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Untuk melaksanakan kegiatan penelitian/publikasi ilmiah dengan data sebagai berikut:

Judul	:	The Moderation of Accounting Firm Size in Its Influence on Audit Quality During Covid?19
Nama Media	:	JURNAL RISET AKUNTANSI TERPADU
Penerbit	:	The Accounting Department, Faculty of Economics and Business, Universitas Sultan Ageng Tirtayasa
Volume/Tahun	:	Volume 15/ Nomor 2/ 2022/ Oktober
URL Repository	:	https://jurnal.untirta.ac.id/index.php/JRAT/article/view/18426

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Print Security : e719001ec6afd41a7be08a1a4dcbdac2

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pISSN 1979-682X   eISSN 2528-7443

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The Moderation of Accounting Firm Size in Its Influence on Audit Quality During Covid'19

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Abstract

Asymmetry of information between the management and the owners of the company, making management have opportunity to do some fraud. Asymmetry of information can be overcome with the audit process; the auditor is expected to detect the errors and fraud. Auditors who make mistakes in the audit process, have risk to getting lawsuits that called litigation risk. Additionally, auditor independence issues are a central position in the auditing literature. This problem is often sparked debate about audit quality, audit quality associated with audit tenure The purpose of this study was to examine the effect of litigation risk on audit quality, the effect size of audit firm as a moderating variable on the relationship between litigation risk and audit quality, the effect of audit tenure on audit quality, and effect size of audit firm as a moderating variable on the relationship between audit tenure and audit quality. The study used 117 data of financial statements of listed manufacturing companies in Indonesia Stock Exchange during the period 2019-2021 with a purposive sampling method. By using multiple regression with MRA in SPSS software. The results indicate that litigation risk has effect on audit quality, size of audit firm does not have effect on the relationship between litigation risk and audit quality, audit tenure has effect on audit quality, size of audit firm has effect on relationship between litigation risk and audit quality.

Keywords: litigation risk, audit tenure, audit quality, size of audit firm

INTRODUCTION

During the Covid'19 pandemic until now it has had an impact on the survival of companies which are disrupted by conditions of uncertainty which can cause problems faced by manufacturing companies such as scarcity of raw materials, reduction of employees, financial difficulties, market share can even cause audit quality to decrease because this covid'19 condition (Albitar et al., 2020; Goodell, 2020; Akrimi & Nesrine, 2021). So that researchers are interested in researching the conditions of Covid'19 in manufacturing

companies in Indonesia in relation to audit quality in relation to litigation, audit engagement period and accounting firm size. The first objective of this study is to determine the effect of litigation, audit engagement period on audit quality. The second aim of this study is to find out whether accounting firm size can moderate the relationship between litigation risks, audit engagement period and audit quality in manufacturing companies in Indonesia during the covid'19 pandemic. Researchers are motivated to do this research for reasons; first, the researcher wants to see how manufacturing companies in Indonesia with the conditions of Covid'19 can affect audit quality which is influenced by litigation factors and the audit engagement period as the researcher's first originality; second, the researcher wants to know whether accounting firm size can moderate the relationship between litigation risk, audit engagement period and audit quality as the originality of the two researchers. It is hoped that this research can contribute to companies in Indonesia that are listed on the Indonesia Stock Exchange (IDX), not just manufacturing, that the conditions of Covid'19 will have an impact on investor confidence regarding the fairness of presentation of financial statements as seen in the quality of audits provided by external auditors, besides that this research also makes a contribution to the auditing literature that the uncertainty factor in dealing with the Covid'19 pandemic is a concern for further research.

The form of corporate management accountability for the owner's resources to parties who have an interest in them is by reporting the company's financial statements. The financial statements must be reliable and reflect the actual condition of the company, because they will be used for future decision making by various external parties. Information that is not aligned between management and company owners can trigger fraud. This is where the importance of the role of the public accountant (independent auditor), namely as a party who examines and provides a professional opinion on the information made by the company's management.

Even after going through the audit process, errors in the financial statements may still occur. Cases of financial scandals committed by large companies which later went bankrupt caused the world community to doubt the integrity and credibility of business actors, one of which was the public accounting profession which received much criticism and caused the audit quality of an auditor to be questioned (Boyton et al., 2003). Business failures are often associated with audit failures because according to Boyton et al., (2003) there is a growing opinion in society that business failures and allegations of fraudulent financial statements are often followed by lawsuits from plaintiffs and their legal counsel who try to prey on auditors without heeding their mistakes.

Legal obligations can occur when an auditor provides any professional services (Boyton et al., 2003). Auditors who make mistakes in carrying out the audit process run the risk of getting lawsuits from external parties, commonly known as litigation risk (Juanda, 2007). Juanda added that litigation risk can occur due to financial reporting errors that often occur in companies that have gone public and litigation risk is also higher in a capital market environment that carries out good law enforcement. The higher the client's litigation risk level, the higher the probability of litigation risk faced by the auditor if the client does not disclose information correctly.

