 is a must. (mandatory).

Based on the above, it is important to conduct this research with the purpose of 1) To determine the effect of public accountant tenure on the perception of investors about the quality of the audit. 2) To determine the effect of public accounting firm tenure on investors' perception of the quality of audit; 3) To see the difference in the effect of audit tenure on investors' perception of the quality audit before and after the implementation of SA 240. Results of the study demonstrate that there is no significant positive effect between public accountant tenure with investors' perceptions about the quality of the audit. Meanwhile, results of other studies indicate that there is a significant negative effect on profit information moderated by audit tenure. The present study does illustrate that the longer audit engagement is considered capable of lowering the quality of profits based on the perception of investors. While the results of other studies stating that the KAP audit tenure has significant negative effect on the CAR after the period of the implementation of SA 240, whereas in the period before the implementation of SA 240 KAP audit tenure has no significant effect.

This study gives two contributions: First; for investors and creditors to better assess the company by noticing the duration of the audit engagement of public accounting firms and public accountant, so it will produce optimum investment decisions. Second; for PPAJP and regulator, this study contributes in determining duration of audit engagement for public accountant that is effective in preventing a possible decline in audit quality and reduce the disparity between the big four and non-big four KAP.

2. Literature Review and Hypothesis Development

2.1 Audit Tenure, Independence and Quality of Audit

Agency conflict between the management company (agent) with the owner of the company (principal) may lead to information asymmetry. One effort to reduce it is through the audit process conducted by external auditors. Quality audit process can be a source of information for users of financial statements in making economic decisions. (De Angelo 1981) explains that the quality of the audit is related to the ability of the auditor to find

errors in the client's financial statements and express it in the audit report. Audit quality will be influenced by the competence and independence of the auditor.

Auditor's competence is related to professional skills while auditor's independence is related to the auditor's objectivity. (Arens et al 2014) state that competence and independence are integral parts of the quality of the audit. A competent auditor who find errors in the financial statements will be useless when the auditor is not independent. On the contrary, a very independent auditor without competence will be difficult to find errors in the client's financial statements. Independence became an important focus of attention today as the emergence of accounting scandals involving auditors. (Lim & Tan 2010) state that the auditor would be easier to agree on the presentation of financial statements in accordance with management's desire for closeness with clients and lead to reduced independence due to the longer audit engagement.

However, another different view states that shorter audit tenure led to a lack of auditor's properly knowledge about the client (client-specific knowledge) and the shorter audit engagement is also considered to increase the management incentive to maintain audit engagement so that the auditor is not independent. (Johnson et al 2002; Myers et al 2003; Ghosh & Moon 2005, Monterrey and Sanchez Segura 2007 and Foley & Cebula 2013).

2.2 Earning Response Coefficient

(Collins and Kothari 1989) state that stock price changes would be related to changes in unexpected earnings. Regression between the Cumulative Abnormal Return (CAR) with Unexpected Earnings (EU) would produce an alpha coefficient. Thus the alpha coefficient is the value of earning response coefficient (ERC). ERC analysis can be done by cross sectional and temporal variation analysis. If the earning announced by the company is greater than the expected earning then the EU is positive. Company with a positive UE is expected to give a positive response on stock returns and vice versa, a company with a negative UE can provide a negative response as well. Previous research regarding audit tenure and the perception of audit quality has been conducted by (Ghosh and Moon 2005), focusing on investor perceptions about the quality of the audit because the financial statements in the stock market is primarily used by investors as the company owner. (Ghosh & Moon 2005) used earnings response coefficient with regression of stock returns with company earnings. Based on a model created by (Holthausen and Verrecchia 1988, Teoh and Wong 1993) conducted a study to analyze the differences ERC in companies being audited by big eight and non-big eight KAP. The result showed that the investor will provide an assessment of different stock price of the company with high quality. A research that links audit tenure with stock prices gives another view to investors that there is an influence between the duration of the audit engagement with the quality of earnings.

