

ANALYSIS OF THE AUDITOR'S DURATION OF RELATIONSHIP WITH THE AUDITEE ON AUDITOR'S INDEPENDENCE

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Abstract

This study seeks to find out whether the length of the auditor's relationship with the auditee affects auditor independence and to find out what factors affect auditor independence. The method used in this study is qualitative with secondary data sources derived from previous research journals, books containing research topics, theses, and other sources related to research. The results of this study indicate that the length of the auditor's relationship with the auditee has a negative effect on auditor independence and the factors that affect auditor independence are the size of the Public Accounting Firm (KAP), the length of the auditor's relationship with the client, giving hope other than auditing, competition between KAPs.

Keywords: Auditee, Auditor, Auditor Independence, Public Accounting Firm

1. INTRODUCTION

Currently, the public accounting profession is developing rapidly. This is due to the large number of companies that require accountant services and also the existence of government regulations. The government regulation in question is Minister of Finance Regulation No. 17 of 2008 concerning Public Accountant Services. One of the services provided by the public accounting profession is financial statement audit services. This service is currently urgently needed by companies because based on Law No. 40 of 2007 concerning Limited Liability Companies, to be precise, in article 68 paragraph (1) in one of the points it states that companies which are public companies are required to submit financial reports to a public accountant to be audited. This causes companies that have gone public or publicly listed companies to have an obligation to audit their financial statements. Because if this is not implemented, the financial statements are not ratified by the GMS (Limited Liability Company Act (UUPT) Article 68 paragraph 2).

Companies are required to audit financial reports to auditors because they have to fulfill the aspect of openness to stakeholders to obtain correct information about the company's activities and finances. Auditing is the process of an independent party critically and systematically analyzing the financial statements prepared by management, as well as the bookkeeping records and supporting data, with the goal of rendering an opinion on the financial statements' fairness (Agoes, 2007). Audit has an important role for decision making process of various stakeholders, including management, creditors, investors, government and the general public. These parties rely on the results of a competent auditor's opinion to demonstrate independence. This may result in legal proceedings if the auditor's opinion is deemed not objective.

Therefore, the auditor is required to have an independent attitude. The independence in question is that the auditor must have an honest attitude, be impartial to

any party and not be easily influenced, report findings based on available evidence. Independence is necessary because the auditor conducts an audit in the public interest and so that the auditor can provide an objective audit opinion.

If the auditor does not have an independent attitude, it will affect audit quality. The audit quality issued by the auditor becomes irrelevant to the existing reality so that it is likely to cause wrong decisions whether it is decision making by management, investors or other stakeholders and cause losses. As with the Enron case that occurred in 2002 where the Andersen Public Accounting Firm (hereinafter referred to as KAP) which audited the Enron company was not independent in carrying out its duties. This was due to the long relationship between KAP Andersen and Enron. Enron is one of the companies that totally outsources the company's internal audit function. This happened because the former head of internal audit was a partner of KAP Andersen who was appointed as the company's public accountant, the finance director of Enron came from KAP Andersen, most of the accounting staff came from KAP Andersen. Hence, audited financial statements can be easily manipulated.

This case led to bankruptcy at Enron which made an extraordinary uproar and even became the biggest bankruptcy in United States business history because Enron's share price went into a free fall until it reached a price of \$ 45 cents, thousands of employees who did not receive pension funds, manipulation of an increase in income of \$ 600 million, hiding \$1.2 billion in corporate debt. Meanwhile KAP Andersen received the impact of this incident in the form of dismissal as an Enron auditor, the American government prohibited KAP Andersen from contracting work with government agencies in America, KAP Andersen lost clients and lost trust because he was involved in this case.

In 2018, a similar case occurred in Indonesia, namely the case of SNP Finance and the SBE KAP auditor, which is an entity from Deloitte Indonesia. According to the news on CNBC Indonesia, SNP Finance failed to pay Medium Term Notes (MTN), which then dragged the KAP that audited its financial statements, namely KAP SBE. The two auditors who audited SNP Finance were deemed not to have met auditing standards – the professional standards of public accountants in carrying out general audits of SNP Finance's financial statements. In addition, the quality control system in KAP has weaknesses because it cannot prevent intimacy threats in the form of long-standing relationships between senior personnel in audit engagements with clients. From this case the auditor who audited SNP Finance was subjected to administrative sanctions, namely limitations on audit services that were valid for 12 months from 16 September 2018 to 15 September 2019. Meanwhile, KAP SBE and colleagues were subject to sanctions, namely recommendations to make policies and procedures in the related KAP quality control system proximity threat to members of the senior engagement team.