Litigation risk is a risk that has the potential to incur significant costs due to dealing with legal issues (Juanda, 2008). In Indonesia, there were more than 180 litigation cases involving companies until 2004 (Juanda, 2008). The government's efforts in Indonesia to enforce law in the field of financial reporting of companies listed on the capital market are starting to show increasing intensity (Juanda, 2007). This can be seen from the existence of laws and

regulations regarding accounting that have been rearranged (Juanda, 2007). Khurana and Raman (2004) and Francis and Wang (2008) show that the difference in audit quality between Big 4 and non-Big 4 accounting firm is positively influenced by the level of litigation risk. Whereas Choi et al., (2008) found that the costs of Big 4 accounting firm were lower in countries with strong legal responsibilities than countries with weak legal responsibilities.

A higher risk client may choose to use a higher quality auditor. A better auditor's reputation in the past may be used by clients who have high-risk, not-so-profitable projects as a signal that a company's projects are not as risky as they appear. Datar, Fetlham, and Hughes' research (1991) proves that companies that use large auditors tend to be at risk. Flint (1988) in Nasser et al., (2006) argues that auditor independence will be lost if the auditor is involved in personal relationships with clients, because this can affect their mental attitude and opinions. One such threat is the long audit tenure. Flint also believes that long audit tenure can cause auditors to develop comfortable and emotional relationships with their clients, which can reach a stage where auditor independence is threatened. The long audit engagement period can also cause the quality and competence of the auditor's work to decrease when they start to make assumptions that are not appropriate and not an objective evaluation of current evidence. Al-Thuneibat et al., (2011) argues that a long relationship between the auditor and his client has the potential to create closeness between them, enough to impede auditor independence and reduce audit quality.

Nasser et al., (2006) explained that changing auditors can lead to weaknesses in auditing, because when auditors are first asked to audit a client, the first thing they have to do is understand the client's business environment and client audit risk. Nasser et al., (2006) added that if the first assignment is proven to have a high probability of error. Chi and Huang (2004) prove that Big 5 accounting firm build a faster learning experience than non-Big 5 accounting firm. Big 5 accounting firms are significantly more proficient during the initial period of an audit engagement due to greater speed and expertise in acquiring the required knowledge. They attribute the leading role of the Big 5 firm to their auditing expertise in new clients not to affect their reputation.

This study is to test the effect of litigation risk on audit quality. Testing the effect of accounting firm size on the relationship between litigation risk and audit quality. Testing the influence of the audit engagement period on audit quality. Then, examine the effect of accounting firm size on the relationship between audit tenure and audit quality.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Jensen and Meckling (1976) state that an agency relationship is a contract between one or more persons (principal) who employs another person (agent) to provide a service on behalf of the owner (principal) and then delegates authority to management (agent) to make decisions that are best for the principal. Management who gains the trust of investors in managing the company certainly has quite complete information, in contrast to shareholders who have limited information. This information imbalance that occurs can trigger conflict between parties. If there is no adequate supervision, the agent can deceive some of the company's conditions so that it appears as if the target is achieved (Watt and Zimmerman, 1986). The manager's deception can be at the initiative of the principal or the agency's own initiative.

Effect of Litigation Risk on Audit Quality

Litigation risk is a risk of getting lawsuits from external parties who use financial reports to make decisions because these parties feel disadvantaged (Juanda, 2007). De Angelo (1986) suggests audit quality as a freedom possessed by the auditor in finding material errors and reporting these errors. De Angelo (1986) suggests auditor quality as a freedom possessed by the auditor in finding material errors and reporting these errors.

High-risk clients are clients who have high motivation and opportunity to manipulate financial statements. The auditor's litigation risk increases when auditing clients who have high risk as well. Litigation risk is a risk that has the potential to generate significant costs due to dealing with legal issues (Venkataraman et al., 2005; Juanda, 2007). Big auditors tend to refuse to carry out audits if the client is at risk which affects audit quality (Jun & Kim, 2019).

According to Houston et al. (1999) and Lee and Mande (2003) in Abbott (2006) suggest that the auditor is related to the magnitude of discretionary accruals in the auditor's litigation risk assessment. The litigation risk inherent in the auditor will make the auditor work better to reveal fraud and manipulation in the financial statements carried out by the company's management (Sun & Liu, 2011). This is done by the auditor so as not to get lawsuits from external parties who feel disadvantaged due to failure to detect earnings management and so that the auditor does not incur even more costs due to dealing with the law.

H1: it is suspected that there is an influence between litigation risk and audit quality.

