2001

An investigation of auditors' perceptions of potential factors influencing auditor independence: a case based on selected Indonesian auditors

Toto Rusmanto

University of Wollongong

Recommended Citation
NOTE

This online version of the thesis may have different page formatting and pagination from the paper copy held in the University of Wollongong Library.

UNIVERSITY OF WOLLONGONG

COPYRIGHT WARNING

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site. You are reminded of the following:

Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material. Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.
An Investigation of Auditors’ Perceptions of Potential Factors Influencing Auditor Independence: A Case Based on Selected Indonesian Auditors

A thesis submitted in fulfilment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

TOTO RUSMANTO
Bachelor of Economics (Honours)
Master of Commerce (Honours)

DEPARTMENT OF ACCOUNTING AND FINANCE
2001
CERTIFICATION

I, Toto Rusmanto, declare that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the Department of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Toto Rusmanto

29 January 2002
This thesis is dedicated to my late father

Alm. H. Kaslim Sukana
# TABLE OF CONTENTS

TABLE OF CONTENTS iii  
LIST OF FIGURES ix  
LIST OF APPENDIXES x  
ACKNOWLEDGMENT xi  
ABSTRACT xii  

## Chapter 1 Introduction

1.1. Introduction 1  
1.2. The Need for Independent Auditor 2  
1.3. Auditor Independence 3  
1.4. Background of the Study 4  
1.5. Case Selected 6  
1.6. Purposes of the Study 7  
1.7. Research Questions 7  
1.8. Methodological Approach 9  
1.9. Structure of the Thesis 10  

## Chapter 2 Auditor Independence in Focus

2.1. Introduction 15  
2.2. The Nature of Auditing 16  
2.3. Services Offered by Auditors 18  
2.4. Type of Auditors 19  
2.5. The Need for An Independent Auditor 20  
2.6. Auditor’s Independence 23  
2.7. Selected Previous Studies 26  
2.7.1. Theoretical Models of Independence 27
2.7.1.2. Goldman and Barlev's (1974) Auditor-Firm Conflict of Interests 32
2.7.1.3. Agency and Behavioural Theory 37

2.7.2. Previous Empirical Studies 39
2.7.2.1. Non-Audit Services 41
2.7.2.2. Competition 42
2.7.2.3. Major Clients 42
2.7.2.4. Audit Firm Size 43
2.7.2.5. Corporate Audit Committee 43
2.7.2.6. Clients' Directors' Roles 44
2.7.2.7. Audit Tenure 44
2.7.2.8. The Regulatory Role of Professional Body 46
2.7.2.9. The Clients’ Financial Conditions 46

2.8. Summary and Conclusion 50

Chapter 3 Research Methods

3.1. Introduction 53
3.2. Rationale for Selecting A Qualitative Approach 55
3.3. Research Site
   3.3.1. Location of the Research 57
   3.3.2. Accounting Development in Indonesia 58
   3.3.3. Accounting Professional Body in Indonesia 59
   3.3.4. The Requirements for the Public Accountant 60
   3.3.5. Auditor Independence in Indonesia 61
3.4. Research Design
   3.4.1. Why Ethnography 62
   3.4.2. Data Collection Method
      3.4.2.1. Semi-Structured Interviews 63
      3.4.2.2. Criteria for Selecting Interviewees 65
      3.4.2.3. Interviewees’ Profiles 66
Chapter 4 Audit Firms' Characteristics: Their Sizes and Services

4.1. Introduction

4.2. Audit Firm Size
   4.2.1. The Effect of Audit Firm Size
      4.2.1.1. Auditor Independence: A Personal Matter
      4.2.1.2. Large Audit Firms: Building Confidence, Less Dependence
   4.2.2. Discussion

4.3. Non-Audit Services
   4.3.1. The Effect of Providing Non-Audit Services
      4.3.1.1. Various Divisions, Selective and Limiting Non-Audit Services
      4.3.1.2. Non Audit Services: Generating Conflict of Interest
      4.3.1.3. Not Offering Non-Audit Services: A Safe Choice
   4.3.2. Discussion

4.4. Summary and Conclusion

Chapter 5 Clients' Characteristics: Background/Reputations, Audit Committees and Fees Contributions

5.1. Introduction

5.2. Clients' Backgrounds/Reputations
   5.2.1. The Effect of Clients' Backgrounds/Reputations
      5.2.1.1. Clients' Backgrounds: No Effect on Independence and Some Effects on Other Things
   5.2.2. Discussion
5.3. Corporate Audit Committee 104
   5.3.1. The Effects of a Corporate Audit Committee 105
      5.3.1.1. Audit Committee: Useful Without Effect on Independence 106
      5.3.1.2. Audit Committee: Enhancing Independence 108
   5.3.2. Discussion 109

5.4. Major Clients 110
   5.4.1. The Effect of Major Clients 111
      5.4.1.1. Confidence and Matching Risks Vs Fee 112
      5.4.1.2. Major Clients: Generating Dependency 115
   5.4.2. Discussion 117

5.5. Summary and Conclusion 119

Chapter 6 Audit Firms and Clients: Effects of Their Relationship 123

6.1. Introduction 123

6.2. Audit Market Competition 124
   6.2.1. The Effects of Competition 125
      6.2.1.1. Various Reasons for No Effect 126
      6.2.1.2. Various Argument for Impairment 129
   6.2.2. Discussion 131

6.3. Roles of the Clients’ Directors 136
   6.3.1. The Effect of Clients’ Directors’ Roles 137
      6.3.1.1. The Quality of the Auditor Removes Clients’ Pressure 137
      6.3.1.2. Raising Interdependence and Conflict of Interest 139
   6.3.2. Discussion 140

6.4. Audit Tenure 143
   6.4.1. The Effects of Audit Tenure 144
      6.4.1.1. Arguments for No Impairment: Staff Rotation, Change of Directors and Professional Relationships 144
      6.4.1.2. Long Engagement: Generating Mutual Interest, Conflict of Interest and Pressure 146
   6.4.2. Discussion 148

6.5. Summary and Conclusion 151
Chapter 7 Sanctions, State of Professional Ethics and Religion: Motivation Sources for Independence

7.1. Introduction 155
7.2. Sanctions 156
   7.2.1. The Effect of Sanctions 157
      7.2.1.1. Sanctions Enhancing Auditor Independence 157
   7.2.2. Law Enforcement and Members’ Suggestion for the Professional Body 159
   7.2.3. Discussion 161
7.3. Auditors’ Religious Values 162
   7.3.1. The Effect of Religious Values 163
      7.3.1.1. Religious Values: Irrelevant to Independence 164
      7.3.1.2. Religious Values: Enhancing Independence 165
   7.3.2. Discussion 166
7.4. Summary and Conclusion 168

Chapter 8 Independence: Meanings, Threats, Motivations, Possibilities and Efforts

8.1. Introduction 172
8.2. Meanings of Independence 173
   8.2.1. The Institute’s Definition 174
   8.2.2. Auditors’ Understandings 175
   8.2.3. Discussion 178
8.3. Revealed Major Factors Impairing Auditor Independence 179
8.4. Revealed Major Factors Enhancing Auditor Independence 183
8.5. Auditors: Total or Partial Independence? 186
8.6. Maintaining Independence: Some Practical Efforts by Auditors 188
8.7. Summary and Conclusion 191

Chapter 9 Summary and Conclusion

9.1 Introduction 195
9.2. Research Methods 196
9.2.1. Relation Between the Researcher and the Interviewees 197
9.2.2. Validity of the Study 198
9.2.3. Data Analysis 199

9.3. Summary of Findings 200

9.3.1. Audit Firms’ Characteristics 201
9.3.2. Clients’ Characteristic 206
9.3.3. Relationship Between Audit Firms and Clients 210
9.3.4. Sanctions, State of Professional Ethics and Religion:
        Sources of Motivation 216

9.3.5. Independence: Its Meanings, Major threats and Motivations,
        Total or Partial and Efforts for Independence 219

9.4. Conclusion 222

9.5. Research Contributions 225

9.5.1. Theoretical Models of Independence 226
9.5.2. Theoretical Contributions 228
9.5.3. Practical Recommendations 230

9.5. Limitation of Research 232

9.6. Suggestions for Future Research 233

Bibliography 234
List of Figures

Figure 1  Behavioral Model of Independence of
          Godlman and Barlev (1974)  37
Figure 2  Summary of Previous Perceptual Studies  47
Figure 3  Summary of Selected Archival Researches  49
Figure 4  Potential Factors that Could Affect Auditor
          Independence  201
Figure 5  Range of Independence and Potential Factors/Circumstances  230
List of Appendixes

Appendix A  List of Interviewees  246
Appendix B  Interview Guidelines  248
Appendix 1  Interview Summary of Audit Firm Size  249
Appendix 2  Interview Summary of Services Offered  258
Appendix 3  Interview Summary of Clients’ Back-
            Grounds/Reputations  266
Appendix 4  Interview Summary of Audit Committee  273
Appendix 5  Interview Summary of Major Clients  279
Appendix 6  Interview Summary of Competition  285
Appendix 7  Interview Summary of Clients’ Directors Roles  291
Appendix 8  Interview Summary of Audit Tenure  299
Appendix 9  Interview Summary of Sanctions  306
Appendix 10  Interview Summary of Religious Values  313
Appendix 11  Interview Summary of Auditors’
             Understanding on Independence  319
Appendix 12  Interview Summary of Major Factors
             Impairing Independence  323
Appendix 13  Interview Summary of Major Factors
             Enhancing Independence  329
Appendix 14  Interview Summary of Total/Partial
             Independent  334
Appendix 15  Interview Summary of Efforts taken by
             Auditors to Maintain Independence  337
Acknowledgment

I am grateful to the Almighty Allah who gave me the opportunity to complete this thesis. My sincere acknowledgement goes to Assoc. Prof. Robert Williams who guided and supervised me during this study period. His encouragement, critical and constructive discussions have greatly contributed to constructing and completing this thesis. I also wish to thank Prof. Michael Gaffikin, Prof. Warwick Funnel, Assoc. Prof. Hema Wijewerdana, and Dr. Mary Kaidonis for their constructive help during stages of the study.