2.3 Hypothesis Development

2.3.1 Public Accountant Audit Tenure on Investor's Perception on Audit Quality

In conducting the audit, an auditor is required to understand the client company's accounting system. The accounting system consists of various subsystems that are interrelated with each other. (Arens et al 2014) state that the procedures, documents, records that exist in the subsystem need to be well understood by the auditor to obtain competent audit evidence to be able to take appropriate audit conclusions expressing longer engagements audit according to (Ghosh and Moon 2005) is considered to facilitate auditors to understand the internal control of the company. CPA partner individually has the responsibility to review the work of the section on the lower level in an audit, analyzing the existing findings in the field, checking the accuracy of test of detail balance and also assess the possible contingent liabilities and subsequent events so that the information in the financial statements will not mislead users of financial statements. (Ye et al 2014) stated that the audit partner with a lot of experience has an influence on the reduction of errors in the audit process.

Previous research conducted by (Johnson et al 2002; Myers et al 2003; Ghosh & Moon 2005 Monterrey and Sanchez Segura 2007 and Foley & Cebula 2013 stated that the longer audit engagement is considered capable of improving audit quality. So that a good audit quality can generate information in the quality financial statements. (Teoh and Wong (993) stated that the investor would rate higher on companies with high earnings quality due to high earnings quality will be seen as more sustainable. Longer public accountant audit tenure is considered to be able to provide insight for investors about the quality of earnings that reflect a good perception of audit quality. Under these conditions, the following hypotheses are formulated:

H1 = audit tenure of public accountant has a positive effect on investor's perception on audit quality

2.3.2 Audit Tenure of Public Accounting Firm on Investor's Perception on Audit Quality

Public accounting firms have a series of quality management system that is capable of ensuring audit quality

remains high. A longer audit engagement with the public accounting firm would cause the audit quality to be increased because the KAP will have a good understanding in the allocation of time and human resources that will be involved in the audit process. (Arens et al 2014) stated that the audit planning needs to be done in an effort to produce a good quality audit that is through time planning, resources and procedures that are effective in conducting the audit.

Same thing with the public accountant engagement, a longer public accountant engagement is also based on the results of previous studies conducted by (Johnson et al 2002; Myers et al 2003; Ghos & Moon 2005; Monterrey and Sanchez Segura 2007 and Foley & Cebula 2013), whose results show the influence of audit tenure on the quality of the audit. (Teoh and Wong 1993) stated that companies with high earnings quality will be appreciated by investors with a high stock price. A longer audit tenure can improve the quality of corporate earnings so that investors' perception of the quality of the audit will be higher. Based on the description above, the research hypothesis is described as follows:

H2 = audit tenure of public accounting firm has a positive effect on investor's perceptions on the audit quality

2.3.3 Audit Tenure Differences of Public Accountant Firm on the Investor's Perception on Audit Quality Before and After Implementation of SA 240

Developments and needs in the presentation of the quality audit report in the global order produces an audit standard that is internationally applicable known as the International Standard on Auditing. The birth of this standard is triggered by a variety of manipulation cases in the financial statements. This is due to the difference of interests between the parties preparing the financial statements and parties using the financial statements, causing the company's management to manipulate financial statements. Information risk on fraud in the financial statements can be minimized through the audit process.

Changes in auditing standard in Indonesia, which currently refers to the international standard makes the auditor's responsibility on the audit reports being produced to be increasing. ISA No. 240 states that the auditor has a duty to provide directional guidance regarding the responsibility to detect fraud. If the auditor is unable to meet those obligations, the lawsuits that will be faced by the KAP in Indonesia will be higher. This is consistent with the Law No. 5 on Public Accountant Year of 2011 gives a higher lawsuits to the auditor due to the failure in the audit process. An auditor can be sued not only by the civil law but also can be prosecuted as a criminal law.

Various studies using discretionary accrual indicators for measuring fraud in the financial statements based on accounting and auditing enforcement releases (AAER). In the context of the financial statements in Indonesia, there is no special institution to periodically report indications of fraud such as AAER. According to a research conducted by (Marchesi 2000), in countries with a low level of law enforcement, the quality of the audit is very diverse. A good quality of the audit will be reflected in the duration of the audit engagement, according to (Chi and Huang 2005; Myers, Myers & Omer 2003; Ghosh & Moon 2005; Gul, Fung & Jaggi 2009, DeAngelo 1981a) stated that a longer audit engagement has a higher impact in improving the quality of the financial statements because the auditor who is re-assigned after the first assignment would have the ability to understand the company's accounting system even better. This way, errors and fraud in the presentation of financial statements will be easier to find. It can be concluded that the effect of audit tenure on the perception of audit quality will be higher after the implementation of SA 240 compared to the period before SA 240 was implemented, because the implementation of SA 240 made investors more confident about the quality of the audit despite the longer audit engagement.