The Effect of Accounting Firm Size on the Relationship between Litigation Risk and Audit Quality

Previous studies (Becker et al., 1998; Francis et al., 1999: Sun & Liu, 2011) found that the audit quality of Big N auditors is higher than non-Big N auditors because Big N auditors have greater incentives to provide audits higher quality than non-Big N auditors. De Angele (1981) explains that the Big 4 accounting firms are more concerned with their name reputation, thereby motivating them to do their job better. Dye (1993) shows that the Big 4 accounting firm do a better job of protecting deep pockets from lawsuits against them. When an audit error occurs, the auditor is the only party left with sufficient financial resources to compensate the plaintiffs (Boyton et al., 2003)

The higher the client's risk, the higher the probability of litigation risk faced by the auditor if the client does not disclose correct information. Auditors dealing with high-risk clients will charge higher fees and increase audit hours in order to increase monitoring power (Watkins et al., 2004). This is also done to avoid or reduce monetary losses. When dealing with high-risk clients, large firms tend to be more cautious because their potential litigation costs are greater than those that smaller firms could potentially incur. Auditors who are more specific in assessing client litigation risk relate to audit quality. Larger accounting firm conduct higher quality audits than smaller accounting firm in assessing litigation risk (Wong et al., 2018).

H2: it is suspected that there is an influence between accounting firm size and the relationship between litigation risk and audit quality.

Effect of Audit Engagement Period on Audit Quality

The auditor's relationship with the client should be able to create optimal audit quality. However, there are many differences of opinion between the length of the audit engagement and audit quality. Knapp, 1991 in Al-Thuneibat et al., 2011 argues that the longer the auditor's engagement with the client is seen as an increase in specific knowledge about the client and

thus, the auditor understands more about the ins and outs of the client's company so that the audit quality increases. This argument is also supported by Geiger and Raghunandan (2002), Carcello and Nagy (2004).

In contrast to Flint (1988) who stated that auditor independence will be lost if the auditor is involved in a personal relationship with his client, because this can affect their mental attitude and opinion. This can trigger a decrease in the independence and objectivity of the auditor. Carey and Simnett (2006) also stated that the most extreme condition is the emergence of excessive familiarity which encourages collusion between the auditor and the client. It is still unclear how long the audit engagement period is required for optimal audit quality to be achieved. The assumption is that to achieve optimal audit quality, an engagement period that is not short but not long, say medium, is required. However, there is no clear agreement on the length of the medium audit engagement, although Johnson et al., (2002) have classified the medium audit engagement period as four to eight years.

H3: it is suspected that there is an influence between the audit engagement period and audit quality.

The Effect of Accounting Firm Size on the Relationship between Audit Engagement Period and Audit Quality.

In accordance with the results of research by Chi and Huang (2004) that Big 5 accounting firm auditors build learning experiences faster than non-Big 5 accounting firm auditors. Chi & Huang added that Big 5 accounting firms are significantly more proficient during the initial period of an audit engagement because of their speed and greater expertise in acquiring the necessary knowledge and gaining the necessary acquaintances.

Francis (1999) also found that companies that have a higher tendency to generate accruals are companies that entrust Big 6 Accounting firm. They believe the selection of Big 6 Accounting firms is in accordance with the increase in the credibility of their earnings. Some researchers believe large audit firms have the capacity to produce audit quality due to their greater monitoring capabilities (Watts and Zimmerman, 1986 in Al-Thuneibat et al., 2011).

Dopuch and Simunic (1982) in Al-Thuneibat et al., (2011) state that the audit quality characteristics of Big 4 accounting firms are related to quality control and special training. The explanation above assumes that Big 4 accounting firms have better audit quality than non-Big 4 accounting firm. This is because Big 4 accounting firms have more learning speed and expertise than non-Big 4 accounting firms.

H4: it is suspected that there is an influence between accounting firm size on the relationship between audit engagement tenure and audit quality

The research model explains the effect of litigation risk and audit engagement period on audit quality with accounting firm size as a moderating variable. The model in this study can be seen in Figure 1 in the appendix.

Insert figure 1 about here

RESEARCH METHOD

Data Collection and Sampling

The data in this study uses the annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021. The sampling technique used in

this study is non-probability sampling with a purposive sampling pattern. With the following criteria: (1) Manufacturing companies that have been listed on the Indonesia Stock Exchange from 2019 to 2021. (2) Companies that publish annual financial reports ending December 31 during the observation periods 2019, 2020 and 2021, (3) the annual reports issued by the company for the 2019, 2020 and 2021 periods are complete. (3) The company presents financial reports in rupiah currency for the 2019, 2020 and 2021 periods. Based on this method, there were 39 manufacturing companies per year with a total of 117 companies' annual financial statements during the 3 years of research.