I am indebted to Dr. H. Djohan Sjarief, MBA, the Dean of the Indonesian College of Economics, Jakarta who has generously sponsored me to undertake the doctoral degree. My thanks also goes to all the interviewees of the big-five and non-big five audit firms in Indonesia who have provided their time and shared their experiences. Special thanks to Mr. Agung Praptapa, Mr. Aris Winarno and Mr. Sigit Pramono who have kindly helped to gain access for the interviews.

Last, but by no means least, for their patience and support, my sincere appreciation and thanks to my family, Damayanti, with her pregnancy, Amirah and Fathiyah. They suffered from lack of attention and normal life during the final stage of the study. For their patience and sacrifice, I pray may Allah gives them better rewards.
ABSTRACT

Most (if not all) studies on the perceptions of auditor independence were conducted using a quantitative approach. Sending questionnaires to collect data and testing hypothesis by the use of statistics have been very common. The lack of literature on auditor independence using a qualitative approach has inspired this present study, since the advantages of the qualitative approach cannot be reached by the quantitative.

This is a perceptual study of auditor independence using an ethnographic, qualitative approach. Twenty-nine Indonesian auditors have been interviewed, in order to investigate their perceptions of factors that could affect auditor independence. Two theoretical models of independence, auditors-firms conflict of interest of Goldman and Barlev (1974) and Flint's (1988) material circumstances to independence, are used to explore the issues that were investigated. These issues are not “truths” to be proven, but used rather as interview guidelines. The interview data are summarised and pattern coded as proposed by Miles and Huberman (1984) and then analysed through description, analysis and interpretation suggested by Wolcott (1994). The use of pattern coding allows the researcher to classify answers and compare responses. The analysis introduced by Wolcott allows the researcher not only to analyse what auditors say but also to interpret beyond what they say.

This study found that auditor independence would potentially depend on external and internal factors or circumstances. The external factors or circumstances are audit firms’ characteristics, clients’ characteristics, the nature of auditors and clients relationship and sanctions enforced. Audit firms’ characteristics included the size of the audit firm and non-audit services rendered to audit clients. The clients’ backgrounds, existence of a corporate audit committee and clients’ contribution to audit fees are regarded as clients’ circumstances that could influence auditor independence. Competition among auditors, clients’ directors’ roles and the length of audit engagement are consequences of their relationship that could affect auditor independence. Sanctions enforced by the professional body could also influence auditor independence. On the other hand, internal factors influencing auditor independence comes from auditors themselves. The state of professional ethics of auditors as a consequence of professionalism and the auditors’ religious values affect auditor independence.
In perceiving these factors, the study found that auditors have consensus on the effect of sanctions on auditor independence. They believed that sanctions could enhance auditor independence. Whereas, for other factors the auditors have various perceptions ranging from impairment, no effect and enhancement of auditor independence. In addition, the study also identified the auditors’ understandings on independence, major threats and motivations among the above circumstances, the possibility to be total or partially independent and the auditors’ efforts to maintain their independence.

The study concludes that auditor independence is a continuum, and is not black and white. Some new potential factors influencing independence have been found. The study also proposes a continuum model of independence and “better” and “worse” circumstances that potentially could affect auditor independence. Practical recommendations are suggested to the Indonesian Institute of Accountants, the Indonesian Government and relevant parties using audited financial statements.

Some limitations of the study are acknowledged such as the lack of previous qualitative studies on auditor independence, the cross-sectional data collection and a limited number of interviewees. Some suggestions for future research include narrowing the research site into one big audit firm and using a longitudinal process for data collection.
CHAPTER ONE

INTRODUCTION

1.1. Introduction

Independence is a very common term and frequently discussed not only in the audit area but also in the other fields. It is not easy to define and even more difficult to embody. Not only for auditors, but also for other professions who serve the public interest and other parties involve. Many researchers have defined the meanings of independence and many definitions have been generated. There are different definitions of independence (Amernic and Aranya, 1981, p. 13) because according to Malkin (1996) it is a very difficult concept to define and even harder to comply with.

The purpose of this chapter is to provide a relatively brief overview of the study. This study is mainly concerned with auditors’ perceptions on potential factors influencing auditor independence based on selected Indonesian
auditors interviewed. However, the study also investigates auditors’ understanding of independence, major threats and motivation to be independent and the possibility to be totally or partially independent and their efforts in maintaining independence. This study realises that at present, there is little or no interest in researching auditor independence in general, and Indonesia in particular, especially by using a qualitative approach.

Since auditors are human beings and audit activities involve social relationships, this study tries to seek to understand auditors’ perceptions and their efforts to maintain auditor independence through an ethnographic, qualitative approach rather than a quantitative one.

This chapter consists of the following sections. A brief overview of the need for an independent auditor, followed by a discussion of auditor independence, the background of the study, the subjects selected for the study, purpose of the study, research questions, the methodological approach and the structure of the thesis.

1.2. The Need for an Independent Auditor

This section briefly overviews the need for independent auditors in business activities. Initially, accounting was needed by the business owner in order to know about and control business activities. However, as the complexity of business increased, accounting has developed and is required to provide financial statements that are used by management, shareholders, creditors, government, and other relevant parties. Therefore, to ensure reliable
information for all the users of financial statements an independent review is needed. There are at least two basic reasons for the need for auditing (Stamp and Moonitz, 1978, p. 27). First, financial statements will be audited because the government expects this as a statutory requirement. Second, management needs it, because the function of auditing itself is to lend credibility to financial statements.

In other words, financial statements will be reliable sources of information for the managers, resource providers, potential creditors, investors, employees and other users if they are audited by an independent auditor (Gul, Teoh and Andrew, 1991; Campbell 1985). Gill and Cosserat (1993, p. 16) and Porter, Simon and Hatherly (1996, p. 8) assert that the need for an independent auditor is attributed to the following conditions: conflict of interest, consequence, complexity and remoteness (see also Campbell 1985, p. 13; Arens et al 1992, p. 16; Pound, Willingham and Charmichael, 1983, p. 4). The discussion will continue in chapter two.

1.3. Auditor Independence

Independence is a familiar topic. Many people discuss independence without further questioning its meaning, because they feel there is no need to do so. But in audit, auditor independence is frequently referred to as a cornerstone of auditing (Malkin, 1996; Clikeman, 1998). Without it, audited financial statements will be biased and useless (Firth, 1980). However, there is no uniformity in the definition of the term independence (Kinney, 1999, p. 70). There are many definitions of independence, it depends on who defines it,
different people will give various meanings (Amernic and Aranya, 1981, p. 13).

Bartlett (1993, p. 3) states that in the early studies auditor independence was not defined. This is because most people understood independence as a term that did not need to be defined. But in recent studies auditor independence has been defined as the auditor's ability to resist client pressure or the auditor's ability to act with integrity and objectivity. Bartlett himself defines auditor's independence as "an unbiased mental attitude in making decisions about audit work and financial reporting" (1993, p. 4).

Lee and Gu (1998, p. 534) simply define auditor independence as the absence of collusion between the auditor and the manager of the client firm. In the Indonesian Auditing Standards (IAI, 2001, p. 220.1), independence is quite explicitly defined. It states that an auditor must not be influenced by other parties, because an auditor must serve all parties.

1.4. Background of the Study

The career of an auditor is a unique profession. S/he is different from a doctor or a lawyer. The central theme of this study rests in the professional belief that independent auditors have to perform their work independently. However, evidence shows that auditors are not only hired and fired by their clients, but they have to face many other interests and pressures. This situation is likened to two different grounds on which auditors must stand simultaneously. The Cohen Commission asserted that since the auditor is
hired and paid by someone who is affected by the auditor’s work, total independence is a practical impossibility (Clikeman, 1998).

This study also begins noting that auditors are like other human beings in that their behaviours are affected by environmental, organisational, physiological, psychological, and backgrounds (Ferris and Dillard, 1988, p. 282) and therefore the possibilities from this observation would be: first, auditors will successfully perform audit tasks independently; second, auditors tend to perform audit task according to their own interests and clients’ pressures; and third, the auditors ‘harmonise’ or ‘accommodate’ their interests or clients’ pressure but are still in the corridor of audit standards.

