

ABSTRACT

The aim of this research is to get an empirical evidence about the impact of audit quality on earnings predictability is the investor's ability to anticipate future earnings and to examine association between investor's ability to anticipate future earnings and audit quality for profitable firms and unprofitable firms.

The population of this research is 453 manufacture firms which is listed in "Bursa Efek Indonesia" (Indonesia Stock Exchange) year 2004 until 2006. Based on purposive sampling method the sample in this research is for about 144 firms during 2004 until 2006. Earnings predictability is measured by regress between stock return for period t with some independent variables are stock return for period $t+1$, stock return period $t+2$, earnings change per share in period t , earnings change per share in period $t+1$, earnings change per share in period $t+2$, earnings yield, total asset growth for period t , and conservatism. Audit quality which moderate variable in this research interact with all independent variables, and the dummy variable is one when financial statements are audited by one of the big four accounting firms and zero when financial statements are audited by non-big four accounting firms. Data analysis is using linier regression with helping by SPSS 17.

The analysis result shows that financial statements which are audited by one of the big four accounting does not have signified impact. It shows that financial statements are audited by one of the big four or non-big four accounting firms are not different. People more hesitate about the independency of audit quality. But for profitable firms are significantly different with unprofitable firms of association between investor's ability to anticipate future earnings and audit quality.

Keyword: audit quality, financial statements, stock return, earnings per share.