

AUDITOR REPUTATION, AUDIT TENURE, AND EARNINGS SURPRISE BENCHMARK ON AUDIT QUALITY: EVIDENCE FROM BASIC MATERIALS SECTOR COMPANIES IN INDONESIA

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Abstract

This study aims to analyze the influence of Auditor Reputation, Audit Tenure, and Earnings Surprise Benchmark on Audit Quality in Indonesian Basic Material companies during the 2021–2024 period, while considering Auditor Specialization as a situational context. The data were obtained from audited annual financial statements and annual reports of companies listed on the Indonesia Stock Exchange. The sample consists of 73 companies, yielding 292 firm-year observations, selected using purposive sampling based on established criteria. Data were analyzed using panel logistic regression with the assistance of E-Views 12. The results indicate that Auditor Reputation and Audit Tenure significantly enhance Audit Quality, while Earnings Surprise Benchmark reflects auditors' heightened scrutiny under abnormal earnings conditions. Furthermore, the split-sample analysis reveals that these relationships are stronger when auditors possess high industry specialization, highlighting its role as a situational factor. These findings underscore the importance of auditor competence and industry-specific expertise in ensuring high-quality audits. This study provides practical insights for audit firms and regulators in designing strategies to improve audit quality in high-risk and volatile sectors.

Keywords: Auditor Reputation; Audit Tenure; Earnings Surprise Benchmark; Audit Quality; Auditor Specialization

JEL Classification: M41, M42, G30

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INTRODUCTION

Audit quality remains a central issue in financial reporting credibility, especially in emerging markets like Indonesia, where information asymmetry and enforcement challenges persist (Mayasha & Majidah, 2025). In Indonesia, financial statements are prepared under Indonesian Financial

Accounting Standards and audited according to Indonesian Auditing Standards. These standards emphasize professional skepticism, independence, and risk-based audit planning (Standar Audit 315, 2019). In this study, audit quality is assessed based on the auditor's final reporting judgment. This judgment is

reflected in the issuance of audit opinions in accordance with the applicable auditing standards. However, corporate scandals and frequent financial misreporting show that high compliance with standards does not always ensure high audit quality. This is particularly true in the Basic Material sector, which faces high capital intensity, volatile earnings, and exposure to commodity price fluctuations. These factors increase business risk and incentives to manage reported performance to meet performance expectations. The Financial Services Authority notes that firms in cyclical, high-risk industries often face pressure to show stable performance, potentially compromising reporting quality and raising audit risk (Laporan Tahunan OJK, 2022). Under these circumstances, auditors are required to exercise heightened professional judgment when issuing audit opinions, making audit quality a critical concern in this sector.

Firms in high-risk and cyclical industries, such as the Basic Materials sector, face unique challenges, including volatile commodity prices, capital-intensive operations, and fluctuating earnings. These conditions increase management pressure to meet performance targets, potentially compromising reporting quality and raising audit risk. For instance, in 2023, PT Timah Tbk reported operational challenges and potential financial losses, with the Audit Board of the Republic of Indonesia (BPK) indicating potential losses of up to Rp 34.49 trillion due to inadequate management of mining concession areas (Hidayatullah, 2025). This case illustrates ongoing governance and reporting challenges in Indonesia's Basic Material sector and highlights the critical role of auditors in ensuring transparency and accountability. Reports from regulatory agencies and industry analyses further indicate weaknesses in internal controls and risk management across resource-based sectors during 2021–2024, emphasizing the need for rigorous audit evaluation and professional judgment.

From a theoretical perspective, Agency Theory explains that internal conflicts between principals and agents arise due to information asymmetry and divergent objectives, motivating managers to act prioritize short-term performance objectives, which may increase reporting risk and uncertainty for external users (Jensen & Meckling, 1976). Auditing serves as an external monitoring mechanism to mitigate these agency problems by ensuring that auditors exercise professional judgment in issuing audit opinions, which reflect audit quality. Complementing this view, Signaling Theory posits that firms deliberately convey signals to the market to reduce information asymmetry and enhance credibility, such as by engaging high-reputation auditors, defined in this study as auditors affiliated with Big Four audit firms that possess strong professional credibility, litigation risk, and market recognition (Spence, 1973). A higher auditor reputation refers to this institutional credibility rather than auditor seniority, thereby enhancing the credibility of their audit opinions. Nevertheless, under strong earnings pressure, these signals may be challenged, as managers may attempt to influence reported performance to meet external benchmarks.

Existing empirical evidence in Indonesia indicates that auditor characteristics play an important role in shaping audit quality, particularly when audit quality is assessed based on the auditor's final reporting judgment. Prior studies document mixed findings regarding the influence of auditor-related attributes on audit outcomes. Using audit opinion as a proxy for audit quality, Irma et al. (2020) find that audit tenure has a positive and significant effect on audit quality, while auditor rotation, auditor reputation, and auditor specialization do not exhibit a significant association. These results suggest that longer auditor–client relationships may enhance auditors' understanding of client conditions, which is reflected in their final reporting decisions, whereas

other auditor attributes may not directly affect auditors' final reporting outcomes.

Similarly, Christy et al., (2021) provide evidence that auditor reputation significantly influences audit quality, indicating that reputable auditors tend to issue higher-quality audit opinions, while audit tenure shows no significant effect. Their findings also suggest that auditor specialization strengthens the role of auditor reputation in shaping audit quality by enhancing auditors' professional judgment. However, other empirical evidence from Indonesia reports contrasting results. Mauliana and Laksito (2021), using audit opinion as a proxy for audit quality, find that audit tenure negatively affects audit quality, while auditor reputation does not exhibit a significant association. Taken together, these mixed findings indicate that the influence of auditor characteristics on audit quality is highly context-dependent, varying across audit environments and industry settings. This inconsistency underscores the need for a more nuanced framework that emphasizes auditors' final reporting judgment, as reflected in audit opinions, particularly in high-risk industries.

Beyond auditor characteristics, another determinant of audit quality is the level of earnings pressure faced by firms, often measured using the Earnings Surprise Benchmark (ESB), which reflects whether reported earnings fall within or outside an expected industry-based performance range. ESB does not directly measure earnings management, but captures managerial pressure to meet market-based earnings expectations. Prior evidence in Indonesia indicates that unfavorable earnings surprises increase managerial incentives to face greater pressure to achieve performance benchmarks, increasing uncertainty in financial reporting outcomes (Aqmarina & Yendrawati, 2019). Such conditions heighten audit risk and intensify the need for auditors' professional judgment when evaluating the fairness of financial reporting.