Research Variables and Variable Measurement
Audit Quality

Measurement of audit quality is in accordance with Khothari et al., (2005) using the performance-matched discretionary accruals formula as follows:

$$TACC_t / TA_{t-1} = NDA_t / TA_{t-1} = + a_1 (1/ TA_{t-1}) + a_2 (\Delta SALES_t / TA\text{-}1) + a_3 (PPE_t/ TA_{t-1}) + a_4 (ROA_{t-1}) + \varepsilon$$

Where
$TACCt$ = total accruals of company i in period t
ACC = net profit after tax – operating cash flow
$NDAt$ = nondiscretionary accruals in year t
$TAt\text{-}1$ = total assets for sample company i at the end of year t-1
$\Delta SALESt$ = change in company sales in year t
$PPEt$ = fixed assets (gross property plant and equipment) of the company in year t
$ROAt\text{-}1$ = Return on assets of company i at the end of year t-1
ε = residual error

Litigation Risk

Litigation risk measurement is based on Shu (2000) which was developed by Krishan and Zhang (2005) in Sun & Liu (2011) as follows:

$$LITSCORE = 0.276*SIZE + 1.153*INV + 2.075*REC + 1.251*ROA + 1.501*LEV + 0.301*GROWTH - 0.371*RET + 0.235*BETA + 1.464*TURNOVER + 0.463*OPINION - 10.049$$

Where:
$LITSCORE$ = litigation score
$SIZE$ = natural log of total assets at the end of the year
INV = inventory divided by total assets at the end of the year
REC = accounts receivable divided by year-end total
ROA = net profit divided by total assets at the end of the year
LEV = total liabilities divided by total assets at the end of the year
$GROWTH$ = change in sales from t-1 to t divided by sales at t-1
RET = stock price of t minus stock price t-1 divided by stock price t-1
$BETA$ = coefficient of stock return regression with market return days
$TURNOVER$ = volume of company shares divided by shares outstanding
OPINION   = 1 if the company received a going concern opinion in the previous year, and 0 otherwise.

After calculating the litigation score, look for the mean and median to determine the level of litigation risk in a company. Litigation value is considered high if the litigation value is higher or equal to the median value of the total litigation value of the entire company. If the litigation value is below the median value, then the company's litigation value is low. Companies with litigation scores above the median indicate that these companies have a high level of litigation risk by giving code 2. Companies with litigation scores below the median indicate that these companies have a low level of litigation risk by giving code 1.

Period of Audit Engagement

The measurement to determine the company's audit engagement period is to count the number of years an accounting firm audits a company's financial statements sequentially during the observation period. According to the Financial Services Authority Regulation Number 13/POJK.03/2017 concerning the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities, the audit engagement period for accounting firm is 3 years. In this study the audit engagement period uses the number of years in the year of research observation.

Size of Accounting Firm

The accounting firms size is calculated by grouping companies that use Big 4 accounting firm services with code = 2 and Non-big 4 with code = 1.

Data Analysis Methods

Before conducting a hypothesis analysis, a classical assumption test will be carried out to determine the suitability of the research model. Hypothesis analysis uses multiple regression tests with MRA to determine the relationship between variables. The research method was carried out in the multiple regression model with MRA as follows.

$$ADAC = b_0 + b_1 LITRISK + b_2 BIGAUD + b_3 LITRISK{*}BIGAUD + \varepsilon$$
$$ADAC = b_0 + b_1 TENURE + b_2 BIGAUD + b_3 TENURE{*}BIGAUD + \varepsilon$$

Where:
ADAC   = absolute value of the Jones discretionary accruals model
LITRISK   = litigation risk, code 2 for high corporate litigation risk and 1 for low corporate
                    litigation risk
TENURE   = actual number of audit engagement periods
BIGAUD   = big auditor, code 2 for big 4 auditors and 1 for other auditors.

RESULT AND DISCUSSION

Descriptive Analysis

The results of statistical tests for descriptive analysis of the variables studied are in table 1 in the appendix.

Insert table 1 about here

Table 1 shows that the number of statistical data used in this study is (N) 117 statistical data taken from the company's annual financial reports. Based on the results of descriptive statistical calculations, it is known that the lowest ADAC value is 0.00979 and the highest is 4.94542 with the average ADAC occurring in Indonesia during the study period is 0.6125383.

In table 1 it is known that companies have a litigation risk level with an average of 2.06. This indicates that many companies have high litigation risk. Table 1 also shows that the minimum audit engagement period is 1 year and the longest is 4 years. Furthermore, companies audited by BIG 4 (accounting firm affiliated with the international Big Four accounting firm) with an average BIG 4 of 1.24. This indicates that not many of the companies sampled in the 2019-2021 research period use the big four accounting firm to audit their annual financial statements.