H3 = effect of public accounting firm audit tenure on the investor's perceptions on the audit quality is higher after the implementation of SA 240 compared to before the implementation of SA 240.

3. Research Method

3.1 Research Model

This study uses a quantitative method research design. The object of this study is audit tenure, audit service costs and perception on the quality of the audit. To answer the problem identification number 1 and 2, a research model developed by (Ghosh and Moon 2005) was used. The following is an explanation of the model used in this research:

MODEL 1:

$$CAR_{it} \equiv \propto \ +\beta_1 E_{it} + \beta_2 \Delta E_{it} + \beta_3 TENURE\_AP_{it} + \beta_4 E_{it} * TENURE\_AP_{it} + \beta_5 \Delta E_{it} * TENURE\_AP_{it} + \sum_{j=1}^{9} \beta_{6+2(j-1)} E_{it} * CONTROL \ + \sum_{j=1}^{9} \beta_{7+2(j-1)} \Delta E_{it} * CONTROL \ + \sum_{j=1}^{9} \beta_{17+j} CONTROL \ + \varepsilon_{it} \quad \ldots\ldots(1)$$

Description :

Dependent Variable:

CAR_{it} = Cumulative Market Adjusted Return company i in year t calculated for 12 months starting from the 3rd month in the reporting period up to the 3rd month in the following year reporting period.

Independent Variables:

E_{it} = Net Income the company i in year t divided by total assets of the beginning of the year

ΔE_{it} = The difference between E_{it} and E_{it-1}

$TENURE\_AP_{it}$=The duration of the certified public accountant engagement until the replacement by another certified public accountant during the observation

Control Variabel:

$BIG4_{it}$ = 1 If the company i in year t is audited by the big four KAP and besides that it is 0

$MTBV_{it}$ = Market to Book Value; measured from the ratio of equity market price to equity book value of company i in year t

$SIZE_{it}$ = Natural Logarithm of the total assets of the company i in year t

LEV_{it} = Total Debt divided by Total Assets of company i in year t

To answer the second problem identification, a regression model similar to the regression model (1) was used.

MODEL 2:

$$CAR_{it} \equiv \propto \ +\beta_1 E_{it} + \beta_2 \Delta E_{it} + \beta_3 TENURE\_KAP_{it} + \beta_4 E_{it} * TENURE\_KAP_{it} + \beta_5 \Delta E_{it} * TENURE\_KAP_{it} + \sum_{j=1}^{9} \beta_{6+2(j-1)} E_{it} * CONTROL \ + \sum_{j=1}^{9} \beta_{7+2(j-1)} \Delta E_{it} * CONTROL \ + \sum_{j=1}^{9} \beta_{17+j} CONTROL \ + \varepsilon_{it} \quad \ldots\ldots(2)$$

Description :

$TENUREKAP_{it}$= The duration of the KAP engagement until the replacement by another KAP during the year of observation

To answer the third hypothesis, there will be a comparison coefficient $\beta_3 TENURE\_KAP_{it}$ in the period before the the implementation of SA 240 for the year of 2012 and after the implementation of SA 240 in 2013. By conducting regression separately in both periods. The regression that was used in the present study is:

MODEL 3:

$$CAR_{it} \equiv \propto \ +\beta_1 E_{it} + \beta_2 \Delta E_{it} + \beta_3 TENURE\_KAP_{it} + \beta_4 E_{it} * TENURE\_KAP_{it} + \beta_5 \Delta E_{it} * TENURE\_KAP_{it} + \sum_{j=1}^{9} \beta_{6+2(j-1)} E_{it} * MTBV \ + \sum_{j=1}^{9} \beta_{7+2(j-1)} \Delta E_{it} * MTBV \ + \sum_{j=1}^{9} \beta_{8+j} MTBV \ + \varepsilon_{it} \quad \ldots.(3)$$

3.2 Research Sample and Data Analysis Technique

The sample of the present study are companies in manufacturing industry category listed in Indonesia Stock Exchange in 2012 and 2013. Based on data obtained from the Indonesia Stock Exchange website, there are 134 manufacturing companies. Observation was conducted for two years due because the implementation of SA No. 240 is effective for companies listed on the Indonesia stock exchange in 2013. Therefore, the determination of the observation period was conducted one year before the effective period of SA No. 240 and one year after the

effective period of SA No. 240. Below is the number of sample:

Table 1 Research Sample

Company Listed in Indonesia Stock Exchange	502
Non-Manufacturing Industrial Company	(368)
Manufacturing Industrial Company	134
Delisting	(3)
Incomplete Data	(12)
	117
Total of Samples in 2 Years	234

Data on components in the financial statements derived from the data stream at the Centre for Economics and Business Data Universitas Indonesia (PDEB, Pusat Data Ekonomi dan Bisnis). Data on audit tenure were obtained directly from the financial statements of each company in the last 6 years. Data analysis was completed using OLS (Ordinary Least Square) technique, where the requirements in the use of it must meet the classical assumption test in order to produce a linear estimator that is not biased with minimum variance (Best Linear Unbiased Estimator = BLUE) (Gujarati 2012: 89). The tests to be done are 1) Normality Test using Jarque-Bera test, 2) Heteroscedasticity test using the breusch pagan godfrey test, 3) Multicolinearity test by calculating the value of Tolerante and Variante Inflation Factor (TOL and VIF)

Furthermore, after the BLUE test, the hypothesis test was done with step of: 1) Establishing the null hypothesis and the alternative hypothesis; 2) Establishing a significance level of ρ = 0.05 and this study used two-party test; 3) Establishing criteria for the decision, if tcount < t table; hence Ho is accepted and Ha is rejected, and if tcount > t table; then Ho is rejected dan Ha is accepted.

4. Research Results

4.1 Descriptive Statistics

This study aimed to examine the effect of public accountant tenure and public accounting firms tenure on the perception of investors about the quality of the audit. The following will be described the descriptive statistics of each variable to be studied.

Table 2 Descriptive Statistics

Variabel	Mean	Median	Min	Max	Standar Deviasi	n
Panel A : Dependen dan Independen						
CAR	0.1261	-0.0014	-0.7007	3.87045	10.6101	234
E	6.70541	4.46218	-33.429	75.6374	12.4809	234
ΔE	-0.2137	-0.42	-47.8	68.1674	10.6101	234
TENUR_AP	1.70513	1	1	4	0.83036	234
TENUR_KAP	2.99145	3	1	5	1.15343	234
Panel B : Control						
BIG4	0.42308	0	0	1	0.49511	234
MTBV	2.96145	0.99	-15.47	47.57	7.55433	234
SIZE	14.2876	14.0585	10.5023	21.8613	1.65996	234
LEV	13.4566	13.3966	18.4958	8.71981	1.77725	234

Based on data from the statistical results in Table 2 Panel A it is obtained mean value from CAR that is 0.1261; E is 6.70541, ΔE is -0.2137; TENUR_AP is 1.70513 and TENUR _KAP is 2.99145. The interesting thing is that the mean duration for AP and KAP engagements in Indonesia is above or close to the median value. AP Tenure mean and median value is 1.70513 (1). KAP Tenure mean and median value is 2.99145 (3) This shows that the possibility of opinion shopping through a very short duration of the audit. More clients made longer engagement with the KAP because it provides an advantage, that is easier in explaining the company's accounting system to the auditor during the audit process. The amount of ΔE earnings that reflect changes in the company shows a negative median value of -0.42 meaning that during the observation period, many companies have lower earnings compared to that of the previous year. The median value of E is the positive value of 4.46218 meaning that during the observation period many companies have positive earnings.

The descriptive statistics for control variable shows that BIG4 mean value is 0.42308; MTBV is 2.96145; SIZE is 14.2876 and LEVERAGE is 13.4566. Based on data from Table 2 Panel B, the interesting thing is the number of companies that made engagement with big four KAP is almost half of the study population, that is as much as

42.30%. The remaining 57.7% made audit engagement with non-big four KAP. Total number of KAP listed in the Indonesia Stock Exchange is 61 KAP. 57.7% audit engagement with non-big four KAP is contested by 57 KAP (61 minus 4 KAP) .This shows the big four KAP market share is very large in the manufacturing industry, as dominated by the E&Y. Companies believe that an audit engagement with the big four KAP will be able to improve investors' perception on the quality of existing information. The fact that only few companies choosing non-big four KAP should be the focus of attention for regulators to draw up a policy that encourages competition and advancement for local KAP in Indonesia.