Under high earnings pressure, the auditor's final reporting decision becomes a crucial indicator of audit quality, as it reflects the auditor's professional judgment under heightened uncertainty and risk. Auditors must exercise greater professional skepticism to assess whether reported earnings faithfully represent economic conditions. Consequently, ESB provides an important situational context for understanding variations in audit quality, particularly in high-risk and volatile industries, and highlights the need to consider earnings pressure when examining the relationship between auditor characteristics and audit outcomes.

Importantly, several research gaps remain. First, limited studies jointly examine auditor reputation, audit tenure, and earnings pressure using audit opinion as a direct proxy for audit quality, particularly in the Indonesian context. Second, prior research often overlooks the situational role of auditor specialization, despite evidence that industry-specialist auditors possess superior knowledge that may condition how auditor characteristics and earnings pressure influence audit outcomes. Third, empirical evidence focusing on high-risk sectors such as Basic Material companies during recent periods remains scarce. These gaps indicate the need for a more context-sensitive audit quality framework that integrates auditor characteristics, earnings pressure, and industry-specific risk.

Accordingly, this study conceptualizes auditor specialization as a situational context (high versus low industry specialization), rather than as a statistical moderating variable tested through interaction terms. This approach enables a more nuanced understanding of how auditor reputation, audit tenure, and earnings surprise benchmark affect audit quality under varying levels of auditor competence. The novelty of this study lies in its integrated framework that combines earnings pressure and auditor characteristics with audit opinion as the audit

quality outcome, while explicitly accounting for auditor specialization in a high-risk industry within an emerging market setting.

LITERATURE REVIEW

Agency Theory

Agency theory, proposed by Jensen and Meckling (1976) explains the relationship between principals and agents and the potential for internal conflict arising from differences in interests and information asymmetry. These conditions can encourage managers to engage in opportunistic behavior, including strategic financial reporting decisions under performance pressure. External audits are needed as a monitoring mechanism to reduce information misrepresentation. Auditor reputation is an important element because reputable auditors have a strong incentive to maintain audit quality and independence (DeAngelo, 1981), while an audit tenure that is too long risks reducing auditor objectivity (Agustianto et al., 2022). Profit pressure, reflected through the Earnings Surprise Benchmark (ESB), can increase managers' tendency to engage in earnings management (Aqmarina & Yendrawati, 2019). In such cases, auditors with industry specialization are particularly important, as they are better able to detect risks and irregularities in financial statements, thereby improving audit quality (Yulianty et al., 2024). In this study, agency conflicts are not examined through the detection of earnings manipulation, but through the auditor's professional judgment as reflected in the issued audit opinion.

Signaling Theory

Spence (1973), explains that parties with superior information, such as corporate management, actively send signals to external stakeholders to convey the firm's true condition. In the auditing context, auditors serve as independent signal senders who help reduce information asymmetry between management

and investors by issuing credible and reliable audit reports. Auditor reputation serves as a critical signal of audit quality because reputable public accounting firms have strong incentives to maintain rigorous auditing standards and face higher litigation risks, thereby increasing the perceived reliability of the financial statements they audit (DeAngelo, 1981). Auditor specialization further strengthens this signal, as industry-specialized auditors possess deeper knowledge of sectoral risks, accounting treatments, and business practices, enabling more accurate detection of irregularities and more precise assessments of client performance (Balsam et al., 2003). This enhanced capability becomes particularly important under conditions of earnings pressure, such as those captured by the Earnings Surprise Benchmark (ESB), where managers may be incentivized to manipulate earnings. The presence of a reputable and specialized auditor sends a strong signal to investors and stakeholders that the financial statements remain trustworthy despite potential managerial opportunism. Accordingly, Signalling Theory provides a robust conceptual foundation for understanding how auditor reputation and specialization operate as signals of audit quality, ultimately enhancing investor confidence and reducing information uncertainty in the market.

Audit Quality

Audit quality refers to the auditor's ability to perform an audit in accordance with professional standards and to issue audit reports that are reliable and free from material misstatements for stakeholders' decision-making, including investors, creditors, regulators, and other users of financial statements (Arens et al., 2017). It reflects the auditor's competence, independence, and professional judgment exercised throughout the audit process, particularly when assessing the fairness of financial statements under conditions of uncertainty and elevated business risk.

Prior literature identifies auditor independence, reputation, experience, and the ability to evaluate inherent risk as key determinants of audit (Farida, 2021; Pangestu & Hidayah, 2023). Auditor reputation, in particular, functions as an important credibility signal, as reputable public accounting firms face stronger incentives to maintain high audit standards and protect their professional standing (Farid & Baradja, 2022). In high-risk industries, audit quality is closely associated with the auditor's final reporting judgment, as reflected in the audit opinion, because the audit opinion represents the culmination of the auditor's professional evaluation of material misstatement risk and the overall fairness of financial reporting. Accordingly, this study conceptualizes audit quality as a judgment-based outcome, captured through the audit opinion, to examine how auditor characteristics and earnings pressure measured by the Earnings Surprise Benchmark (ESB) influence auditors' ability to deliver credible and reliable audit outcomes in the Basic Material sector.

Auditor Reputation

Auditor reputation represents the level of public confidence in the competence, integrity, and professionalism of auditors or Public Accounting Firms (PAFs) in conducting financial statement audits. Highly reputable auditors are generally perceived as more capable of performing their duties in accordance with professional standards and ethical requirements, thereby enhancing credibility in audit outcomes (Ayuni & Handayani, 2023). Auditor reputation is formed through several attributes, including the prestige of the PAF, audit experience, the breadth of client portfolios, the consistency of audit quality, and the ability to produce reliable audit reports (Pesudo & Nugroho, 2022).

In practice, reputation shapes users' perceptions of audit quality. A higher auditor reputation, increases the expectation that audit process is carried out

objectively and the result of financial statements are free from material misstatements. Large PAFs particularly the Big Four although less reliant on specific individual clients economically, face substantial reputational risk if audit failures occur. This exposure incentivizes them to maintain stringent audit procedures and safeguard the quality of their engagements (Karika & Putri, 2023; Nizar, 2017). Therefore, auditor reputation functions not only as an indicator of professional competence but also as a signal to the public regarding the auditor's ability to uphold audit quality and the reliability of the audited financial statements.