Classic Assumption
Normality test

The normality test can be detected by non-parametric statistical analysis Kolmogorov-Smirnov Z (1-Sample K-S). Normal distribution, that is, if the Asymp. Sig. (2-tailed) more than 0.05. The normality test results can be seen in table 2.

Insert table 2 about here

From table 2, the significance value of the Kolmogorov-Smirnov test for the audit quality variable (ln_da) is 0.345, which is greater than 0.05. So it can be concluded that earnings management data is normally distributed. While the significance value of the Kolmogorov-Smirnov test for litigation risk variables (ln_litscore), audit engagement period (ln_tenure), and accounting firm size (ln_bigaud) is 0.000 which is less than 0.05. This is because the variables of litigation risk, audit engagement period and accounting firm size use nominal scales or categories which are non-parametric.

Multicollinearity Test

If the tolerance value of each independent variable is more than 10% or 0.10, it means that there is no correlation between the independent variables whose value is more than 95%. Then by looking at the Variance Inflation Factor (VIF) value, if the value is less than 10, it can be concluded that there is no multicollinearity between the independent variables in the regression model. A good regression model should not have a correlation between the independent variables. The results of the multicollinearity test can be seen in table 3.

Insert table 3 about here

By looking at table 3, it is known that all variables have a tolerance value greater than 0.1 or 10%. Based on these results, there is no correlation between the independent variables. Likewise, it is known that the VIF value in the table is less than 10, so it can be concluded that there is no multicollinearity between the independent variables in the regression model.

Heteroscedasticity Test

A good regression model is one that has homoscedasticity or does not have heteroscedasticity. In this study, the method used to detect the presence or absence of heteroscedasticity was using the White Test. According to Gujarati (2003) in Ghozali (2011),

this test is seen from the value of R2 to calculate c2, where c2 = n x R2. The test is if c2 count <c2 table, then the alternative hypothesis of heteroscedasticity in the model is rejected. The results of the heteroscedasticity test can be seen in table 4.

Insert table 4 about here

From the test results it was found that R2 was 0.263 and c2 = 117 x 0.282 so that the calculated c2 result was 32.994. This result is smaller than the c2 table with n = 117 and a 5% significance value of 143.246. So it can be concluded that there is no heteroscedasticity.

Autocorrelation Test

The autocorrelation test was carried out to determine the existence of a correlation between disturbances (error term) in a period with errors in the previous period (Ghozali, 2011). The autocorrelation test was carried out using the Lagrange Multiplier Test (LM Test) by looking at the Durbin-Watson value. The autocorrelation test results can be seen in table 5 as follows:

Insert table 5 about here

The autocorrelation test results show a DW value of 2.084, this value is compared to the table value using a significance value of 5%, the number of samples is 117 and the number of independent variables is 3 (k = 3), so in the Durbin Watson table used 1.751. Because the DW value of 2.084 is greater than the upper limit (du) 1.751 and smaller than 4 – du, it can be concluded that there is no autocorrelation.

Hypothesis Testing and Discussion
Effect of Litigation Risk on Audit Quality

Based on statistical calculations, the results are shown in table 6.

Insert table 6 about here

The multiple regression equation based on table 6 is as follows:

ADAC = -1.282 + 0.673 LITRISK – 0.293 BIGAUD – 0.379 LITRISK*BIGAUD + e

From the results of the statistical calculations above, it can be interpreted that there will be an increase in earnings management (ADAC) or a decrease in audit quality if litigation risk increases by 0.673 points. ADAC will also experience a decrease or audit quality will increase if the multiplication between the litigation risk period (LITRISK) and accounting firm size (BIGAUD) decreases by 0.379 points.

Test (F)

The results of the test (F) can be seen in table 7:

Insert table 7 about here

From the F test above, the calculated F results are 3.006 with a probability of 0.032. The probability value is smaller than 0.05; it can be concluded that the LITRISK, BIGAUD,

LITRISK*BIGAUD variables together have a significant effect on the ADAC variables of manufacturing companies on the Indonesia Stock Exchange.

Determination Coefficient Test (R2)

The results of the Determination Coefficient Test (R2) can be seen in table 8:

Insert table 8 about here

In the statistical calculation table in table 8, the R square result is 0.037 in the research model. It can be seen in the table that the ability of the independent variable, namely litigation risk and accounting firm size, in explaining the variance of the dependent variable, namely audit quality, is 3.7%. There is still 94.3% (100% - 3.7%) of the variance of the dependent variable which has not been able to be explained by the independent variables in this research model.

Individual Parameter Significance Test (t test)

The results of the individual parameter significance test (t test) can be seen in table 9:

Insert table 9 about here

Based on table 9 in statistical calculations, it is known that variable X1, namely litigation risk, has an effect on efficiency value (β value) of 0.673 with Tcount 2.418 > Ttable 1.98118 (two-tails) and a significance value of 0.017 is less than 0.05 which means significant . So it can be concluded that the first hypothesis, namely litigation risk, affects audit quality, thus the first hypothesis is accepted.