Furthermore, after conducting descriptive statistical analysis, the correlation test between each variable was conducted as described in the following table:

Table 3 Pearson Correlation Matrix

Variabel	1	2	3	4	5	6	7	8	9
CAR	1.000								
E	0.011458***	1.000							
ΔE	0.004273	0.607311***	1.000						
TENUR_AP	-0.007893	0.133025	-0.640437	1.000					
TENUR_KAP	-0.044817*	1.577499**	0.736361	0.185205***	1.000				
BIG4	-0.057037	3.298962**	-3.249968**	0.090909	0.627609***	1.000			
MTBV	0.009119**	0.481491***	0.059413	0.019009***	0.01122	0.009719**	1.000		
SIZE	-0.028728	-0.252808	-1.263605***	0.09253***	0.137938***	0.131422***	1.135224***	1.000	
LEV	-0.040326**	-0.640437	-1.015875***	0.074012**	0.087984***	0.111242***	0.562911**	0.829547***	1.000

Table 3 shows the correlation coefficients between CAR, E, ΔE, TENUR_AP and TENUR_KAP and other control variables. The highest correlation value is between E with CAR (0.011458***) and the lowest correlation value is between TENUR_KAP with CAR (-0.044817*). However, ΔE is apparently not correlated with CAR, because the earnings of the sample companies are not persistent because it tends not to rise from year to year. Likewise, the TENUR_AP is not correlated with CAR, because investors are more likely to focus on KAP. This shows there are still many naïve investors in Indonesia. The correlation with the highest control variable is between MTBV with CAR (0.009119**) and between LEVERAGE with CAR (-0.040326**). Meanwhile, BIG4 KAP and ASSET are not correlated with CAR. The difference of correlation value between each variable shows the strongest propensity factor and the lowest value explains investors' perception on the quality of the audit.

4.2 Public Accountant Audit Tenure on Investor's Perception on Audit Quality

To answer the first problem identification, an analysis was conducted on the regression equation (1). Based on this, it is obtained the following regression results:

Table 4 Results of Regression Model 1
Earnings Response Coefficients and Investor Perception

Variabel	(Coefficients)	(1)	(2)
Intercept	α		
E	(β1)	0.016257 (0.0497)**	-0.000632 (0.9832)
ΔE	(β2)	-0.006344 (0.5205)	-0.077194 (0.0448)*
	(β1+ β2)	0.009913 (0.5702)	'0.077826 (1.0280)
E*TENUR_AP	(β3)	-0.001949 (0.6583)	'0.001939 (0.7322)
ΔE*TENUR_AP	(β4)	0.001993 (0.7688)	'0.010136 (0.2346)
	(β3 +β4)	0.000044 (1.4271)	'0.012075 (0.9668)
TENURE_AP	(β5)	0.006078 (0.9154)	-0.013129 (0.8283)
Control Variabel			
E*BIG4 (β6)/ΔE*BIG4(β7)			
	(β6 +β7)		0.005876 (1.1086)
E*MTBV (β8)/ΔE*MTBV(β9)			
	(β8+β9)		-0.001150 (0.4527)
E*SIZE (β10)/ΔE*SIZE(β11)			
	(β10+β11)		0.012672 (0.6589)
E*LEVERAGE (β12)/ΔE*LEVERAGE(β13)			
	(β12+β13)		-0.007029 (1.1341)
BIG4	(β14)		-0.145781 (0.1636)
MTBV	(β15)		0.013045 (0.0670)*
SIZE	(β16)		-0.068893 (0.2457)
LEVERAGE	(β17)		0.039414 (0.4661)
Adjusted R2		0.043963	0.07764

Based on Table 4, there is no evidence that audit tenure (public accountant) has an effect on return earnings. The

result is shown by the coefficient (β3 + β4) that does not have significant effect because the probability value exceeds α(0.05). The sum of coefficients E + ΔE shows ERC by 0.000044 (prob = 1.4271) in the first regression that does not include the control variable so that it cannot give meaning because their effect is not significant. Whereas the value (β1) is significant by 0.016257 (prob = 0.0497). The regression result shows that in average investors use E value in assessing the company compared to TENUR_AP. Thus, the coefficient TENUR_AP (β5) shows no significant effect of 0.006078 (prob = 0.9154). This indicates that public accountant audit engagement has no effect on stock returns.