Audit Tenure

Audit tenure refers to the continuous period during which an auditor or Public Accounting Firm (PAF) is engaged to provide audit services to the same client, measured by the number of consecutive years without changing the auditor or firm (Agustianto et al., 2022). This duration reflects the stability of the auditor, client relationship and has important implications for audit quality. According to the Indonesian Ministry of Finance Regulation No. 17/PMK.01/2008, audit tenure represents the period of professional engagement by a public accountant, and its length may influence auditor independence and objectivity, thereby affecting the credibility of audit outcomes (Payne & Williamson, 2021). Although extended engagements may introduce risks of reduced independence due to increased auditor familiarity, longer tenure can also enhance auditors' understanding of client-specific characteristics, business risks, and internal control systems. This deeper knowledge base has the potential to improve audit efficiency and strengthen overall audit quality (Farumi & Khamisah, 2025). In empirical research, audit tenure is commonly measured as the number of consecutive years, where a company is audited by the same auditor or PAF, verified through prior years' independent

audit reports (Agustianto et al., 2022). Therefore, maintaining an optimal audit tenure is essential to balance independence with auditors' familiarity and understanding of the client.

Earnings Surprise Benchmark

The Earnings Surprise Benchmark (ESB) is a benchmark-based measure used to assess whether a firm's reported earnings fall within a reasonable performance range relative to industry norms, thereby reflecting the level of earnings pressure faced by the firm rather than earnings manipulation behavior. Following Aqmarina and Yendrawati (2019), ESB is operationalized by comparing a firm's return on assets (ROA) with the industry mean plus or minus one standard deviation. Earnings that fall within this interval are considered to reflect normal performance relative to industry peers, while earnings outside the range indicate heightened deviation from market expectations and potential earnings pressure. This approach has been widely applied in Indonesian settings, including by Wibowo and Rossieta (2010), to evaluate earnings reasonableness without relying on discretionary accrual or behavioral detection models.

Importantly, ESB does not aim to identify earnings management practices, but rather captures the external performance pressure arising from the need to meet or exceed industry benchmarks. From a signaling perspective, earnings positioned within the benchmark range convey stability and credibility to the market, whereas deviations may signal increased uncertainty or performance pressure (Aqmarina & Yendrawati, 2019; Spence, 1973). In this study, ESB functions as an independent contextual variable that represents earnings pressure potentially influencing auditors' professional judgment when evaluating financial statement fairness. Accordingly, the Earnings Surprise Benchmark (ESB) is not treated as a proxy for audit quality in this

study. Instead, ESB represents the risk and performance pressure environment in which auditors operate, enabling a more nuanced examination of how auditor characteristics interact with earnings pressure in high-risk industries. In this context, ESB does not capture earnings management or financial reporting manipulation, but rather reflects the external performance pressure faced by firms, under which auditors exercise professional judgment when issuing audit opinions.

Auditor specialization

Auditor specialization refers to the auditor's depth of expertise and accumulated experience in a particular industry, which enables a more comprehensive understanding of industry-specific operations, inherent risks, and accounting practices (Rijal et al., 2023; Yulianty et al., 2024). Industry-specialist auditors possess superior capability in evaluating complex estimates, identifying sector-specific irregularities, and exercising more informed professional judgment when issuing audit opinions (Ananda & Faisal, 2023; Rijal et al., 2023). However, prior studies indicate that the effect of auditor specialization on audit quality may vary across industries due to differences in client characteristics, regulatory environments, and audit risk profiles (Harianja & Sinaga, 2022).

In this study, auditor specialization is positioned as a situational condition that shapes auditors' capacity to exercise professional judgment under complex and high-risk environments, rather than as a primary explanatory variable. Auditor specialization is measured using an industry market-share approach, whereby a Public Accounting Firm is classified as specialized if it audits at least 15% of firms within a given industry (Oktavia & Challen, 2022). This classification distinguishes high- and low-specialization auditors, reflecting differences in industry-specific knowledge, audit experience, and client exposure. Under conditions of

heightened earnings pressure, high-specialization auditors are expected to better assess reporting risk and evaluate the credibility of financial reporting. Consequently, the influence of auditor characteristics and earnings pressure on audit quality is expected to differ between contexts of high and low auditor specialization.

Hypothesis Development

Influence of Auditor Reputation on Audit Quality

Auditor reputation reflects the credibility, competence, and professional accountability of audit firms in delivering high-quality assurance services. From the perspective of agency theory (Jensen & Meckling, 1976), high-reputation auditors function as an effective monitoring mechanism that reduces information asymmetry and internal conflicts between principals and agents. Auditors with strong reputations, particularly those affiliated with Big Four firms, have stronger incentives to maintain audit quality because audit failures may lead to substantial reputational damage and litigation risk. Consequently, reputable audit firms tend to implement stricter quality-control systems, assign more competent audit personnel, and perform more rigorous audit procedures to safeguard their professional standing (DeAngelo, 1981; Francis, 2011).

Empirical evidence in Indonesia supports this theoretical argument when audit quality is measured using audit opinion as a reflection of auditors' final professional judgment. Mauliana and Laksito (2021) find that auditor reputation influences the likelihood of companies receiving appropriate audit opinions, indicating that reputable auditors are more consistent in maintaining independence and compliance with auditing standards. Professional commitment and auditor independence at the individual auditor level further strengthen audit quality, suggesting that reputation is not solely

derived from firm size but also from ethical standards and professional conduct (D. Gunawan & Lestari, 2025). In the Basic Material industry, which is characterized by high operational complexity, capital intensity, and earnings volatility, the presence of reputable auditors becomes increasingly important in ensuring transparent and reliable financial reporting. Therefore, auditor reputation is expected to positively influence audit quality. Based on the above explanation, the first hypothesis is proposed:

H1: Auditor reputation has a positive effect on audit quality.

