

## **ABSTRACT**

*The purpose of this study is to examine the impact of mandatory rotation of audit firm on auditor independence. Mandatory rotation of audit firm defined in Indonesia since 2002. While there is a sizable amount of practitioners, academicians, and regulatory bodies both supporting and rejecting the implementation of mandatory rotation of audit firm. Mandatory rotation of audit firm has been advocated to mitigates the negative effect of auditor tenure, thereby enhancing auditor independence, or alternatively, mandatory rotation of audit firm adversely affects auditor reputation concerns and thereby undermines reputational capital as a mechanism to maintain auditor independence.*

*Samples were gathered from audit reports of 54 companies which had financial distress that were listed in BEI during 1999-2008 reporting period. 172 audit reports received going concern modified audit opinion, and the rest 314 received non going concern modified audit opinion. Logistic regression was used to test the effect of auditor tenure and audit firm reputation on the likelihood of auditors' issuing going concern modified audit opinion moderated by mandatory rotation of audit firm.*

*The result indicate that all main variable, that is auditor tenure, firm reputation, the effect of mandatory rotation of audit firm on auditor tenure, and the effect of mandatory rotation of audit firm on audit firm reputation don't have significant effect on the likelihood of auditors' issuing going concern modified audit opinion.*

*Keywords : Going concern modified audit opinion, auditor tenure, audit firm reputation, mandatory rotation of audit firm*