In this study it is proven that litigation risk has an effect on discretionary accruals. This is in accordance with research by Houston et al. (1999) and Lee and Mande (2003) in Abbott (2006). But this research proves that the high litigation risk of the company as an auditor's client cannot suppress earnings management so that the resulting audit quality is said to be not good. Even though the auditor has worked hard to audit clients who have a high litigation risk, mistakes can occur when the auditor is carrying out the audit process. This is in accordance with the results of research by Sun & Liu (2010), which explains that this can occur because the litigation risk that exists in the company is not a big problem for the auditor.

Effect of Accounting Firm Size on Litigation Risk Relationship and Audit Quality

Furthermore, based on table 9 in statistical calculations, it is known that the moderate variable which is calculated by multiplying the LITRISK and BIGAUAD variables produces a coefficient value (β value) -0.379 with Tcount -0.459 < Ttable 1.98118 (two-tails) and a significance value of 0.647 is greater than 0.05 which means not significant. So it can be concluded that the second hypothesis, namely accounting firm size has no effect (not moderating) on the relationship between audit risk and audit quality, which means hypothesis 2 is rejected.

In a study by Choi et al., (2008) which said big auditors have no effect on litigation risk to produce good audit quality. The results of this study are in accordance with the research of Khurana & Raman (2004), Sun & Liu (2010), and Francis & Wang (2008). The size of the accounting firm cannot guarantee litigation risk against clients because the litigation risk is caused by non-accounting firm management which is a hereditary factor from claims not from

accounting firm influence, but in fact accounting firm efforts to audit clients are to prevent legal cases and minimize litigation risk. If in a client audit involved in a legal case or a large litigation risk, it will affect the audit opinion given by the accounting firm auditor thus affecting audit quality. This can happen due to the increasingly intense competition in the accounting firm environment, non-Big four accounting firm try to audit client financial statements effectively and efficiently so that non-Big four accounting firm try to provide audit services to their clients with the same quality as the Big Four accounting firm. (Prabandari and Rustiana, 2007).

Effect of Audit Engagement Period on Audit Quality
Based on statistical calculations, the results are shown in table 10.

Insert table 10 about here

The multiple regression equation based on table 10 is as follows:

*ADAC = -0.904 + 0.911 TENURE + 0.705 BIGAUD – 0.473 TENURE*BIGAUD + e*

From the results of the statistical calculations above, it can be interpreted that there will be an increase in earnings management (ADAC) or a decrease in audit quality by 1-point if the audit engagement period (TENURE) increases by 0.911 points. ADAC will also experience a decrease or audit quality will increase if the multiplication between the audit engagement period (TENURE) and the accounting firm size (BIGAUD) decreases by 0.473 points.

Test (F)
The results of the test (F) can be seen in table 11:

Insert table 11 about here

From the F test above, the calculated F results are 11.175 with a probability of 0.000. The probability value is smaller than 0.05; it can be concluded that the variables TENURE, BIGAUD, TENURE*BIGAUD together have a significant effect on the ADAC variable of manufacturing companies on the Indonesia Stock Exchange.

Determination Coefficient Test (R2)
The results of the Determination Coefficient Test (R2) can be seen in table 12:

Insert table 12 about here

In the statistical calculation table in table 12, the R square result is 0.165 in the research model. It can be seen in the table that the ability of the independent variable, namely the length of the audit engagement and the size of the accounting firm in explaining the variance of the dependent variable, namely audit quality, is 16.5%. There is still 83.5% (100% - 16.5%) of the variance of the dependent variable which has not been able to be explained by the independent variables in this research model.

Individual Parameter Significance Test (t test)

The results of the individual parameter significance test (t test) can be seen in table 13:

Insert table 13 about here

Based on table 13 in statistical calculations, it is known that variable X2, namely the audit engagement period, has an effect on an efficiency value (β value) of 0.705 with Tcount 2.001 > Ttable 1.98118 (two-tails) and a significance value of 0.047 is less than 0.05, which means significant. So it can be concluded that the third hypothesis, namely the audit engagement period affects audit quality, thus the third hypothesis is accepted.

In this study it is proven that a long audit engagement period cannot hinder earnings management so that the resulting audit quality is said to be not good. These results are consistent with research conducted by Flint (1998), Carey & Simnett (2006), Al Thuneibat et al., (2011). Auditor independence will be lost if the auditor is involved in a personal relationship with his client, because this can affect their mental attitude and opinion (Flint, 1998). Carey and Simnett (2006) also stated that the most extreme condition is the emergence of excessive familiarity which encourages collusion between the auditor and the client.