Influence of Auditor Tenure on Audit Quality

Audit tenure refers to the length of time an auditor provides audit services to the same client. According to DeAngelo (1981), longer auditor–client relationships improve the auditor's understanding of the client's business processes, operational environment, and financial reporting systems. This accumulated knowledge enables auditors to conduct audit procedures more efficiently and effectively. Empirical evidence supports this view; Hidayat and Vestari (2024) find that client-specific knowledge accumulated over time improve auditor's ability to enhance the auditor's professional judgment in evaluating reporting risk, thereby improving overall audit quality. Similarly, Wibowo and Wulandari (2023), examining mining companies in Indonesia, report that longer audit tenure significantly contributes to higher audit quality because auditors develop a deeper familiarity with industry-specific risks and operational complexities. However, prolonged auditor–client relationships may also create risks to auditor independence. Mustikarini and Adhariani (2022) note that long-term professional interactions can reduce auditor skepticism and increase the likelihood of accepting management explanations without sufficient testing, illustrating an inherent trade-off between

accumulated knowledge and a potential decline in independence.

In the Basic Material sector, characterized by long-term projects, capital-intensive operations, complex asset structures, and high operational risks, audit tenure becomes particularly relevant. These conditions require auditors to develop a comprehensive understanding of business models, production processes, accounting estimates, and inherent financial risks. Longer audit tenure therefore enhances the quality of audit procedures, provided that auditors maintain professional skepticism and independence throughout the engagement period. Accordingly, in a high-risk industry such as Basic Material, audit tenure is expected to positively influence audit quality as long as the auditor's objectivity and integrity are preserved. Based on the prior explanation, the second hypothesis is formulated as follows:

H2: Audit tenure has a positive effect on audit quality.

Influence of Earnings Surprise Benchmark on Audit Quality

Earnings Surprise Benchmark (ESB) is used as an indicator of earnings pressure arising when a firm's actual performance deviates from industry expectations. From an agency theory perspective, such pressure increases managerial incentives to heighten reporting pressure that challenges the auditor's professional judgment in issuing an appropriate audit opinion in order to meet performance targets, hereby elevating reporting risk and increasing the complexity of the auditor's professional judgment, which may affect audit quality (Arens et al., 2017). Higher ESB values indicate greater divergence from expected performance, which heightens managerial pressure and increases the complexity of the auditor's task in ensuring the fairness of financial reporting due to heightened reporting complexity and increased judgment uncertainty.

Empirical evidence supports this mechanism. Sihombing and Swasti (2022) document a negative association between earnings surprise and audit quality, showing that performance pressure can lead to a greater risk of misstatement. Nevertheless, the use of ESB as an indicator of earnings pressure remains relatively uncommon in studies of the Indonesian Basic Material sector, which is characterized by high performance volatility and dynamic business cycles. This gap highlights the need to re-examine the role of ESB in influencing audit quality within a high-risk industry context. Based on the prior explanation, the third hypothesis is proposed:

H3: Higher earnings pressure, measured by the Earnings Surprise Benchmark, increases the complexity of auditors' professional judgment, requiring greater scrutiny in issuing audit opinions.

Auditor Specialization as a Situational Condition

Auditor specialization reflects the level of industry-specific expertise and experience possessed by an auditor (Oktavia & Challen, 2022). Highly specialized auditors have a deeper understanding of industry-specific accounting practices, operational characteristics, and inherent risks, enabling them to evaluate complex reporting risks, maintain stronger professional skepticism, and exercise more informed audit judgment compared to non-specialized auditors (Ananda & Faisal, 2023). In contrast, auditors with low specialization may face greater limitations in identifying industry-specific irregularities, which can reduce the overall effectiveness of the audit process.

In this study, auditor specialization is treated as a situational condition that affects the strength of the relationships among the main variables rather than as an independent explanatory factor. When auditor specialization is high, the positive association between auditor reputation and audit quality, as well as between audit

tenure and audit quality, is expected to be stronger, as specialized auditors can leverage their industry expertise to enhance the evaluation of reporting risk. Conversely, the adverse influence of the Earnings Surprise Benchmark (ESB) on audit quality is expected to be weaker under high-specialization conditions, because specialized auditors are better equipped to identify earnings-related risks and maintain objectivity when issuing audit opinions under earnings pressure. This study does not aim to test statistical moderation, but to compare the consistency of the main relationships under different specialization conditions. Based on this reasoning, the following hypotheses are proposed:

H4a: The positive association between auditor reputation and audit quality is stronger when auditor specialization is high than when it is low.

H4b: The positive association between audit tenure and audit quality is stronger when auditor specialization is high than when it is low.

H4c: The influence of the Earnings Surprise Benchmark is mitigated when auditor specialization is high, reflecting auditors' ability to maintain professional judgment under performance pressure.

Audit quality can be influenced by auditor reputation, audit tenure, and earnings surprise benchmark (ESB), with

auditor specialization serving as a situational condition (high vs. low). The relationships among the variables in this study are illustrated in [Figure 1](#).

RESEARCH METHODS

Population and Sample

This study adopts a quantitative causal research design to examine the influence of auditor characteristics and earnings pressure on audit quality in the Indonesian Basic Material sector. The dataset comprises audited annual financial statements and annual reports of Basic Material companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024. Using panel data allows capturing both cross-sectional differences across firms and time-series variation across years. This approach is particularly relevant given the sector's volatility and earnings uncertainty.

The population includes all companies classified under the Basic Material sector according to the IDX Industrial Classification (IDX-IC). Purposive sampling was applied with the following criteria: (1) companies continuously listed in the sector during the observation period; (2) companies provide complete audited financial statements; and (3) required data for all variables are available. The final sample consists of 73 companies, yielding 292 firm-year observations.

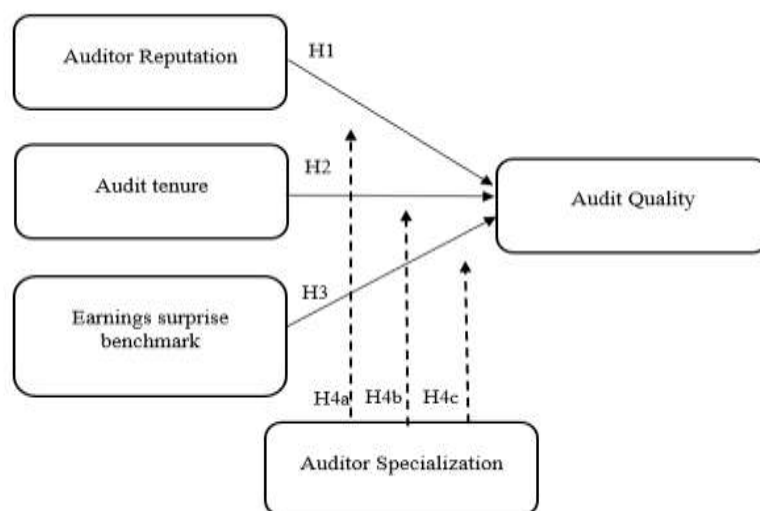


Figure 1. Conceptual Framework

Audit quality is measured using a binary indicator based on the audit opinion (1 = unqualified, 0 = otherwise), making it suitable for panel logistic regression analysis. Auditor specialization is conceptualized as a contextual variable, categorizing firms into high- and low-specialization groups depending on whether the auditor serves at least 15% of

the industry. Although auditor specialization is quantified on a ratio scale through auditor market share, it is not directly included in the regression model. Instead, it functions as a situational condition to guide subsample analyses. The definitions of all variables used in this study are presented in [Table 1](#).