Many studies have been conducted on this issue, and their findings are varied. Studies include those by Firth (1980), Shockley (1981), Moore (1983), Gul and Teoh (1984), Knapp (1985), Beattie (1999) among others. A discussion of these studies will take place in Chapter Two. Having examined previous studies on auditor independence, there are three limitations that can be stated, these are: first, most (if not all) studies on auditor independence have been conducted using a quantitative approach; second, most previous studies investigated limited issues of independence; and third, most (if not all) studies did not include the auditors’ cultural values. From this observation, this study intends to investigate the general problem of what factors can affect auditor independence as well impairing and enhancing it, through an ethnographic and qualitative approach.
1.5. Case Selected

This study investigates the independence of Indonesian auditors. The reasons for selecting this topic include the following: there is only one professional body of accounting in Indonesia, namely the Ikatan Akuntan Indonesia (IAI) or the Indonesian Institute of Accountants. This is where all public accounting practices in Indonesia must be registered and principals must become members. The Professional Standards of the Indonesian Institute of Accountants (SPAP) state that an auditor has to be independent, which means an auditor must not be influenced by outside intervention, because an auditor serves the public interest, not a certain party (IAI, 2001, p.220.1). The Professional Standards define independence clearly, whereas the Institute’s Code of Ethics only states that the auditor must be independent in fact and in appearance.

On the other hand, even though in the early development of accounting Indonesia followed the Dutch system, today all matters that relate to accounting and auditing mirror the US situation (Abdulkadir, 1982). Accounting and auditing principles are adopted from the US, but the situation within business activities and complexities, law enforcement and socio-cultural values in Indonesia are quite different. Studies of auditor independence in Indonesia are also still very limited, and according to the knowledge of the researcher, there is only one published study on Indonesia auditor independence by Supriyono (1988). His study investigated six factors affecting auditor independence using the quantitative method, by sending questionnaires to respondents and analysing data by the use of statistics.
Based on the situations above, this present study will investigate auditors’ perceptions of factors that could influence their independence and matters related to it by considering the social and cultural values of auditors. This study will therefore investigate auditor independence with a broader and deeper analysis through an ethnographic, qualitative approach.

1.6. Purposes of the Study

In the research process, this study will take into account the effects of the auditors’ socio-cultural values on their perceptions of auditor independence and related matters. The study is based on auditors in Indonesia and the purposes of this study are:

1. To seek to understand the auditors’ perceptions of their independence.
2. To discover what factors actually impair the auditors’ independence.
3. To discover what factors actually enhance the auditors’ independence.
4. To develop some suggestions to improve the auditors’ independence.

1.7. Research Questions

Since most previous studies that relate to auditor independence have investigated four to six research variables, which relate to economic and regulatory matters only, this study, will try to seek to understand what auditors feel about independence in a broader context, which will involve the socio-cultural values of the auditors. An ethnographic qualitative approach will be used in this research. The general research question of this study is:
\textbf{“What factors can affect auditors’ independence?”}

This general research question has several particular questions. These particular research questions are ‘working guidelines’ rather than ‘truths’ to be proven (Thomas, 1993, p. 35 in Creswell, 1994). These ten particular research questions are as follows:

1. What is the effect on auditor independence if they also provide non-audit services (NAS) to audit clients?
2. What is the effect on auditor independence if auditors work in a tight competition audit market?
3. What is the effect on auditor independence if they audit their major audit client?
4. What is the effect of audit firm size on auditor independence?
5. What is the effect of the existence of a corporate audit committee on auditor independence?
6. What is the effect of the directors’ roles on auditor independence?
7. What is the effect of the length of audit tenure with a certain client to auditor independence?
8. What is the effect on auditor independence if there is punishment for the auditor who performs poor audit quality.
9. What is the effect of the audited company’s background (such as strong financial condition, well recognised directors etc) on auditor independence?
10. What is the effect of religious values possessed by auditors on auditor independence?

These particular research questions as already mentioned were used to guide the researcher during the interviews, however, there was still the room to expand the questions during the progress of the interview.

1.8. Methodological Approach

The purpose of this study is to investigate Indonesian auditors’ perceptions on factors affecting auditor independence and related matters to independence. This study considers the effect of the auditors’ local culture, religion, work environment, ages, position, sex and experience. Ethnography is one of the qualitative approaches that can be applied in order to discover these needs (Hammersley, 1992, p.12).

The reason for investigating auditors’ perceptions is because auditors are the most familiar party to their independence (Agacer, 1986). Since this study investigates the insiders’ perceptions, a semi-structured interview will be the most valuable because the questions are more likely to conform to the native’s perception of reality (Fetterman, 1998, p. 481). In selecting auditors to be interviewed and in order to get the right sources of data, the study considers ‘representativeness’ of the object being studied as suggested by LeCompte and Goetz (1984, p. 46).
In the data analysis, the study uses a combination of Wolcott’s (1994) description, analysis and interpretation and that of Miles and Huberman (1984) because by using transforming qualitative data proposed by Wolcott (1994), the researcher will be able to analyse and interpret the meaning of what the auditors say. Second, by using data reduction, display and a conclusion that draws on Miles and Huberman (1984), the researcher will be able to organise and present data in a comparable format between responses.

There are four steps in the data analysis: first, summarising the interviews data (Miles and Huberman, 1984); second, pattern coding to classify the category (Miles and Huberman, 1984); third, making a description of data summarised and pattern coded (Wolcott, 1994); and fourth, analysing and interpreting the data (Wolcott, 1994). The researcher is actively involved in this research process, and so it becomes impossible to be objective.

Further discussion of the research methods applied in this study are discussed in Chapter Three.

1.9. Structure of the Thesis

The study consists of nine chapters. The first chapter provides a brief overview of auditor independence, the background of the study, research purposes, research questions, the research approach taken and the structure of the thesis.
The second chapter discusses auditor independence in depth. In order to build an understanding about auditor independence and to help provide a framework for the study, Chapter Two is divided into two major sections. The first section discusses the nature of auditing, services offered by auditors, types of auditors, the need for independent auditors, and auditor independence. The second section discusses models of auditor independence proposed by Flint (1988) and Goldman and Barlev (1974). The second section also reviews previous empirical studies on auditor independence both perceptual and archival.

Chapter Three deals with the research methods applied in this study. This involves three sections. The first section discusses the rationale and arguments for selecting a qualitative approach and ethnography in particular. The research site including the location of the research, accounting and auditing development and the requirements for the auditors to be independent are discussed in the second section. The third section concerns the research design and includes data collection and data analysis. Data access and the role of the researcher are also discussed in this chapter.

Chapters Four to Chapter Eight discuss the findings of the study. The presentation of these chapters is based on four sections as follows: The first introduces the theme; the second describes the theme from the interviews; the third discusses the theme; and the last part is a conclusion based on the discussion.
Chapter Four discusses the effects of the characteristics of audit firms on auditor independence and includes the size of the audit firm and non-audit services offered by auditors. The chapter concludes with the finding that the larger audit firms have a potentially positive effect on auditor independence. Whereas those firms that have no non-audit services divisions should not offer non-audit services to their audit clients unless they have different staff and a different partner in charge of audit and non-audit services to minimise a conflict of interest.

Chapter Five discusses the findings on the effects of the characteristics of clients on auditor independence including the clients' backgrounds/reputations, the corporate audit committee and the role of the audit fee paid by clients. The chapter finds that the clients' backgrounds/reputations have no effect on auditor independence except for the scope of work, audit requirements and as a consideration in accepting an audit engagement. The chapter discusses the benefit of the existence of a corporate audit committee, and finds that auditors produce various arguments about the effects of a corporate audit committee on auditor independence. This study also discusses the effect of the audit fee paid by major clients as a potential factor that could negatively affect auditor independence.

Chapter Six discusses the findings caused by the relationships among audit firms, and the relationship between audit firms and clients. This chapter includes a discussion of the effects of competition among audit firms, which is
found to potentially have a negative effect on auditor independence. The chapter also discusses the possibility that the clients’ directors’ real roles in auditor appointment and remuneration are dangerous to auditor independence. The length of an audit engagement (audit tenure) on auditor independence is discussed in the last part of the chapter, and it is found that the longer the audit engagement, the greater the potential for auditor independence impairment.

Chapter Seven discusses the effects of sanctions imposed by the professional body, the state of professional ethics and religion as sources of motivation for independence. In this chapter, the study argues that sanctions given by the professional body can enhance auditor independence. Furthermore, this study also argues that an auditor’s religious values can encourage independence along with the professional ethics of the profession. This chapter concludes that sanctions are an external factor that could enhance auditor independence, whereas the professionalism of auditors and the auditors’ religious values are internal sources of independence.

Chapter Eight discusses the meanings of independence perceived by auditors, major factors that could impair and enhance independence and the possibility to be totally or partially independent and the auditors’ efforts to maintain their independence. In this chapter, the study has found that auditors interviewed have a proper understanding of independence. The study also enlarges the ‘meanings’ of independence as perceived by auditors and discusses some major threats to independence (such as improper
relationships, major clients, the weakness of an auditor's integrity) and the motivation to be independent (professionalism, sanctions, religious values, auditors level of education). It produces arguments for being totally or partially independent and the practical efforts needed to maintain independence are discussed.

Chapter Nine summarises and concludes the findings of the study and also discusses the research contributions and recommendations. The limitations of the research and suggestions for future research are also described.
CHAPTER TWO

Auditor Independence in Focus

“Essential distinguishing characteristics of audit are the independence of its status and its freedom from investigatory and reporting constraints”

(Flint, 1988, p.54)

2.1. Introduction

The main aims of this chapter are: first, to discuss auditor independence in depth and second, to discuss and evaluate previous studies concerning this topic. The chapter is divided into three major sections. In order to build an understanding of auditor independence, the first section discusses the nature of auditing, services offered by auditors, types of auditors, the need for independent auditors and auditor independence. In order to provide a framework for this present study, the second section will discuss previous studies. In this section, the literature review will be divided into: first, theoretical models of auditor independence; and, second, previous empirical studies both perceptual and archival. The last section of this chapter consists of a summary and a conclusion.
2.2. The Nature of Auditing

The earliest evidence of a financial statement audit is unclear. However, a model of auditing appeared in the twelfth century when the Bursary was founded in the UK during the reign of Henry I (Wolnizer, 1987, p. 37; Gul et al, 1992, p.1). Meanwhile, Pound at al (1983, p.5) asserted that the Chamberlain of the City of London was subject to audit, towards the end of the 13th century. The audits, at that time, were intended to ensure that the state’s revenue and expenditure transactions were properly reported (Gul et al, p. 1) and to assure correctness and regulation compliance, and the absence of fraud (Pound et al, p. 5).