Widodo (2004) said that KAPs who get audit assignments on clients more than 5 years are considered too long. As such, it can raise the possibility of a negative influence on auditor independence, because the longer relationship between auditor and auditee or client will foster a strong emotional bond. If this happens, the auditor who should have a strong attitude of independence in carrying out his duties tends to fade his independence.

Based on this, auditors are increasingly starting to fade their independence because they have a relationship that is too long with the client. Thus, the purpose of this study is to analyze the effect of the length of the auditor's relationship with the auditee on auditor independence and the factors that influence auditor independence.

2. THEORETICAL BASIS

2.1. Theory of Planned Behavior

Theory of Planned Behavior (TPB) is an extension of Ajzen's 1988 Theory of Reasoned Action (TRA). According to TRA, behavior (behavior) is performed because persons have the intention or desire to do so (behavioral intention). A person's behavior is determined by their behavioral goal. TRA claims that behavioral intention is a result of attitude and subjective norms towards behavior. Ajzen (1988) in Hartono (2008) explains The purpose shifts over time, and short-term TRA results are more meaningful than long-term TRA results. Ajzen developed the TPB theory by incorporating a concept that did not yet exist in TRA: perceived behavioral control. The theory of planned behavior (TPB) expressly accepts the potential that certain activities are not entirely under the individual's control, hence the idea of perceived behavioral control is introduced to address such behaviors.

Intention is defined as the desire to perform a behavior. Intentions are not always static and can change over time (Hartono, 2008). Intention is closely related to motivation, which is defined as the impulse that occurs in a person, either consciously or unconsciously, to perform action with a certain goal in mind. Motive to do good will come as a result of excellent intentions. Good actions will also give good results and if they are repeated they will be internalized and persistent in a person so that a person with good behavior is created, and vice versa (Sulistiani & Prastiwi, 2012). Intentions are not always static and might change over time, it can be deduced that the longer the time interval, the more probable a change in intention will occur (Sulistiani & Prastiwi, 2012).

2.2. Auditor Independence

According to Nasution (2018), independence is a mental attitude that is free of influence, is not influenced by others, and does not rely on others. Independence also implies an auditor's honesty in analyzing facts and objective and impartial considerations in forming and expressing his opinion. As a public accountant or auditor, you have an obligation to be honest in all matters. Honesty for the auditor is a basic trait that must be possessed in order to achieve good audit quality.

Independence is a person's ability to act with integrity and objectivity. Although these two things cannot be measured with certainty, integrity and objectivity are fundamental to the public accounting profession. Integrity is the principle of being honest, impartial, and stating facts as they are. Meanwhile, objectivity is an impartial attitude in considering facts, personal interests are not contained in the facts encountered (Harjanto & Zulaikha, 2014).

According to Lisbeth & Ramadhan (2022), independent attitude of the auditor becomes auditor's work, namely audit opinion on financial reports and the level of trust in the general public. The auditor must have an independent nature for each task and obligation even though he has an interest in the company being audited. As such, the auditor must create perceptions for the public or other parties who have an interest that the auditor is truly independent in carrying out his duties to audit the financial statements of certain entities (Sari & Suryono, 2016).

The Code of Ethics established by IAI (2020) states that in protecting the public interest, accountants who practice serving the public must be independent when conducting audit engagements or review engagements. The IAI Quality Control Standards further stipulate that offices must create policies and procedures to offer

reasonable confidence that offices, personnel, and other parties comply with independence requirements and retain independence as needed by relevant ethical criteria.

Independence according to IAI (2020) is related to the principles of objectivity and integrity which include:

- a. Independence of thought: the mental attitude that permits one to articulate a conclusion without being affected by forces that could compromise professional judgment, allowing persons to behave with integrity and exercise impartiality and professional skepticism.
- b. Independence in appearance: the avoidance of facts and situations that are so substantial that a reasonable and informed third party would likely assume that the firm's honesty, objectivity, or professional skepticism, or a member of the audit team, has been compromised.

From the explanation above, it can be concluded that the definition reflects a long term professional requirement that auditors providing services to entities that require independence must be independent both in fact (mind) and in appearance.