Table 1. Definition of Variables

No.	Variable	Operational Definition	Measurement	Scale
1.	Audit Quality	Audit quality is measured using the audit opinion as a proxy for the outcome of the auditor's professional judgment. The audit opinion reflects the auditor's final assessment of whether the financial statements are fairly presented in accordance with applicable accounting and auditing standards (Irma et al., 2020).	1= is assigned if the company receives an unqualified audit opinion. 0= if the company receives an audit opinion other than unqualified.	Nominal
2.	Auditor Reputation	Auditor reputation refers to the credibility status of the public accounting firm auditing the company, distinguished between Big Four and non-Big Four auditors (Ayuni & Handayani, 2023).	1 = audited by a Big Four-affiliated audit firm 0 = audited by a non-Big Four audit firm	Nominal
3.	Audit Tenure	Audit tenure refers to the duration of an auditor's engagement in providing audit services to the same client over a specific period (Agustianto et al., 2022).	Audit tenure = number of years the audit firm has continuously audited the same client	Ratio
4.	Earnings Surprise Benchmark	The earnings surprise benchmark evaluates whether a firm's earnings performance falls within the normal range of its industry standard and is used as an indicator of earnings pressure arising from deviations in firm performance relative to industry expectations (Aqmarina & Yendrawati, 2019).	1 = if $(\mu - \sigma) < ROA < (\mu + \sigma)$ 0 = if $ROA \leq (\mu - \sigma)$ or $ROA \geq (\mu + \sigma)$	Nominal
5.	Auditor Specialization	Auditor specialization is measured using market share. An auditor is considered a specialist if the same public accounting firm audits at least 15% of companies in the same industry, consistent with prior studies (Oktavia & Challen, 2022).	(Number of companies audited by the same audit firm / Total companies in the sample) $\times$ 100%	Ratio

Source: Adopted from Previous Studies

Data Analysis

Data analysis was conducted using EViews 12, beginning with descriptive statistics to summarize the distribution, central tendency, and variability of all research variables. Audit Quality (AQ), measured as a binary variable based on audit opinion, shows that most firms in the sample receive unqualified opinions, reflecting relatively high audit quality in the Basic Material sector. Auditor Reputation (REP), Audit Tenure (TEN), Earnings Surprise Benchmark (ESB), and Auditor Specialization (AS) exhibit sufficient variation to support further analysis. Correlation analysis was conducted as an initial diagnostic for potential multicollinearity among explanatory variables. All correlation coefficients were below 0.8, indicating no serious multicollinearity concerns.

To examine the determinants of audit quality, logistic regression using panel data was employed. This approach allows the analysis of a binary dependent variable while accounting for cross-sectional and time-series variation. The analysis was conducted for the full sample and separately for high- and low-specialization auditor groups to investigate the situational role of auditor specialization in shaping the effects of auditor characteristics and earnings pressure on audit quality. Model estimation focused on the magnitude, direction, and statistical significance of coefficients using Wald statistics, while overall model fit was evaluated with -2 Log-Likelihood, Likelihood Ratio χ^2 , and Pseudo R². The regression analysis aims to estimate the influence of auditor characteristics and earnings pressure on audit quality, accounting for auditor specialization as a situational factor. The logistic regression model estimated for each specialization group is specified as follows:

Model (1): Overall Sample

$$AQ_{it} = \beta_0 + \beta_1 REP_{it} + \beta_2 TEN_{it} + \beta_3 ESB_{it} + \varepsilon_{it1} \text{ for overall Sample... (1)}$$

Model (2): High Auditor Specialization

$$AQ_{it} = \beta_0 + \beta_1 REP_{it} + \beta_2 TEN_{it} + \beta_3 ESB_{it} + \varepsilon_{it2} \text{ for High Auditor Specialization... (2)}$$

Model (3): Low Auditor Specialization

$$AQ_{it} = \beta_0 + \beta_1 REP_{it} + \beta_2 TEN_{it} + \beta_3 ESB_{it} + \varepsilon_{it3} \text{ for Low Auditor Specialization... (3)}$$

Where:

AQ_{it}: Audit Quality

REP_{it}: Auditor Reputation

TEN_{it}: Audit tenure

ESB_{it}: Earnings surprise benchmark

E_{it1,2,3}: Error Term

RESULT AND DISCUSSION

Descriptive statistics

Table 2 demonstrates the descriptive statistics for five variables (AQ, REP, TEN, ESB, and AS) for 292 firm-year observations. The mean of AQ is 0.726, indicating that approximately 74% of the sample firms receive an unqualified audit opinion, which reflects relatively high audit quality in the Basic Material sector. The mean of REP is 0.562, suggesting that slightly more than half of the firms are audited by highly reputable auditors, indicating the predominance of non-Big Four or non-affiliated auditors in this industry. Audit tenure (TEN) averages 3.137 years, showing a moderate level of auditor–client continuity. The mean of the Earnings Surprise Benchmark (ESB) is 0.603, indicating that a substantial proportion of firms report earnings within the industry benchmark range, which reflects variation in earnings conditions that may influence auditors' professional judgment. Auditor Specialization (AS) averages 19.2%, ranging from 1.4% to 46.7%, providing sufficient variation to examine high and low specialization contexts.

In terms of dispersion, AQ shows a relatively balanced distribution between 0 and 1, while REP, TEN, and ESB exhibit moderate variability. Auditor specializa-

tion (AS) presents substantial variability, which allows the contextual comparison between high and low specialization groups. The descriptive statistics indicate that most firms maintain high audit quality. Auditor reputation and tenure show moderate averages, reflecting typical characteristics in the sector. The wide dispersion of AS allows meaningful analysis under high and low specialization conditions, while ESB's variability highlights earnings pressure across firms.