The original meaning of audit is ‘to hear’ (Pany and Whittington, 1997, p. 9; Porter, Simon & Hatherly, 1996, p. 2; Gul, Teoh and Andrew, 1992, p. 1).

Stamp and Moonitz defined the nature and the purpose of audit as:

> An independent, objective and expert examination of a set of financial statements of an entity along with all necessary supporting evidence. It is conducted with a view to expressing an informed and credible opinion, in a written report, as to whether the financial statements portray the financial position and progress of the entity fairly, and in accordance with generally accepted accounting principles. (1978, p. 27)

Similarly, the Statement of Auditing Standards (AUS 1) issued by the Australian Society of Certified Practising Accountants (ASCPA) and the Institute of Chartered Accountants in Australia (ICAA) defines audit as:
... the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size, or legal form, when such examination is conducted with a view to expressing an opinion thereon...

(quoted in Gul et al, 1992, p.3)

Even though numerous definitions of auditing have been proposed, the most popular definition of auditing can be found in the American Accounting Association Committee’s report, entitled A Statement of Basic Auditing Concepts (ASOBAC), which defines auditing as:

A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

(Richiute, 1989, p. 4)

From the quoted definitions, it can be seen, that auditing is a systematic process involving a logical, structured, and scientific set of steps and procedures (Gul, Teoh & Andrew, 1992 p. 4; Gill and Cosserat 1993, p. 12). In obtaining and evaluating evidence, the audit is required to be done objectively, without bias or prejudices. The assertions about economic actions and events mean that the scope of auditing covers economic matters involving the audited individual or entity. To ascertain the degree of correspondence between those assertions and established criteria in auditing that audited financial statements must be understood by all users’, a ‘common language’ and a set of accounting standards must be applied. Communicating the results to the interested users is the last task of the auditor. The auditor expresses an opinion and makes a written report, which is communicated, to the shareholders, creditors and other relevant parties.
2.3. Services Offered by Auditors

Basically, there are two types of services offered by auditors, attestation service and non-attestation service. According to Gill and Cosserat (1993, p. 10) attestation service is rendered by auditors to their clients where the auditors issue a written communication, which expresses a conclusion about the reliability of a written assertion that is another party's responsibility. This includes services such as audit, examination, review and other agreed upon procedures. When auditors perform a non-attestation service they do not issue an opinion, negative assurance, summary of finding or other form of assurance (p. 11). Services such as accounting, tax, management consulting, and insolvency and business recovery are examples of non-attestation services commonly rendered to clients.

As part of the attestation service rendered by auditors, audits can be divided into three major types; financial statement audits, compliance audits and operational audits (Pany & Whittington 1997, p 12; Porter, Simon & Hatherly, 1996, p. 3). Financial statement audit refers to an examination of a company or institution’s financial statements conducted by an independent auditor. The main aim of this audit is to confirm whether accounting standards have been properly applied in the company’s financial statements. A compliance audit is conducted to examine whether the auditee has done (or is doing) its activities in accordance with the procedures or regulations established by an authority. This audit is prepared for the authority that has set up the regulations.
An operational audit, according to Pany & Whittington (1997, p. 12) is a study of a specific unit of an organization for the purpose of measuring its performance. While Gul, Teoh and Andrew (1992, p. 5) defined operational audit as an appraisal activity within an organization for the review of entire departmental operations as a service to management. This study will focus solely on the audit of financial statements and the term ‘audit’, which is used throughout the thesis will refer to this type of audit.

2.4. Type of Auditors

Auditors can be divided into three primary categories: independent auditors, internal auditors and government auditors (see Gul, Teoh and Andrew, 1992; Gill and Cosserat, 1993). Independent auditors are individual public accountant or members of public accounting firms who render their services to clients. The most important aspect of this type of auditor is independence (Gul, Teoh and Andrew, 1992, p. 5). The second type of auditors are internal auditors. Internal auditors are auditors who assist the management of an entity to discharge its responsibilities effectively. The internal auditors are employees of the entity (Gil and Cosseat, 1993, p. 15; Gul, Teoh and Andrew, 1992, p. 6). The last type of auditors are government auditors. This type of auditor is employed by the government to do the three types of audits discussed above. They audit the functions of departments, companies owned by government and other entities or organizations related to the government.
In this research, however, independent auditors will be the sole focus of the study. The term independent auditor and auditor, therefore, is used interchangeably throughout this thesis.

2.5. The Need for An Independent Auditor

Since business activity developed in society, accounting has become a significant part of economic life. Initially, accounting was needed by the business owner in order to know about and control business activities. However, as the complexity of business increased, accounting has developed, and government has required the publication of financial statements, which are used by management, shareholders, creditors, government, and other relevant parties. Therefore, to ensure reliable information for all the users of financial statements an independent review is needed.

Financial statements will be reliable sources of information for managers, resources providers, potential creditors, investors, employees and other users if they are audited by an independent auditor (Gul, Teoh and Andrew, 1991; Campbell 1985). Gill and Cosserat (1993, p. 16) and Porter, Simon and Hatherly (1996, p. 8) assert that the need for an independent auditor is attributed to the following conditions: conflict of interest, consequence, complexity and remoteness (see also Campbell 1985, p. 13; Arens et al 1992, p. 16; Pound, Willingham and Charmichael, 1983, p. 4). A discussion of this matter follows.
One explanation of the need for an independent auditor can be found in agency theory, where the companies’ owners, known as principals, delegate business decisions to another party, the agent who is usually the manager/director. A company’s financial statements are prepared by its managers, who report their own performance. The owners need to review the agent’s performance. However, the owner still wants their business performance to look good in the eyes of the users of financial statements.

On the other hand, the users of financial statements need an accurate and objective summary of the company’s financial position. From this circumstance, it can be seen that the objective of the users of financial statements is different from the preparer’s (management) objectives. Consequently, a conflict of interest can occur in this regard. Accordingly, the user of a financial statement seeks assurance from an independent auditor who is free of any interest. According to Williams (1984) there are two sources for the conflict. First, financial statements prepared by management may consist of biased information in order to fulfil their own interests. Second, the biased information may be unintentional. To solve this problem, therefore, independent auditors are needed to report on whether the financial statements are ‘fair’.

The second reason why an independent auditor is needed is because of the consequences of error. Consequence, according to Campbell (1985, p. 14) refers to “the importance to the user of the decision taken by him on the basis
of the financial statement. This factor recognizes that the process of communication from the preparer to the user of financial statements will normally result in providing information which will help the user in making decisions”. If the financial statements provided by management contain errors for instance, the user of this financial statement could suffer a great loss. To prevent this business risk, the user of financial statements needs to be able to confirm that the financial statements are reliable. The independent auditor is required to make this confirmation in order to improve the decision-making process.

The third reason for the necessity of an independent auditor is complexity. In modern society, business activities are highly complicated, especially economic transactions and accounting systems. Consequently, the chance of errors in the reporting process by management is greater and as a result there is a growing need by the user of financial statements to make sure that financial statements have been examined by a qualified independent auditor (Porter, Simon and Hatherly, 1996, p. 9). This condition clearly requires the existence of an independent auditor.

Another reason why an independent auditor is needed is remoteness. The user of a financial statement cannot gain direct access (due to lack of time, physical remoteness, institutional barriers or lack of money) to the source of information he/she receives in the financial statements. Therefore the user of financial statements authorizes an independent auditor to investigate the information contained in the financial statements.
As discussed above, financial statements become more useful and reliable for all parties when they have been audited by an independent auditor. Consequently, an independent audit is a must because it lends credibility to audited financial statements.

2.6. Auditor’s Independence

Independence is frequently referred to as a cornerstone of auditing (Malkin, 1996; Clikeman, 1998). Without it, audited financial statements will be biased and useless (Firth, 1980). However, there is no uniformity in the definition of the term independence (Kinney, 1999, p. 70). There are many definitions of independence, it depends on who defines it, different people will define independence differently (Amernic and Aranya, 1981, p. 13).

