ABSTRACT

This research examines the effect of audit quality towards ERC (Earning Response Coefficient) on the Indonesian banking firms. The research is motivated by the fact that the previous studies examining the relationship between audit quality and ERC on Indonesia yield inconsistent results, and the studies are mostly conducted in manufacturing industry. This research includes some control variables (beta, earning persistence, growth opportunities, firm size, and interest rate risk) to better determine the relationship between audit quality and ERC, as those control variables are found on previous studies to have a significant influence on ERC.

The sample used is 16 banking firms that listed on Indonesian Stock Exchange (IDX) 2007-2010, thus resulting in 64 samples of firm-years. The analysis is conducted by using multiple regression analysis models.

The result shows that the audit quality and the control variables partially and simultaneously have no significant effect on the ERC.

Keywords: Earning Response Coefficient, Beta, Earning Persistence, Growth Opportunities, Firm Size, Interest Rate Risk, Banking Firms.