

ABSTRACT

This study aims to investigate the effect of auditor rotation and auditor size on the financial reporting quality. Based on the viewpoint that fresh view follows auditor rotation, this study proposes changes in key audit matters (KAM) as a moderating role between auditor rotation and financial reporting quality. The independent variables, auditor rotation and auditor size, are assessed using dummy variable. The dependent variable, financial reporting quality which is proxied by earnings management, is measured using discretionary accruals. The moderating variable, changes in KAM, is assessed using dummy variable.

Using data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2022-2023, the sample is generated using purposive sampling method with certain criterias resulting in 95 observations to be studied. Furthermore, this study uses multiple linear regression and moderated regression analysis in analyzing data.

The results of the analysis show that rotation auditor is not significantly affect financial reporting quality in the absence of change in KAM. However, auditor size has a significant positive effect on financial reporting quality. Last, the result suggests that the moderating effect of changes in KAM is not significantly associated with the relation between auditor rotation and financial reporting quality. Additional analysis is then performed to test the robustness of auditor rotation by considering two types of rotation, namely Big 4 auditor rotation and non-Big 4 auditor rotation. Results suggest that only Big 4 auditor rotation positively effects financial reporting quality.

Keywords: Auditor rotation, auditor size, key audit matters, financial reporting quality.