In the early studies, auditor independence was not defined (Bartlett 1993, p. 3). However Bartlett himself defines auditor independence as “an unbiased mental attitude in making decisions about audit work and financial reporting” (1993, p. 4). While Lee and Gul (1998, p. 534) define auditor independence as the absence of collusion between the auditor and the manager of the client firm. In the Indonesian Auditing Standards (IAI, 2001, p. 220.1), independence is quite explicitly defined. It states that an auditor must not easily be interfered with by other parties, because the auditor must serve all parties and not tend to a certain party.
Meanwhile, the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia define independence as "a freedom from any interest incompatible with integrity and objectivity" (ASCPA & ICAA, 1997, p. 632)

In the Statement of Auditing Standards (AUS 1, para 16) auditors are required to be:

...straightforward, honest and sincere in their approach to their professional work. They must be fair and must not allow prejudice or bias to override their objectivity. They shall maintain an impartial attitude and both be, and appear to be, free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

It is not doubted that an auditor's opinion, without independence, is suspect because independence is the cornerstone of the auditing profession (Gill and Cosserat, 1993, p. 19). In other words, audited financial statements will only be valuable when the independent auditor maintains his/her independence. Auditors, therefore, have to maintain their independent attitude in doing their work and also be seen to be independent by the users of financial statements (Mautz and Sharaf 1982, p. 204). The former independence is generally known as independence in fact, and the latter is commonly referred as independence in appearance or perceived independence (Arens et al, 1992, p. 71; Porter, Simon & Hatherly, 1996, p. 65). The importance of both forms of independence has been asserted in the Statement of Auditing Practice AUP 32 as follows:

The concept of independence is fundamental to auditing, since the auditor's objective is to enhance, through the expression of an independent opinion, the credibility of the reported financial information
of an entity. The value of the independent audit lies both in the fact that the auditor is, and is seen to be, independent of the audited entity, and hence is able to carry out the audit free of any externally imposed constraints.

(ASCPA & ICAA, 1997, p. 632)

From the Statement of Auditing quoted above, it is obvious that auditors have to be careful in fulfilling their audit engagements, even though they are independent in fact, if they become involved in situations that may lead people to doubt their independence, their independence would be viewed as valueless.

Mautz and Sharaf (1982, p. 206) identified three dimensions of independence:

1. Programming Independence: Freedom from control or undue influence in the selection of audit techniques and procedures and in the extent of their application. This requires that the auditor have freedom to develop his own program, both as to steps to be included and the amount of work to be performed, within the over-all bounds of the engagement.
2. Investigative Independence: Freedom from control or undue influence in the selection of areas, activities, personal relationships, and managerial policies to be examined. This requires that no legitimate source of information be closed to the auditor.
3. Reporting Independence: Freedom from control or undue influence in the statement of facts revealed by the examination or in the expression of recommendations or opinions as a result of the examination. The relationship of reporting to the examination has been neatly expressed in the following: “You tell us what to do and we’ll tell you what we can write in our report; you tell us what you want us to say in our report and we’ll tell you what we have to do”.

In the literature, most studies concerning auditor independence relate to perceived independence rather than independence in fact (Falk, Frucot and
Zijl, 1995). The following issues relate to perceived independence which have been studied extensively: provision of Management Advisory Services (MAS), competition among audit firms, the size of audit firms, tenure of the audit assignment, the nature of any conflict, the existence or non existence of an audit committee and the financial condition of the client (Gul, Teoh and Andrew, 1992, p. 95). Among these issues, MAS has become the most frequently researched in the perceived independence area.

As argued by Knapp (1982, p. 39) perceived independence has become a focus of the researchers’ attention and independence in fact has not been included. Researchers like Knapp (1982, p. 10) have also supported Shockley (1981, p. 785) argued that perceived independence was of more concern to the public rather than independence in fact, when he made the following statement “...for credibility depends ultimately on the perception rather than on the fact of independence”. Moreover, Falk Frucot and Zijl (1995) argued that auditor independence in fact was not observable ex ante (see also Amernic and Aranya, 1981, p. 17; Beattie et al, 1999, p.68).

2.7. Selected Previous Studies

This section will review selected previous studies on auditor independence. In order to build a frame work of auditor independence and to recognize what other researchers have done in relation to auditor independence, this section will be divided into the following parts: first, theoretical models of auditor independence; and second, a discussion of previous empirical studies on
auditor independence which will be divided into perceptual and archival studies.

2.7.1. Theoretical Models of Auditor Independence

In this section theoretical models of independence will be discussed in order to provide an understanding of auditor independence and its aspects. Some theoretical studies of independence include DeAngelo’s economic model (1981), Antle’s agency theory (1982), Nichols and Price’s Exchange theory model (1976), Flint’s material circumstances to auditor independence (1988) and Goldman and Barlev’s behavioural model of independence (1974).

However, in this present study only the last two mentioned studies will be discussed, viz Flint’s material circumstances to independence (1988) and Goldman and Barlev’s behavioural model of independence (1974). There are two reasons for discussing them. First, this present study focuses on auditors’ perceptions of independence and therefore this study can be considered as a behavioural study, and the study of Goldman and Barlev provides a behavioural approach, which considers how auditors and clients influence one another. Second, Flint’s study provides a discussion of more comprehensive issues. Therefore these models are suitable to be referenced for this study as an aid to help identify and explore the issues to be investigated. The discussion will start with the material circumstances for auditor independence proposed by Flint (1988) and will then be followed by a behavioural model of independence by Goldman and Barlev (1974).
2.7.1.1 Flint's (1988) Material Circumstances Affecting Independence

According to Flint (1988, p. 63) auditor independence is affected by five conditions. These five circumstances are personal qualities, personal relationship, financial interest or dependence, investigative and reporting freedoms, and organizational status. A discussion of these five circumstances follows:

1. Personal Qualities

Independence is heavily dependent on personal qualities. Flint divides personal qualities into probity and strength of character. The probity of an auditor’s personal reputation is supported by the institutional status of auditing as a profession. A member of a professional body is expected to have accepted professional obligations as part of their conduct and to have a concern for the public interest. The auditor is also expected to conform to a code of ethics and to be subject to sanctions in the event of their failing to do so (p. 64). Integrity, objectivity and strength of character are personal attributes which should be possessed by an auditor. In the AUP 32, more detail regarding these personal qualities is given as follows:

*Integrity*- the staunch observance of accepted standards of honesty which must underlie all professional decisions and actions. An auditor who has integrity has a straightforward, honest and sincere approach to professional work;
*Objectivity*- an unwillingness to allow prejudice or bias to influence judgment and the maintenance of a fair and impartial attitude; and
*Strength of character*- the ability to maintain integrity and objectivity in the face of pressure from others. The opinion of the auditors is vital to the credibility of financial reports, and the governing body, recognizing this, may seek to influence the auditor. Without the strength of
character to withstand such pressure, the auditor will not be able to express an independent opinion.


However, according to Flint (1988, p. 64) public confidence is partly dependent on the personal repute of individuals and on the belief in professionalism. This statement is also supported by AUP 32 which states “The personal qualities of the auditor are integral to the maintenance of audit independence, but they cannot be maintained by rules or regulations and it is incumbent upon the auditor to ensure that integrity, objectivity and strength of character have been maintained. However, support for audit independence can be derived from external sources such as legislation and through the self-regulatory procedures of the Society and the Institute” (p. 634). From this, it can be seen that personal qualities will influence the auditor’s independence.

2. Personal Relationship

Another circumstance that may influence independence are personal relationships. “A person is disqualified from acting as auditor if a personal relationship exists which would be liable to influence their mental attitude” (Flint, 1988, p. 64). A spouse, parent or child, employer, employee or any people who will be affected by the outcome of the audit are prohibited from being in charge as an auditor. Flint recognizes this personal relationship as a conflict of interest. Flint furthermore states that receipt of personal favours, gifts or privileges by an auditor could consciously or unconsciously influence the auditor’s mental attitude.

3. Financial Interest or Dependence
An auditor's financial interest in connection with the firm being audited could become a conflict of interest in the mind of the auditor. According to Flint (1988, p.66), the following circumstances, which would result in a conflict of interest, relate to this issue. They generally comprise: investment by the auditor, borrowing by the auditor, settlement of the auditor's remuneration, the auditor as a beneficiary, and a disproportionate fee dependence on an audited organization.

Investment by the auditor in the audited company could lead to a conflict of interest and influence the mental attitude of the auditor. Therefore total absence of investment will remove all doubt (p. 68). Auditor independence is threatened when the auditor and client relationship is like debtor and creditor. This relationship could influence the freedom to investigate and report.

The settlement of the circumstances for the auditor’s remuneration could also be dangerous to auditor independence if clients (or any parties) are in a strong bargaining position to determine the fee size and so clients could bring pressure on auditor independence. A relationship, which could financially benefit auditors such as the use of facilities by auditors, could threaten the auditors’ independence. Auditor independence is also under threat when the audit firm depends heavily on one audited company (client). It is clear that an auditor may tend to give into the clients’ pressures, especially if the audit firm wants to be appointed for the next engagement.
4. Investigative and Reporting Freedom

An auditor is hired to investigate the facts and to attest the reports prepared by management. In doing his job, investigative and reporting freedom are essential, as stated by Flint (1988) “The only basis on which auditors can make an unqualified attestation, report or opinion which will satisfy the needs and expectations of users and fulfil the social function of the audit, is that they should have an unrestricted right of access to all relevant information which exists and which they believe is necessary and that they should be subject to non constraints in attesting, reporting or expressing their opinion as they think appropriate as a result of their investigation” (p. 73). Once the auditor becomes restricted in his access to information and publishing reports, his independence becomes impaired.

5. Organisational Status

The constitutional and organisational arrangement in the appointment of auditors is very important for the independence of auditors. According to Flint (1988), a proper arrangement for the appointment of an auditor would secure the independence of this auditor, conversely an improper arrangement would decrease independence (p. 75). There are at least two conditions to be considered in the appointment of an auditor, these are: conditions of appointment and conditions of operation (p. 76). Furthermore, he asserts that the essential principle in the appointment of an auditor should not be made by the person(s) whose position would be affected by the outcome of the audit. Another thing that can impair auditor independence is, whether or not the auditor renders services other than audit.
2.7.1.2. Goldman and Barlev’s (1974) Auditor-Firm Conflict of Interests

In their study, Goldman And Barlev (1974) identify that the auditor is potentially involved in three conflicts of interest. They also identify the auditor-firm balance of power and propose three ways to reduce the conflict of interests.