Analysis Logistic Regression Correlation Diagnostics

The Pearson correlation matrix (Table 3) is presented as a preliminary diagnostic to assess potential multicollinearity among the explanatory variables prior to panel logistic regression analysis. The results show positive bivariate correlations between Audit Quality (AQ) and Auditor Reputation (REP), Audit Tenure (TEN), and Earnings Surprise Benchmark (ESB). These correlations reflect simple pairwise

associations and do not imply causal relationships. Importantly, all intercorrelations among the explanatory variables are below 0.5, indicating that multicollinearity is not a concern in the estimated models.

Panel Logistic Regression Results (Overall Sample)

Table 4 presents the panel logistic regression results for the overall sample. Auditor reputation (REP), audit tenure (TEN), and earnings surprise benchmark (ESB) are all statistically significant at the 5% level. The positive coefficients indicate that firms audited by reputable auditors, with longer auditor–client engagement, and earnings within the benchmark range are more likely to receive unqualified audit opinions. These findings provide evidence that auditor characteristics and earnings conditions play an important role in explaining the likelihood that firms receive an unqualified audit opinion as a proxy for audit quality in the Basic Material sector.

Table 2. Descriptive statistics Test

Variable	N	Mean	Min	Max	Std. Dev
AQ (Audit Quality)	292	0.726	0	1	0.446
REP (Auditor Reputation)	292	0.562	0	1	0.497
TEN (Audit Tenure, years)	292	3.137	1	4	1.124
ESB (Earnings Surprise Benchmark)	292	0.603	0	1	0.490
AS (Auditor Specialization, %)	292	19.2	1.4	46.7	15.7

Source: E-Views 12 (data processing).

Table 3. Pearson Correlation Matrix

Variable	AQ	REP	TEN	ESB	AS
AQ	1.000	0.423	0.317	0.278	0.156
REP	0.423	1.000	0.182	0.134	0.293
TEN	0.317	0.182	1.000	0.097	0.105
ESB	0.278	0.134	0.097	1.000	0.078
AS	0.156	0.293	0.105	0.078	1.000

Source: E-Views 12 (data processing).

Table 4. Panel Logistic Regression Overall

Variable	Coefficient	Std. Error	Wald χ^2	p-value	Odds Ratio
REP	0.874	0.256	11.659	0.001	2.396
TEN	0.142	0.056	6.430	0.011	1.153
ESB	0.671	0.233	8.292	0.004	1.957
C	-0.985	0.312	9.961	0.002	0.373

Source: E-Views 12 (data processing).

Panel Logistic Regression Results: High Auditor Specialization

Table 5 presents the panel logistic regression results for firms audited by high-specialization auditors. Auditor reputation (REP), audit tenure (TEN), and earnings surprise benchmark (ESB) are all statistically significant at the 5% level. The positive coefficients indicate that, in a high-specialization context, firms audited by reputable auditors, with longer auditor–client engagement, and earnings positioned within the benchmark range are more likely to receive unqualified audit opinions. The larger coefficient magnitudes relative to the overall sample suggest that auditor industry expertise provides a contextual setting in which auditor characteristics and earnings conditions are more strongly reflected in the likelihood of receiving an unqualified audit opinion.

Panel Logistic Regression Results: Low Auditor Specialization

Table 6 reports the panel logistic regression results for firms audited by low-specialization auditors. Auditor reputation (REP) and earnings surprise benchmark (ESB) remain statistically significant, while audit tenure (TEN) is not significant. The positive coefficients of REP and ESB indicate that reputable auditors and favorable earnings conditions increase the likelihood of an unqualified audit opinion, even when auditor industry expertise is relatively low. However, the insignificance of audit tenure suggests that longer auditor–client relationships do not contribute to higher audit quality in low-specialization settings. Relative to the high-specialization subsample, the smaller coefficient magnitudes indicate weaker associations between auditor characteristics and audit quality under conditions of limited industry expertise.

Table 5. Panel Logistic Regression High Auditor Specialization

Variable	Coefficient	Std. Error	Wald χ^2	p-value	Odds Ratio
REP	1.102	0.298	13.685	0.000	3.011
TEN	0.171	0.061	7.838	0.005	1.187
ESB	0.794	0.251	9.993	0.002	2.212
C	-1.235	0.355	12.102	0.001	0.291

Source: E-Views 12 (data processing).

Table 6. Panel Logistic Regression Low Auditor Specialization

Variable	Coefficient	Std. Error	Wald χ^2	p-value	Odds Ratio
REP	0.612	0.274	4.989	0.026	1.844
TEN	-0.053	0.058	0.831	0.312	0.949
ESB	0.491	0.244	4.048	0.044	1.634
C	-0.756	0.321	5.548	0.019	0.470

Source: E-Views 12 (data processing).

Overall Model Fit: High Auditor Specialization

The overall fit of the logistic regression model for the High Auditor Specialization group was evaluated using the -2 Log-Likelihood, Likelihood Ratio (LR) chi-square, and Pseudo R² statistics. As reported in [Table 7](#), the -2 Log-Likelihood value decreased from 81.792 in the constant-only model to 70.593 in the full model. The Likelihood Ratio χ^2 of 11.199 with a p-value of 0.001 indicates that the inclusion of auditor reputation, audit tenure, and earnings surprise benchmark significantly improves the model fit compared to the null model. The Pseudo R² value of 0.120 suggests that indicates modest explanatory power of the model under high auditor specialization conditions.

Overall Model Fit: Low Auditor Specialization

The overall fit of the logistic regression model for the Low Auditor Specialization group was assessed using the -2 Log-Likelihood, Likelihood Ratio (LR) chi-square, and Pseudo R² statistics. As shown in [Table 8](#), the -2 Log-Likelihood value

decreased from 81.792 in the constant-only model to 76.492 in the full model. The Likelihood Ratio χ^2 of 5.300 with a p-value of 0.021 indicates that the inclusion of auditor reputation, audit tenure, and earnings surprise benchmark significantly improves the model fit relative to the null model. The Pseudo R² value of 0.060 suggests that the explanatory variables account for approximately 6% of the variation in audit quality, indicating lower explanatory power compared to the high auditor specialization condition.