In the second regression, control variable is included. Regression result shows that (β2) has a significant negative effect, while (β1) has no significant effect. Thus, it cannot be interpreted that the value of (β1 + β2) at 0.077826 (prob = 1.0280) as the earnings response coefficient. The same thing happens to the value of (β3 + β4) that shows no significant result. Likewise, TENUR_AP (β5) also shows no significant effect. This proves that public accountant audit engagement does not have any effect on stock return. Result of regression from control variable shows that all control variables are not significant except MTBV by 0.013045 (prob = 0.0670)

The result of this study is generally not in line with a research conducted by Ghosh and Moon (2005) that stated that the ERC moderated by public accountant audit tenure is positively related to stock returns. The fact that Tenur AP is not proven to have effect on audit quality maybe because many investors in Indonesia are still focus on the engagement with KAP, not with AP, and many investors in Indonesia are still "naïve" or "non-sophisticated" meaning that they conduct transactions in the capital market without basing their judgement on the quality of the information contained in the audit report. According to a research conducted by Bayu et.al (2014), the investor behavior in Indonesia in making investment decisions tends to be influenced by stock analysis technique alone. Audit report as a valuable information for the benefit of investors, especially individual investors, is apparently not the main reference in making investment decisions, and even its intensity usage is not very dominant.

4.3 Public Accounting Firm Audit Tenure on Investor Perception on Audit Quality

To answer the second problem identification, an analysis was conducted on the regression equation (2). Based on this, it is obtained the following regression results:

Table 5 Results of Regression Model 2
Earnings Response Coefficients and Investor Perception

Variabel	(Coefficients)	(1)	(2)
Intercept	α		
E	(β1)	0.027872 (0.0061)***	0.022277 (0.4906)
ΔE	(β2)	-0.010725 (0.4020)	-0.090356 (0.0533)
	(β1+ β2)	0.017147 (0.4081)	-0.068079 (0.5439)
E*TENUR_KAP	(β3)	-0.004142 (0.0108)*	-0.004090 (0.2157)
ΔE*TENUR_KAP	(β4)	0.002058 (0.5542)	0.002602 (0.5580)
	(β3 +β4)	-0.002084 (0.6550)	-0.001488 (0.7737)
TENURE_KAP	(β5)	-0.042799 (0.2276)	-0.018439 (0.6358)
Control Variabel			
E*BIG4 (β6)/ΔE*BIG4(β7)			
	(β6 +β7)		0.003405 (0.9947)
E*MTBV (β8)/ΔE*MTBV(β9)			
	(β8+β9)		-0.00071 (0.9470)
E*SIZE (β10)/ΔE*SIZE(β11)			
	(β10+β11)		0.009764 (1.0099)
E*LEVERAGE (β12)/ΔE*LEVERAGE(β13)			
	(β12+β13)		-0.00304 (1.5871)
BIG4	(β14)		-0.105793 (0.3142)
MTBV	(β15)		0.011185 (0.1002)*
SIZE	(β16)		-0.04435 (0.4596)
LEVERAGE	(β17)		0.014986 (0.7806)
Adjusted R2		0.067965	0.080347

Based on Table 5, there is evidence that audit tenure (public accountant) has a negative effect on return earnings. This is not in line with the stated hypothesis that the effect is negative. The effect is a proof that when the company earning is audited by longer audit engagement then it will not be responded positively by the market. The result is consistent with that found by Lim & Tan (2010) that stated that the audit tenure negatively effects the quality of the audit. The negative effect is shown by the coefficient β3 of -0.004142 β3 (0.0108), whereas the coefficient β4 result shows no significant effect. Therefore, the sum of the coefficient (β3 + β4) of -0.002084 (0.6550) in the first regression that exclude the control variable is difficult to conclude. The same thing happens in the sum of E + ΔE (β1 + β2) which is the ERC by 0.017147 (0.4081), that is difficult to conclude its influence

because of E significantly positive effect on CAR with coefficient β1 0.027872 (0.0061). However, the effect of ΔE on CAR (β2) is not significant.

In the second regression, control variable is included. The regression result is not consistent with the stated hypothesis because there is no independent variable with significant positive effect on the dependent variable except for MTBV variable that has significant positive effect on CAR. This indicates that KAP tenure does not have significant effect on earnings response coefficient (ERC), which is an indicator of the perceived quality of the audit. The result of this study is generally not in line with a research conducted by Ghosh and Moon (2005) that stated that the ERC moderated by public accountant audit tenure is positively related to stock returns.