2.7.1.2.1. Conflicts of Interest in the Auditing Role

These three conflicts of interest are: first, the auditor-firm (client) conflict of interests; second, the shareholders-management conflict of interests; and last the auditor’s self interests-professional standards conflict. The causes of these conflicts will be illustrated below.

When the shareholders and management have the same interests and when an audited report may cause potential investors not to invest and potential creditors not to lend their credit, and also when the audited report may weaken the value of shares and management comes under criticism, this situation could lead management to try to influence the audited report so it becomes more ‘favourable’. On the other hand, the auditor has to produce the audited report based on the professional standards and therefore this therefore creates a conflict of interest between the auditor and the firm (client).
A conflict of interest can arise between management and shareholders when an audited report is used to evaluate the management’s performance. Management, therefore would possibly try to influence the auditor so that the audited report would be more ‘favourable’ in order to convince shareholders. In this situation, the auditor would be trapped between the shareholders and the management’s conflict of interest.

Auditors, as in other professions, are always tempted to violate their professional standards. For example, auditors by violating standards and tending to agree with the clients’ wishes may have a personal gain but they will have breached their professional ethics. This situation can be viewed as internal conflict between an auditor’s self-interests and his/her professional integrity.

2.7.1.2.2. The Auditor-Firm Balance of Power

Both the auditor and the firm have potential to influence each other. The firm’s main sources of power, according to Goldman and Barlev, can be classified as three in number. These are the ability of the firm to hire and fire the auditor, the ability to determine the auditor’s fees and the ability to determine work conditions.

On the other hand, the auditor’s main sources of power come from the nature of the problem solved, those who benefit from the service and the state of the
auditor’s professional ethics. These three sources of power are expected to enable auditors to withstand the pressure and to be independent.

According to Goldman and Barlev, problems solved by a professional can be both routine and non-routine problems. They illustrate this distinction noting the difference between the medical and the auditing professions. They argued that a physician solves non-routine problems of his client, whereas an auditor solves some non-routine problems, but many issues were familiar and did not require much professional judgement. Therefore they classified the auditor as one who solves routine problems which form part of a continuum. In this regard, it can be seen that the higher the proportion of non-routine problems dealt with by a professional, the more power he/she has against a client.

Benefits from the services rendered by a professional do not always belong to the paying client, as the medical client has a direct benefit from his/her doctor. In this regard, the more services rendered by a professional that directly benefit the client, the more important these services are to the client and the greater the professional’s power. Goldman and Barlev argued that auditors were paid by clients but the services were mainly used by third parties. Consequently, based on the realities that auditors are professionals who solve mainly routine problems and that their services are for the benefit of third parties the auditors are then very vulnerable to clients’ pressure.
An auditor's conduct in performing audit tasks are prescribed by a code of ethics and audit standards. The more the code of ethics and audit standards are enforced, the more the auditors' power increases, and the less the enforcement of the code of ethics and standards, the more the auditors' power decreases.

In their study, Goldman and Barlev (p. 714) also identified two implications of controversial developments from the audit profession namely non-audit services and audit firm size. Non-audit services (as they call management services) have become pro and contra issues. The proponents argue that providing non-audit services to audit clients would not impair auditor independence. Conversely, the opponents believe that providing non-audit services would generate a conflict of interest and finally impair independence. Goldman and Barlev proposed a way out of this dilemma when they suggested that auditors offer non-audit services to audit clients with a limitation. Non-audit services are not involved with the client decision-making process for two reasons. First, the auditors' conflict of interest will be limited, and second, by allowing this, the source of the auditors' power would increase, because most consulting services are non-routine and directly benefit the client firm.

The size of the audit firm has also become an issue in the discussion of auditor independence. Many argue that the larger audit firms are more able to resist clients' pressure because they are not dependent on one client. Also, as quoted by
Goldman and Barlev, found that a national (larger) audit firm would be more beneficial when making a public offering. On this issue, again Goldman and Barlev suggested that it should not be concluded that large audit firms were immune from clients’ pressure. The court cases, they furthermore argued, showed that large audit firms’ independence was not always guaranteed.

In addition to the above, Goldman and Barlev offered solutions to the audit-firm conflicts of interests with the following suggestions: (1) reducing the potential power of management vis a vis the auditor by limiting management’s freedom of action, (2) decreasing the auditor’s flexibility of action, and (3) Changing the auditing role structure.

Limiting management’s freedom can be done by instituting a more difficult process to replace an auditor and by the arrangement of an audit committee chaired by non-directors. Decreasing the auditor’s flexibility by reducing the choice of financial reporting standards is expected to increase the detection of malpractice and therefore would increase independence. The third parties as major users of an auditor’s services have to be protected. Since an auditor has no contract with third parties, the legal liabilities of an auditor to third parties have to be set. This, as stated by Goldman and Barlev is an important issue in increasing independence.

The relationship between a firm’s source of power and an auditor’s source of power is shown below as a model of independence.
Figure 1

**Behavioural Model of Independence**

**Of Goldman and Barlev (1974, p. 712)**

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Intervening variable</th>
<th>Dependant variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm's source of power</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Ability to hire and fire auditor</td>
<td>Amount of firm's power</td>
<td></td>
</tr>
<tr>
<td>(ii) Ability to determine auditor's fees</td>
<td>Auditor's ability to withstand pressure</td>
<td>Behaviour according to professional standards</td>
</tr>
<tr>
<td>(iii) Ability to determine work conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor's source of power</td>
<td>Amount of auditor's power</td>
<td></td>
</tr>
<tr>
<td>(i) Nature of the problem solved (routine-nonroutine)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Beneficiaries from the services (firm, third parties)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) State of professional ethics</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.7.1.3. Agency and Behavioural Theory

The theoretical models discussed above of Flint (1988) and Goldman and Barlev (1974) have inspired the theoretical framework of this present study. The theories inherent in these two studies are agency theory and behavioural theory.

The existence of auditors is derived from agency theory where the shareholders (owners/principals) extend their trust to directors (agents) to run
their business. The principals give authority the agent to do business activities in order to gain profit. Not all agents’ activities are in line with the principals’ interests, for examples inefficiency and business activities that constitute misconduct. In monitoring and controlling the activities of their agent, and also for the needs of third parties such as potential creditors, potential investors and government, shareholders hire auditors to examine corporate financial statements. However, in performing the audit tasks auditors can fall into a conflict of interest as Goldman and Barlev illustrate above. Meanwhile, Flint argues that some circumstances that could affect auditor independence.

The auditors, on the one hand, need to be independent to perform the audit tasks, they have to be professional as set by their professional body, but on the other hand the auditors, as human beings are tempted by a conflict of interest (as introduced by Goldman and Barlev) and circumstances (as identified by Flint). As argued by Ferris and Dillard (1988, p. 282) individual behaviour could be influenced by variety of factors such as environmental, organizational, physiological, psychological, and background. Auditors in this regard, are not an exception. The purpose of this study therefore is to investigate the factors that could affect auditor independence in the context of Indonesian auditors. The next section reviews some selected previous empirical researches.
2.7.2. Previous Empirical Studies on Auditor Independence

This section examines previous empirical studies on the factors influencing auditor independence. The studies can be classified into perceptual and archival. Perceptual studies refer to the studies on auditor independence or related to auditor independence which measure or investigate the perceptions of parties involved in using financial statements such as bankers, financial analysts, stock-brokers, shareholders, and auditors. On the other hand, archival studies on auditor independence refer to studies measuring or investigating auditor independence based on available publications (archives) by analysing the relationship between variables. Selected previous studies have been summarised according to the country base: developing countries, developed countries and cross-countries. Studies on factors influencing auditor independence have been conducted in developed countries such as the US (eg. Shockley (1981); Scheiner and Kiger (1982); Moore (1983; Knapp (1985) Bartlett (1993)), the UK (eg. Firth (1980) and Beattie et al (1999)), Australia (eg. Lindsay, (1989); Wines (1994); Barkes et al (1995); and Craswell et al (1997)), and Canada (Amernic and Aranya (1981)).

Few studies of auditor independence have been conducted in developing countries. Gul and Teoh (1984) and Teoh and Lim (1996) produced auditor independence studies in Malaysia. Supriyono (1988) represents the only study of auditor independence in Indonesia. While cross-cultural studies of auditor independence have been done by Agacer and Doupnik (1991) in three countries which include the US, the Philippines and Germany. Most previous empirical studies are classified as perceptual studies (please see figure 2),

In the Indonesian context, Supriyono (1988) has investigated six factors influencing auditor independence. These include financial interest, competition, non-audit services, audit tenure, audit firm size and audit fee. In collecting data he sent questionnaires to financial chief executives of listed companies, loan officers of banks, auditors and a capital market executive agency. Data collected was analysed by proportion analysis, chi square tests and analysis of variance. He found that all six factors impaired auditor independence.

In the literature, there is a lack of studies investigating entire factors that could affect auditor independence. The previous studies were normally concerned with investigating three to six issues which influenced auditor independence. The previous studies showed that all perceptual research projects used questionnaires in collecting data, and both perceptual and archival studies used a quantitative approach in analysing data. In their questionnaires, the respondents were asked to indicate their perceptions by selecting a dichotomous (yes or no, enhance or impair) or score scale answer (likert scale, the most to the least). It is important to note that although auditor independence is closely related to individual behaviour, there is a lack of

The studies of factors affecting auditor independence can be classified into the following issues/variables. These nine issues are now discussed.