The Effect of Accounting Firm Size on the Relationship of Audit Engagement Period and Audit Quality.

Furthermore, based on table 13 in statistical calculations, it is known that the moderate variable which is calculated by multiplying the TENURE and BIGAUAD variables produces a coefficient value (β value) of -0.473 with Tcount -3.316 > Ttable 1.98118 (two-tails) and a significance value of 0.001. So it can be concluded that the fourth hypothesis, namely accounting firm size affects the relationship between audit tenure and audit quality, thus the fourth hypothesis is accepted.

In this study it is proven that Big 4 accounting firms are more able to suppress earnings management so as to produce good audit quality during their audit engagement than non-Big 4 accounting firm. This is in accordance with the research of Watts and Zimmerman (1986) Al-Thuneibat et al., (2011). This research is also in accordance with the research of Chi & Huang (2004) which states that big 5 auditors build learning experiences faster than non-Big 5 auditors

CONCLUSIONS

Conclusion

The higher the litigation risk faced by the auditor, the higher the litigation risk that will be faced by the auditor. However, mistakes can occur when carrying out the audit process when the auditor has worked hard to audit the client even though the client has a high litigation risk. This research proves that the litigation risk that exists in the company is not a big problem for the auditor. This is because the results of this study indicate that litigation risk has a negative effect on audit quality. Furthermore, this study also proves that there is no influence between accounting firm size and the relationship between litigation risk and audit quality. This can happen in accordance with the opinion of Prabandari and Rustiana (2007), due to the increasingly intense competition in the accounting firm environment, non-Big four accounting firms try to audit client financial statements effectively and efficiently so that non-

Big four accounting firms try to provide audit services to clients with the same quality as the Big Four accounting firm.

In this study it is proven that a long audit engagement period cannot hinder earnings management so that the resulting audit quality is said to be not good. This can happen because of the emergence of a sense of comfort and the emergence of excess familiarity that encourages collusion between the auditor and the client in accordance with the opinion of Carey and Simnett (2006). This research also proves that Big 4 accounting firms are more able to suppress earnings management so as to produce good audit quality during their audit engagement than non-Big 4 accounting firms.

Implications of this paper are (1) For the Public Accountant Profession, it becomes information material for the public accounting profession about audit quality, litigation risk, audit engagement period and accounting firm size in Indonesia. (2) For academics, the results of this research are expected to provide further views and insights about audit quality, litigation risk, audit engagement period and accounting firm size that occur in Indonesia. It can also be used as a reference for further research. (3) For further researchers, this research is a source of reference and information to enable further research.

This research can still be developed by taking into account the limitations of the research and the following suggestions which can be used as a reference for further research. Based on the results of statistical testing it is known that 3.7%. The variance of the independent variables, namely litigation risk and accounting firm size, can explain audit quality, and the 16.5% variance of the independent variables, namely audit engagement period and accounting firm size, can explain audit quality. This value indicates that the ability of the independent variables to explain the dependent variable is very low. Therefore, it is suggested for further research to use other independent variables outside of this study.

The measurement of litigation scores in this study uses a nominal scale so that information about litigation values becomes less than optimal. Furthermore, this research sample only uses manufacturing companies. So that the audit quality in this study is for manufacturing companies. Therefore, it is suggested for further research to expand the research sample such as researching the audit quality of each industrial sector on the Indonesia Stock Exchange so that the results are more generalizable.

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APPENDIX

Figure 1. Research Framework
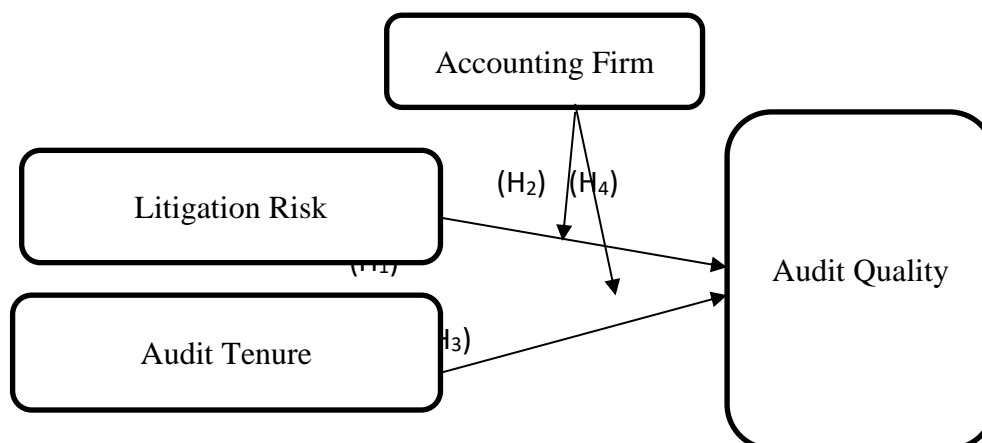
Source: Sun & Liu, 2011 and Al-Thuneibat *et al.*, 2010