4.4.3 Effect Difference of Public Accounting Firm Audit Tenure on the Investor Perception on Audit Quality Before and After Implementation of SA 240

To see the effect difference between these two periods, a test was conducted before and after the implementation of SA 240 whose result is presented in table 6 below:

Table 6 Results of Regression Comparison Model

Earnings Response Coefficients and Investor Perception

Variabel	(Coefficients)	BEFORE SA 240	AFTER SA 240
Intercept	α		
E	(β1)	0.040858 (0.0393)**	-0.005905 (0.6998)
ΔE	(β2)	-0.003171 (0.9105)	0.033308 (0.1796)
	(β1+ β2)		0.027403 (0.8794)
E*TENUR_KAP	(β3)	-0.004924 (0.4670)	0.003483 (0.3891)
ΔE*TENUR_KAP	(β4)	0.000798 (0.9140)	-0.009609 (0.1311)
	(β3 +β4)	-0.004126 (1.3810)	-0.00613 (0.5202)
TENURE_KAP	(β5)	-0.033143 (0.6561)	-0.061156 (0.0977)**
Control Variabel			
E*MTBV (β6)/ΔE*MTBV(β7)			
	(β6 +β7)	0.007756 (0.3339)	-0.00086 (0.3174)
MTBV	(β8)	0.003489 (0.7898)	0.006774 (0.246)
Adjusted R2		0.108592	0.053495

Table 6 (1) indicates that TENUR_KAP does not have significant effect before the implementation of SA 240. Whereas table 6 (1) shows that TENUR_KAP has significant effect but the effect will be negative for -0.061156 (Prob = 0.0977). This shows that the hypothesis is rejected. However, the negative effects that occurred after the implementation of SA 240 indicates that investors are beginning to realize that the possibility of interference can occur due to the independence of longer audit engagement after the announcement of the imposition of SA 240 in the financial statements in 2013.

5. Conclusion, Implication and Limitation of the study

5.1 Conclusion

Based on the description above, it can be concluded that the effect of audit tenure on investor perception about the quality of audit is as follows:

- Longer public accountant audit tenure does not have significant positive effect on investor perceptions about the quality of the audit. Company earnings audited by a longer public accounting firm audit tenure has a negative effect on the perception of the audit quality. ERC is used to measure the perceived audit quality which reflects the perception of quality audit representation faithfulness. The end result of earnings response coefficients is inconclusive because of mixed results where TENUR_AP and TENUR KAP variable E has significant positive effect while variable ΔE does not have significant effect.
- Before the implementation of SA 240, TENUR_KAP does not have significant effect, but after the implementation of SA 240, TENUR_KAP does have significant effect with a negative direction. This shows that when SA 240 is mandatory, investors began to recognize the potential for the disruption on

auditor independence. Thus, the market gives negative response over the longer audit tenure.

5.2 Implication

This study implies that the audit engagement of public accounting firms has an effect on investor perception about audit quality. If investors give more votes to the company on a good perception of the audit quality, then it will lead to the possibility of smaller cost of equity capital or the cost of debt borne by the company. In addition, this study also has implications on the regulator to re-analyze the effective audit engagement, so that it can improve the quality of the audit and on the other hand it does not cause any false engagement due to provisions limiting the maximum number of KAP engagement. Pseudo-audit engagement happens when the rules of the regulator which requires KAP replacement but the implementers in the field is the same person or party with the previous year audits.

5.3 Limitation of Study

This study has limitation and among others is the observational sample of this study is only carried out in 2012 and 2013, as well as focusing on one (1) type of industry alone. For those interested in further research to analyze further, it is suggested to increase the number of samples and the periods of observation. In this study, the measurement of KAP engagement does not sum up KAP turnover affiliate, meaning that when the local KAP changes then the audit engagement changes too. Therefore, for further research it is recommended to use the indicator KAP audit tenure by considering the engagement of KAP affiliates.

This study aims to look at the difference before and after the implementation of SA 240 which of course has its limitations because it does not use indicators specifically related to the disclosure of fraud risk assessment conducted by auditors related to the occurrence of fraudulent financial report, therefore further research may consider the use of the proxy.

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