2.7.2.1. Non-Audit Services (NAS)

Since many researchers include the non-audit service issue in their studies, it can be stated that the non-audit services issue is the most researched issue on auditor independence. Providing non-audit services by audit firms to audit clients will increase the question of auditor objectivity and independence (Agacer and Doupnik, 1991). It is clear that, once an audit firm renders non-audit services to its particular client, its independence will be attacked by its conflict of interest, between maintaining its independence and professionalism and following a client’s pressure to gain financial interest. In general, previous studies on the effect of non-audit services to audit clients on auditor independence have had inconsistent findings (Kleinman et al 1998). Some studies have confirmed that providing non-audit services will impair the perception of auditor independence (see Shockley, 1981; Moore, 1983; Lindsay, 1999; Wines, 1994;). On the other hand, the findings of other studies argued that providing non-audit services to audit clients does not affect the perception of independence (see Gul and Teoh, 1984; Pringle and Buchman, 1996).
2.7.2.2. Competition

Competition is one form of relationship among audit firms that is viewed as likely to impair auditor independence. This is because high-level competition could lead to unfair practice among audit firms. A high level of competition among audit firms could result in a difficult situation in seeking and retaining clients and this could lead them to cut or reduce their fee to an irrational level in order to seek and retain clients. Previous studies however have showed this high-level competition among audit firms in a different light. Shockley (1981) and Lindsay (1989) in their studies concluded that auditor competition could impair auditor independence. On the other hand, the study of Knapp (1985) on financial statements users’ perceptions found that competition had no significant effect on auditor independence. Meanwhile, the study of Gul (1989) as quoted by Beattie et al (1999) found that auditor competition has a significant positive impact on auditor independence.

2.7.2.3. Major Clients

The issue of audit fees contributed by major clients to audit firms is also viewed as a factor that could affect auditor independence. The reason is because a large fee contribution generated by a particular client could lead to the dependency of audit firms on that client. However, studies that have investigated this issue have no conclusive findings. The archival studies of Barkess et al (1995) and Craswell et al (1997) did not find any impairment in having major clients. On the other hand, another group of studies found evidence that having major clients could impair auditor independence.
(Supriyono, 1988; Teoh and Lim, 1996; Beattie et al 1999). Study by Kleinman et al (1998) found that auditors maybe more flexible with larger clients.

2.7.2.4. Audit Firm Size

Some audit firms have grown into large international audit firms, frequently called the big-five audit firms. These audit firms are linked world-wide. On the other hand, local audit firms, ranging from one to several partners still exist. Because of the different natures of local/small and large audit firms, the size of audit firms is perceived to be a factor that could affect auditor independence (Shockley, 1981, p. 786). The larger the audit firm, the smaller the contributions of certain clients’ fees, therefore the larger audit firms are less dependent on individual clients (Mautz and Sharaf, 1961, p. 213). This perception has led to several empirical researches. On the size of audit firm issue, previous examined studies have shown a conclusion that the larger the audit firm, the more independent their auditors (Shockley, 1981; Amernic & Aranya, 1981; Supriyono, 1988; Lindsay, 1989; Kleinman et al, 1998).

2.7.2.5. Corporate Audit Committee

It is a dangerous situation where the company’s management is able to appoint and dismiss an auditor. This obviously could put more pressure on the auditor and then consequently the auditor would be reluctant to disagree with the management. Mautz and Neuman (1970, p. 7) stated that a
corporate audit committee is “a standing committee of the board of directors established to work directly with the auditors both independent and internal, as well as with representatives of other accounting related activities as seem appropriate”. Furthermore they asserted that the purpose of an corporate audit committee is to strengthen the audit function within a company and therefore it adds protection both for directors and shareholders (p. 56). A corporate audit committee consisting of non-director members is likely to enhance auditor independence (Wolnizer, 1987, p. 156). This is because the committee which consists of non-director members has no conflict of interest in executing their duties. A Malaysian case study of Teoh and Lim (1996) found that the formation of a corporate audit committee was perceived to have a strong positive impact in enhancing auditor independence. In the UK, Beattie’s et al study (1999) supported Teoh and Lim’s study.

2.7.2.6. Clients’ Directors’ Roles

This issue arises from the fact that the auditor is hired and fired by the clients. In practice, for those who have no corporate audit committee, the client is represented by the directors (as in fact) in dealings with the auditor. This situation could encourage the auditor tendency to seek the directors’ favour where their position is determined by the ‘keenness’ of clients (directors) therefore the auditor would be reluctant to disagree with clients’ (directors’) requirements.
In this regard, the clients’ directors’ roles in relation to an auditor’s appointment, remuneration and audit work is viewed as something that could negatively affect auditor independence. Up to now, not many studies have included this issue in their research. One study conducted by Beattie et al (1999), however has found that clients’ directors roles could impair auditor independence.

2.7.2.7. Audit Tenure

The longer term audit engagements between audit firms and clients are viewed as having a negative effect on auditor independence. This is because the longer their relationship, the more the possibility of an improper relationship between them. As reported by Shockley (1981, p. 789), the US Senate has stated that this is a difficult situation for audit firms to remain independent. “Long association between a corporation and an accounting firm may lead to such close identification of the accounting firm with the interests of its client’s management that truly independent action by the accounting firm become difficult” (the US Senate 1976, p. 21).

Studies on the issue of long association between audit firms and clients have generated inconclusive findings. The study of Supriyono (1988) has supported that view. On the other hand Shockley (1981) did not find significant evidence that audit tenure could negatively affect auditor independence. The study of Teoh and Lim (1996) found that audit firms rotation (in order to limit long association between clients and auditors) is
significant in affecting auditor independence. However, Teoh and Lim found that this potential risk tended to be diminished in large audit firms that had practised audit partners.

2.7.2.8. The Regulatory Role of Professional Body

Flint (1988) suggested that a regulatory agency should monitor the auditors’ conduct and their professional standards in order to maintain public confidence. This is a relatively new issue to be included in research into auditor independence. The idea is that the auditors’ professionalism is supported by the professional body through the enforcing of audit standards. Those who violate audit standards are sanctioned by the professional body ranging from a warning, audit license cancellation or court. The more rigorous the law enforcement run by the professional body, the more motivated is the auditor to comply with audit standards in performing audit tasks, so consequently the auditor can act independently.

The study conducted by Beattie et al (1999) in the UK concluded that regulatory factors could enhance auditor independence.

2.7.2.9. The Clients’ Financial Conditions

The healthier a clients’ financial condition the more likely auditors will have a good image of them and this could make auditors less motivated to resist management pressure (Knapp, 1985; Kleinman et al, 1998), and conversely
Auditors would be more 'careful' when dealing with clients with worse financial conditions. A study conducted by Beattie et al (1999) found that the weak financial condition of a client was perceived by public accountants and financial directors as a factor that could enhance auditor independence. On the other hand, according to the study by Beattie et al (1999) financial journalists viewed the weak financial condition of a client as a factor that could threaten auditor independence. In investigating the audit conflicts perceived by financial users, Knapp (1995) found that a client in a good financial condition was more able to achieve its preferred outcome to an audit conflict.

Figure 2

Summary of Previous Perceptual Studies

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Variables Researched</th>
<th>Research Subjects</th>
<th>Findings/ Results</th>
</tr>
</thead>
</table>
Barlett (1993)
1. Audit Fee Size
2. NAS
3. Contingent Fee
4. Joint Venture with client
5. Budget Pressure

Firth (1980)
1. Auditor-Client Relationship
2. Perception on the importance of audit

1. Factors relate to economic dependence affecting auditor independence.
2. Regulatory factors

Lindsay (1989)
1. Accounting issue in dispute
2. NAS
3. Auditor Competition
4. Audit firm size

Amernic and Aranya (1981)
1. Audit firm size
2. Auditor's level in the hierarchy of the firm.

Single Developing Countries
Supriyono (1988)
1. Financial interest
2. Competition
3. Non Audit Services
4. Audit Tenure
5. Audit Firm Size
6. Audit Fee

Gul and Teoh 1984
The effect of combined audit NAS

Teoh and Lim 1996
1. Audit Committee
2. NAS
3. Disclosure of Non-audit fees
4. Size of audit fees
5. Rotation of audit firms

Continuum perceived independence exists.
Significant different among banker's and auditor's perception.
Understanding of accounting has no effect on evaluation of independence.

No conclusive findings
(in general non independence impaired auditor independence, but a number of respondents in some situation had a converse view.

Factors relate to economic dependence and non audit services are perceived as impairing auditor independence. While regulatory factors (such as audit committee, risk of referral to the Financial Reporting Review Panel and the risk to the audit firm of loss of registered auditor status) tend to enhance auditor independence.

Larger firms appear to be more independent.
Partners appear more independent than employees.

All variables impair independence
Financial interests (78%)
Audit Fee (42%)
Audit Tenure (34%)
Smaller audit firm (27%)
Non Audit Service (8%)

No definite conclusion about NAS, except for shareholders view auditors still remain independent. Not possible to separate MAS from participating in decision making process.

large audit fees generated from client and NAS are factors impairing auditor independence. Rotation of audit firm is not a dominant factor. Audit committee
Cross Countries (Cultural)


Different perception on auditor’s independence existed because cultural background. Harmonisation is not easily brought about, but it does not mean that it won’t happen.