Table 1. Descriptive Statistic of Variable

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Da	117	.00979	4.94542	.6125383	.91855280
Litrisk	117	1	2	1.59	.493
Tenure	117	1	4	2.06	1.036
bigaud	117	1	2	1.24	.427
Valid N (listwise)	117				

SPSS output (2022)

Table 2. Normality Test of One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		ln_da	ln_litrisk	ln_tenure	ln_bigaud
N		117	117	117	117
Normal Parameters[a, b]	Mean	-1.0818	.4088	.5915	.1644
	Std. Deviation	1.05524	.34204	.51708	.29578
Most Extreme Differences	Absolute	.075	.387	.258	.474
	Positive	.075	.294	.258	.474
	Negative	-.067	-.387	-.193	-.289
Kolmogorov-Smirnov Z		.936	4.832	3.226	5.916
Asymp. Sig. (2-tailed)		.345	.000	.000	.000

SPSS output (2022)

Table 3. Multicollinearity Test

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.230	.311		-.739	.461		
Litrisk	.440	.138	.237	3.189	.002	.985	1.015
Tenure	.269	.066	.303	4.052	.000	.968	1.033
Bigaud	-.331	.160	-.154	-2.074	.040	.983	1.017

    a.   Dependent Variable: da

SPSS output (2022)

Table 4. Determination Coefficient Test (R-Square)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.531[a]	.282	.263	1.82234

    a.   Predictors: (Constant), litscore_tenure, litscore, tenure_square, tenure

SPSS output (2022)

Table 5. Autocorrelation Test

Model Summaryᵇ

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.756ᵃ	.571	.560	.55448513	2.084

a. Predictors: (Constant), res_2, tenure, bigaud, litrisk
b. Dependent Variable: Unstandardized Residual

SPSS output (2022)

Teble 6. Heteroscedasticity Test

Coefficientsᵃ

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.283	.148		-8.674	.000
	ln_litrisk	.673	.278	.218	2.418	.017
	ln_bigaud	-.293	.441	-.082	-.664	.507
	intection_Inlitscore_Inbigaud	-.379	.826	-.060	-.459	.647

a. Dependent Variable: ln_da

SPSS output (2022)

Table 7. F Test

ANOVAᵃ

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.668	3	3.223	3.006	.032ᵇ
	Residual	162.928	152	1.072		
	Total	172.596	155			

a. Dependent Variable: ln_da
b. Predictors: (Constant), interaction_Inlitrisk_Inbigaud, ln_litscore, ln_bigaud

SPSS output (2022)

Table 8. Determination Coefficient Test (R Square)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.237ᵃ	.056	.037	1.03532

a.   Predictors: (Constant), interaction_Inlitscore_Inbigaud, ln_litscore, ln_bigaud

SPSS output (2022)

Table 9. Individual Parameter Significance Test (t test) and Moderating Test of Interaction (Litigation Risk*Accounting Firm Siza)

Coefficientsª

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.283	.148		-8.674	.000
	ln_litrisk	.673	.278	.218	2.418	.017
	ln_bigaud	-.293	.441	-.082	-.664	.507
	interaction_lnlitscore_lnbigaud	-.379	.826	-.060	-.459	.647

a. Dependent Variable: ln_da

SPSS output (2022)

Table 10. Moderating Test of Interaction (Audit Tenure*Accounting Firm Size)

Coefficientsª

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.904	.464		-1.950	.053
	tenure	.911	.197	1.028	4.620	.000
	bigaud	.705	.352	.328	2.001	.047
	interaction_tenure_bigaud	-.473	.143	-.930	-3.316	.001

a. Dependent Variable: da

SPSS output (2022)

Table 11. F Test

ANOVAª

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.632	3	7.877	11.175	.000ᵇ
	Residual	107.148	152	.705		
	Total	130.780	155			

a. Dependent Variable: da

b. Predictors: (Constant), interaction_tenure_bigaud, bigaud, tenure

SPSS output (2022)

Table 12. Determination Coefficient Test (R Square)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.425ª	.181	.165	.83959410

a. Predictors: (Constant), interaction_tenure_bigaud, bigaud, tenure

SPSS output (2022)

Table 13. Moderating Test of Interaction (Audit Tenure*Accounting Firm Size)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.904	.464		-1.950	.053
	tenure	.911	.197	1.028	4.620	.000
	bigaud	.705	.352	.328	2.001	.047
	interaction_tenure_bigaud	-.473	.143	-.930	-3.316	.001

a. Dependent Variable: da

SPSS output (2022)