Hypothesis Testing

The hypotheses of this study were tested using panel logistic regression analysis. The main effects hypotheses (H1–H3) were evaluated using the full sample, while the role of auditor specialization was examined through a split-sample (High vs. Low specialization) approach. This approach allows the analysis of situational differences in the strength of relationships rather than testing statistical interaction effects. [Table 9](#) summarizes the regression coefficients, p-values, and hypothesis conclusions.

Table 7. Overall Model Fit High Auditor Specialization

Statistic	Value
-2 Log-Likelihood (Constant Only)	81.792
-2 Log-Likelihood (Full Model)	70.593
Likelihood Ratio (LR) χ^2	11.199
p-value	0.001
Pseudo R ²	0.120

Source: E-Views 12 (data processing).

Table 8. Overall Model Fit Low Auditor Specialization

Statistic	Value
-2 Log-Likelihood (Constant Only)	81.792
-2 Log-Likelihood (Full Model)	76.492
Likelihood Ratio (LR) χ^2	5.300
p-value	0.021
Pseudo R ²	0.060

Source: E-Views 12 (data processing).

Auditor Reputation (REP) and Audit Tenure (TEN) exhibit significant positive coefficients in the overall sample, indicating that firms audited by highly reputable auditors or with longer engagement periods are more likely to receive unqualified audit opinions. These findings support H1 and H2, demonstrating that reputable and long-tenured auditors enhance monitoring effectiveness and increase the likelihood of issuing an unqualified audit opinion. Earnings Surprise Benchmark (ESB) also shows a significant positive relationship with audit quality, indicating that firms reporting earnings within the industry benchmark range are more likely to receive unqualified audit opinions. This reflects auditors' more favorable assessments under moderate earnings pressure and supports H3.

When the analysis is restricted to firms audited by high-specialization auditors, the coefficients of Auditor Reputation (H4a), Audit Tenure (H4b), and Earnings Surprise Benchmark (H4c) are larger and statistically significant compared to the low-specialization group. This finding indicates that auditor specialization provides a situational context in which auditor reputation and tenure exert stronger influences on audit quality. Rather than

functioning as a statistical moderator, auditor specialization conditions the effectiveness of auditor characteristics and the auditor's response to earnings pressure. When the analysis is restricted to firms audited by high-specialization auditors, the coefficient for ESB is larger and statistically significant, suggesting that auditors with industry expertise are better equipped to evaluate earnings within the benchmark and issue unqualified opinions. In contrast, in the low-specialization group, ESB remains significant but with a smaller coefficient, indicating that less specialized auditors are less able to fully leverage earnings benchmark information in their audit judgment. These results confirm the situational conditioning role of auditor specialization in shaping how earnings pressure is evaluated in auditors' professional judgment.

In contrast, within the low-specialization subsample, Audit Tenure is not statistically significant, whereas Auditor Reputation and ESB remain significant but with smaller coefficients. This pattern reinforces the interpretation that auditor specialization operates as a situational variable that conditions the strength of the relationships, rather than as a formal moderating variable tested through interaction effects.

Table 9. Results of Hypothesis-testing

Hypothesis	Relationship	β (Coefficient)	P-value	Conclusion
H1	Auditor Reputation $\rightarrow$ Audit Quality	0.874	0.001	Supported
H2	Audit Tenure $\rightarrow$ Audit Quality	0.142	0.011	Supported
H3	Earnings Surprise Benchmark $\rightarrow$ Audit Quality	0.671	0.004	Supported
H4a	REP $\rightarrow$ AQ conditioned by Auditor Specialization	High AS: 1.102 Low AS: 0.612	High AS: 0.000 Low AS: 0.026	Supported
H4b	TEN $\rightarrow$ AQ conditioned by Auditor Specialization	High AS: 0.171 Low AS: -0.053	High AS: 0.005 Low AS: 0.312	Partially Supported
H4c	ESB $\rightarrow$ AQ conditioned by Auditor Specialization	High AS: 0.794 Low AS: 0.491	High AS: 0.002 Low AS: 0.044	Supported (situational effect)

Discussion

This study examines how auditor reputation, audit tenure, and earnings surprise benchmark influence audit quality in Indonesian Basic Material companies during the 2021–2024 period, while considering auditor specialization as a situational context rather than a statistical moderating variable, operationalized through a split-sample approach (high vs. low specialization). Using panel logistic regression based on audit opinion as the proxy for audit quality, the results indicate that auditor reputation and audit tenure significantly enhance audit quality, while earnings surprise benchmark reflects heightened audit scrutiny under abnormal earnings conditions. More importantly, the split-sample analysis reveals that these relationships are conditioned by the level of auditor specialization, with stronger effects observed when auditors possess high industry specialization. These findings suggest that audit quality is not solely determined by auditor characteristics or earnings pressure in isolation, but is shaped by the interaction between auditor competence and the industry-specific context in which audits are conducted. By adopting a situational perspective on auditor specialization, this study addresses prior methodological criticisms regarding improper moderation testing and provides a more coherent audit quality framework, particularly in high-risk and volatile industries such as Basic Materials.

Effect of Auditor Reputation on Audit Quality

The results show that auditor reputation has a positive and significant effect on audit quality in Basic Material companies during the 2021–2024 period. Firms audited by reputable auditors are more likely to receive unqualified audit opinions, indicating that auditor reputation enhances audit quality. This finding supports Hypothesis H1 and is consistent with Agency Theory, which suggests that reputable auditors act as effective external

monitoring mechanisms to reduce information asymmetry between management and shareholders (Jensen & Meckling, 1976).

This result is in line with previous empirical studies in Indonesia. Karika and Putri (2023) and Gunawan and Achyani (2024) document that auditor reputation significantly improves audit quality, as reputable auditors face higher reputational and litigation risks and therefore apply stricter audit procedures (DeAngelo, 1981). This study extends prior findings by focusing on the Basic Material sector, which is characterized by high earnings volatility and complex accounting estimates. The stronger effect of auditor reputation under high auditor specialization conditions suggest that reputation is most effective when supported by industry-specific expertise, indicating a situational role of auditor specialization rather than a formal moderating effect.

Effect of Audit Tenure on Audit Quality

The results show that audit tenure has a positive and significant effect on audit quality, indicating that longer auditor–client relationships enhance the likelihood of obtaining higher-quality audit outcomes. This finding suggests that auditors benefit from accumulated knowledge about the client’s business processes, accounting systems, and risk characteristics over time, which improves audit judgment and effectiveness. In the context of audit quality measured by audit opinion, longer tenure enables auditors to assess material misstatements more accurately and issue opinions that better reflect the firm’s true financial condition.