3. RESEARCH METHODS

This research was a qualitative research using literature study techniques or literature studies in the form of fact finding with appropriate interpretations. The data sources used in this study were in the form of secondary data sources obtained through books, notes, previous research obtained through Google Scholar and SINTA which were related to the research topic.

4. RESULTS AND DISCUSSION

4.1. The Influence of Length of Relationship between Auditor and Auditee on Auditor Independence

The long-term relationship that exists between auditor and client creates several effects in the auditor including feeling complacent with himself, lack of innovation, inaccuracy in audit procedures, and the emergence of feelings of reluctance towards the client. This is a serious threat so that it is necessary to change the auditor as an effort to prevent non-independent attitudes (Amaliya, 2017).

The results of research conducted by Sinaga & Ghozali (2012) show that audit fees, KAP size, and the length of the audit relationship with clients have a positive impact. Non-audit services have a negative effect on auditor performance independence. In addition, research by Hanif & Putri (2014) in Lisbeth & Ramadhan (2022) states that audit fees, non-audit services, KAP profiles, and audit duration or attribution affect auditor independence.

According to Utami & Wulandari (2009), the length of the auditor's relationship with his client has no effect on the independence of the external auditor which in line with research of Shockley (1981). The length of the audit relationship with the client has a significant effect on the independence of public accountants in Pekanbaru and Medan. This is because the long relationship between the auditor and the auditee causes a close relationship and the auditor feels that he has a relationship that is more than co-workers

and even like family. Hence, the auditor tends to follow what the client wants even though the auditor violates the auditor's standards or code of ethics to give an opinion that is in accordance with the wishes of the client which is not in accordance with the actual situation (Putri & Hanif, 2020).

With this problem, working period of auditor with client is regulated in the Minister of Finance Decree No.423/KMK.06/2002 concerning public accountant services. The ministerial decree limits the auditor's tenure to a maximum of 3 years for the same client, while for KAP it can be up to 5 years.

4.2. Factors Affecting Auditor Independence

Research conducted in the United States by Lavin (1976) in Deli & Syarif (2015) obtained results that factors affecting auditor independence include: financial ties and business relationships with clients, providing services other than audits, length of audit relationship with clients. Subsequent research conducted by Shockley (1981) in Tjun et al. (2012) examines four factors that influence auditor independence, namely: provision of management consulting services to clients, competition between public accounting firms, size of public accounting firms, length of audit relationship.

Research in Indonesia conducted by Supriyono (1988) in Dahlan (2013), revealed that there are six factors that influence auditor independence including: bonds of financial interests and business relationships with clients, competition between public accounting firms, provision of services other than audit services, length of audit assignment, size of accounting firm public, amount of the audit fee.

According to Mulyadi (2002) in Tjun et al. (2012) revealed that in reality auditors often face difficulties in maintaining their independence. Circumstances that affect this include:

- 1) As a party that performs an audit independently, the auditor is paid by the client for the service.
- 2) As a service provider, auditors often have a tendency to do what is in accordance with the expectations and desires of their clients.
- 3) When the auditor maintains an independent attitude, it often results in letting go of the client.

In a study carried by Amilin & Wiwik (2008) in Dahlan (2013), several factors that influence the independence of external auditors are bankers' perceptions, namely: audit committees, financial conditions, advisory services management, competence between KAPs, and audit tenure. The study results show that the audit committee and management consulting services have an effect on independence, while the client's financial condition, the level of competition between public accountants, and the length of the relationship between the public accountant and his client do not affect the independence of the auditor.

The research conducted by Ardiani and Ricky Satria, (2011) in Hasbuddin & Aspar (2017) examines the research of the factors that affect auditor independence. Correlation of financial interest and business relationships with clients are factors that affect the auditor's independence. Other than audit services, provision of services Relationship duration or audit assignment, The competition among public accounting companies, Audit fees and the size of public accounting companies.

5. CONCLUSION

Based on the description that has been described above, it can be concluded that length of relationship between auditor and auditee has a negative effect. In other words, the longer the relationship between auditor and auditee, the lower the quality of auditor independence. As for the factors that affect auditor independence including size of Public Accounting Firm (KAP), length of auditor's relationship with client, giving hope other than auditing, competition between KAPs.

According to the results and conclusion above, we suggest that Public Accounting Firm must urge the auditor's code of ethics in carrying out auditor duties as well as conducting training to grow and train an attitude of independence for auditors. Besides, the auditor must prioritize openness in reporting audit results.

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