This result is consistent with Hartanti and Zenira (2025), who finds that extended audit tenure improves audit quality through a learning effect that strengthens auditors’ understanding of internal controls and operational complexity. Similarly, Nurcahyani et al., (2023) provides empirical evidence that audit tenure positively affects audit quality, as longer

engagements allow auditors to design more effective audit procedures and enhance professional skepticism. From an agency perspective, longer audit tenure strengthens the auditor's monitoring role and reduces information asymmetry between management and stakeholders. Although prior studies raise concerns regarding potential independence impairment under excessive tenure, the findings of this study indicate that within the Indonesian regulatory framework, such risks are mitigated by professional standards and partner rotation requirements. Consequently, audit tenure functions as a value-enhancing mechanism for audit quality, particularly when supported by adequate regulatory oversight.

Effect of Earnings Surprise Benchmark on Audit Quality

The results indicate that the Earnings Surprise Benchmark (ESB) has a positive and significant effect on audit quality, suggesting that firms whose reported earnings fall within or close to industry benchmarks are more likely to receive higher-quality audit outcomes. Rather than weakening auditor effectiveness, elevated earnings surprises signal heightened reporting risk, prompting auditors to exercise greater professional skepticism and apply more rigorous audit procedures. In this context, ESB functions as a risk indicator that intensifies auditors' monitoring efforts, ultimately improving audit quality as reflected in audit opinions.

This finding is consistent with prior literature documenting that firms experiencing strong earnings pressure are more likely to engage in earnings management practices to meet performance benchmarks (Burgstahler & Dichev, 1997; Roychowdhury, 2006). Aqmarina and Yendrawati (2019) argue that earnings deviations increase managerial incentives to manipulate accruals, thereby elevating audit risk. In response to such conditions, auditors are expected to strengthen their scrutiny to mitigate misstatement risk.

Empirical evidence from Yasmin et al. (2024) supports this argument, showing that heightened performance pressure leads auditors to adopt more conservative audit judgments. From an agency theory perspective (Jensen & Meckling, 1976), increased earnings pressure exacerbates information asymmetry between managers and shareholders, requiring auditors to play a more active monitoring role. Thus, the positive association between ESB and audit quality reflects auditors' adaptive response to elevated earnings risk rather than reduced audit effectiveness.

Situational Condition of Auditor Specialization (High vs. Low)

The findings demonstrate that the effects of auditor reputation and audit tenure on audit quality are stronger when auditor specialization is high. In addition, the positive association between the Earnings Surprise Benchmark and audit quality is more pronounced among firms audited by highly specialized auditors. This indicates that auditor specialization strengthens auditors' responses to earnings pressure, rather than mitigating its impact. When confronted with substantial earnings deviations, specialized auditors are better equipped to interpret industry-specific risks and adjust audit strategies accordingly.

Auditors with high industry specialization possess superior contextual knowledge, technical expertise, and analytical frameworks aligned with the operational complexity of their clients (Ananda & Faisal, 2023). This enables them to more effectively identify industry-specific misstatements, such as inventory obsolescence or cost capitalization practices, thereby enhancing professional judgment and audit skepticism. Conversely, auditors with low specialization may lack relevant industry benchmarks, leading to weaker risk assessments and less responsive audit procedures. These findings are consistent with Rijal et al. (2023), who emphasize that industry specialization improves audit

quality through deeper domain understanding and risk sensitivity. Importantly, this study extends prior literature by conceptualizing auditor specialization not as a statistical moderator tested through interaction effects, but as a situational condition (high and low) that conditions the strength of auditors' responses to reputational incentives, tenure, and earnings pressure in the Indonesian audit environment.

CONCLUSION

This study concludes that audit quality in Indonesian Basic Material companies during the 2021–2024 period is influenced by auditor reputation, audit tenure, and earnings pressure, with auditor specialization functioning as a situational context that conditions these relationships. Reputable auditors and longer auditor–client engagements enhance audit quality by strengthening professional judgment and client-specific understanding, while earnings pressure poses challenges to audit effectiveness. The findings further indicate that these relationships are more pronounced under high auditor specialization, suggesting that industry expertise enables auditors to respond more effectively to managerial incentives and operational complexity. This situational perspective demonstrates that auditor specialization shapes how auditor characteristics and earnings pressure translate into audit outcomes, rather than acting solely as a statistical moderator.

This situational perspective condition extends existing audit quality research by providing a more coherent and context-sensitive framework for understanding audit quality in high-risk and volatile industries such as the Basic Material sector. The study shows that auditor specialization strengthens the effects of auditor reputation and tenure on audit quality, while also enhancing auditors' ability to respond to earnings pressure, highlighting the critical role of industry-specific expertise in shaping auditors'

professional judgment. These findings suggest that audit quality is not solely determined by auditor characteristics or earnings pressure in isolation, but rather by the interaction between auditor competence and the industry-specific context in which audits are conducted. For practitioners, this underscores the importance of assigning auditors with relevant industry specialization, particularly in sectors facing high operational complexity, volatile earnings, and elevated reporting risk, to improve audit reliability and investor confidence.

Despite its contributions, this study is subject to several limitations. First, the analysis focuses exclusively on Basic Material companies, which may limit the generalizability of the findings to industries with different risk characteristics and operational environments. Second, the relatively short observation period may not fully capture long-term dynamics in auditor behavior or the evolution of client–auditor relationships over time. Third, audit quality is proxied by audit opinion, which, although reflecting the auditor's final professional judgment, provides a broad and binary assessment. As a result, this measure may not fully capture the complexity of audit quality, including the rigor of audit procedures, the evaluation of complex accounting estimates, and the exercise of professional skepticism, which are not directly observable through audit opinions alone.

Future research may address these limitations by employing alternative or complementary measures of audit quality, such as accrual-based indicators, audit report characteristics, or more granular performance metrics, to provide a more comprehensive assessment of auditors' effectiveness. In addition, future studies could incorporate broader contextual conditions, including regulatory changes, corporate governance mechanisms, and economic cycles, to deepen the understanding of how situational factors influence audit quality in emerging market

settings. Overall, the findings offer practical insights for regulators and audit firms aiming to enhance audit quality in volatile and high-risk sectors.

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