Figure 3

Summary of Selected Archival Researches

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Variables Researched</th>
<th>Archives Used</th>
<th>Findings/Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheiner and Kiger (1982)</td>
<td>Type of NAS Percentage of NAS</td>
<td>Clients’ Financial Statement</td>
<td>Tax services as the largest NAS Less traditional accounting comprise small part of NAS</td>
</tr>
<tr>
<td>Wines (1994)</td>
<td>NAS</td>
<td>Financial Statements of Listed Companies</td>
<td>Higher level of NAS will impair auditor independence</td>
</tr>
<tr>
<td>Barkes, Simnett and Urquhart (1995)</td>
<td>1. The level of fee dependence in Australia. 2. The effect of fee dependence to the audit independence.</td>
<td>Financial Statements Audit population</td>
<td>No audit dependence more than 15% in Australian context. No impairment auditor's independence in this regard.</td>
</tr>
<tr>
<td>Pringle and Buchman (1996)</td>
<td>Effect of NAS to audit opinion</td>
<td>Financial Statement of public companies</td>
<td>NAS does not impair auditor independence</td>
</tr>
<tr>
<td>Kleinman, Palmon and Anadarajan (1998)</td>
<td>Synthesising between theory and empirical studies on auditor independence</td>
<td>Main previous studies related to auditor independence</td>
<td>Larger firm likely to be more independence, healthier clients negatively affect independence, NAS are inconclusive, partners’ fee compensation negatively affect independence, litigation affect auditor independence, positive association between audit fees, client size and complexity variables, auditors be more flexible with larger clients</td>
</tr>
</tbody>
</table>
2.8. Summary and Conclusion

The chapter has discussed two main topics: first, the nature of auditing, services offered by auditors, type of audits and auditors, and the need for an independent auditor; and second, the theoretical model of auditor independence. It has reviewed selected previous empirical studies both perceptual and archival on auditor independence.

In the first section, auditor independence was found to be the essence of auditing. Therefore auditors have to maintain their independence in their work engagement in any situation and conditions, otherwise their output and audited financial statements will be unreliable. However, auditor independence is still a debatable issue at present.

Even though professional bodies claim that auditors should be independent, many researchers do not agree that auditors are (can be) independent (see Hendrickson, 1998; Jeppesen, 1998). Reiter (1997) supported Hendrickson and Jeppesen by stating that auditor independence may not be the kind of conflict that can be solved (p. 306).

Hendrickson (1998) for example, suggested that auditors are not independent because of the auditor-client basic relationship. Because the client who can pay and terminate the audit appointment is their employer, it is impossible for the auditor to be independent. This view was also supported by The Cohen Commission, which stated that “the independent auditor is selected and paid by someone affected by his work. Consequently, total independence is a
practical impossibility” (Clikeman, 1998, p.40). Auditors have a conflict of interest, in that they have to maintain their professionalism and at the same time they have their own economic interest to attend to.

On the other hand, some researchers have proved that auditors could still be independent when non-audit services were offered and there was no impairment of independence in relation to fee dependence (Barkes, Simnett and Urquhart, 1995; Craswell, Laughton and Stokes, 1997). This opinion was also supported by the Accounting Professional Bodies, which guide their members to be independent and this indirectly means that being independent is not impossible in their view.

In the second part of this chapter, the theoretical model proposed by Flint (1988) and the behavioural model of Goldman and Barlev (1974) were discussed. The reasons for adopting these models into this present study are because this present study is behavioural since it takes social and cultural values into consideration, and the completeness (comprehensiveness) of the two models would provide a proper framework on auditor independence. The agency and behaviour theories are inherent in these two models.

The second part of this chapter also discussed the previous empirical studies both perceptual and archival. As can be seen most of the empirical studies were perceptual studies while there were only a few archival studies. In the perceptual studies, all researchers measured the perceptions, of involved parties, of audited financial statements by sending questionnaires in a data
collection process. All data collected were analysed through the use of statistics to test their hypothesis. In the archival studies the researchers used publicly available data such as financial statements or other sources of information and then they looked for relationships between the variables.

In the literature all previous empirical studies used a quantitative approach. All the studies researched particular or certain factors ranging from two to six variables and there was no study involving all factors. According to the available literature there were no previous studies of auditors’ own perceptions of their independence involving the auditors’ culture, except for Agacer (1987) who investigated auditors’ perceptions from three different countries.

Because of the lack of studies using a qualitative approach, and because no studies investigated all the factors and because of a lack of previous studies which involved the auditors’ socio cultural values, this present study will investigate auditors’ perceptions of factors that could affect auditor independence using a qualitative approach and involving auditors’ socio-cultural values. The study is concerned with auditors in Java, Indonesia.

The following chapter will discuss the research strategy and the methods used in this study.
CHAPTER THREE

Research Methods

The Seminar
Qualitative Researcher: “Many people these days are bored with their work and are ....”
Quantitative Researcher (interrupting): “What people, how many, when do they feel this way, where do they work, what do they do, why are they bored, how long have they felt this way, what are their needs, when do they feel excited, where did they come from, what parts of their work bother them most, which...”
Qualitative Researcher: “Never mind.”
Van Maanen (1983, p. 7)

3.1. Introduction

Research methods are the ways by which knowledge is acquired and constructed within a discipline (Harvey & Myers, 1995, p. 13). In general, research methods or approaches can be categorized as: quantitative and qualitative. The quantitative approach is heavily based on measurement and analysis of causal relationships between variables, not processes (Denzin, 1994, p. 4). It is defined as “an inquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers, and
analyzed with statistical procedures, in order to determine whether the predictive generalizations of the theory hold true" (Creswell 1994, p.2). This approach normally involves laboratory experiments, sample surveys, statistical and hypotheses testing. This approach is also frequently referred to as mainstream, scientific or positivistic.

On the other hand qualitative research is defined by Creswell (p. 2) as "an inquiry process of understanding a social or human problem, based on a building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting". Similar attributes of qualitative research have also been addressed by Denzin (1994, p. 4), he states that in a qualitative approach, processes and meanings are not rigorously examined in terms of quantity, amount, intensity or frequency. Furthermore, he asserts that a qualitative approach stresses the socially constructed nature of reality, the closeness between the researcher and what is studied, and the situational constraints that shape inquiry. This approach normally involves case study, participant observation, ethnography, and in depth interview. This approach is frequently referred to as critical, naturalistic, hermeneutic, interpretive, participatory or phenomenological.

This present study is an ethnographic, qualitative study. In the following parts of this chapter, the rationale for selecting a qualitative approach will be discussed. This is then followed by a discussion of the research site, and including accounting development, the accounting professional body, requirements for being an independent auditor and auditor independence
itself in Indonesia. This is followed by the research design including data collection methods, data analysis, and the role of the researcher. Finally the chapter will end with a summary and conclusion.

3.2. Rationale for Selecting A Qualitative Approach

To date, most (if not all) studies concerning the perceptions of auditor independence in the literature have been conducted by a quantitative approach (see for examples: Shockley, 1981; Knapp, 1985; Bartlett, 1993; Firth, 1980; Lindsay, 1989; Agacer, 1991; Supriyono, 1986 and so on). All the studies reviewed in chapter two of this thesis have used questionnaires as a data collection method, and analysed data by the use of statistics. The questionnaires of most studies have used a likert scale to measure the responses of respondents. Some of them used more simple 'yes or no' responses. In the outcomes of this research, they try to generalize the findings.

There are some criticisms of the quantitative approach particularly those involving survey and experimental research. Gummesson (1988, p. 141) for example compares eleven differences between the two approaches. Hammersley (1992, p. 11) criticizes the quantitative approach by stating:

1. That the structured character of the data collection process involves the imposition of the researcher's assumption about the social world and consequently reduces the chances of discovering evidence discrepant with those assumptions.
2. That making claims about what happens in 'natural' settings on the basis of data produced in settings that have been especially set up
by researcher -whether experiment or formal interview- is to engage in a largely implicit and highly questionable form of generalization.

3. That to rely on what people say about what they believe and do, without also observing what they do, is to neglect the complex relationship between attitudes and behaviour; just as to rely on observation without also talking with people in order to understand their perspectives is to risk misinterpreting their actions.

4. That quantitative analysis reifies social phenomena by treating them as more clearly defined and distinct than they are, and by neglecting the processes by which they develop and change.

5. That quantitative analysis assumes that people’s actions are the mechanical products of psychological and social factors, thereby neglecting the creative role of individual cognition and group interaction.

A quantitative approach enables a larger number of subjects over a wider area to be reached, but it has limitations in terms of intensity, depth and comprehensiveness. This is because the research subjects are not able to express their perceptions or opinions frankly and deeply, because they are normally asked only to respond by putting a check mark on the questionnaire sheets.

Based on the discussion above, it is obvious, that there is an urgent need in the literature to study auditor independence by using a qualitative rather than a quantitative approach. Therefore an in-depth interview can be a better alternative in investigating auditors’ perceptions on independence than sending a questionnaire, because through an in-depth interview the researcher will achieve much richer data and extensive perceptions about independence. This is possible because the interviewee will provide more responses, and they will talk more frankly.
The nature of the research questions of this study also request a broader and deeper answer. A quantitative research approach would not be sufficient to provide these. The qualitative research approach therefore, will be a better choice in this regard.

Creswell (1994, p. 17) argues that there are eight reasons for choosing a qualitative approach. These are: (1) the nature of the research questions; (2) the need to explore the topic; (3) the need to present a detailed view of the topic; (4) the desire to study individuals in a natural setting; (5) the interest in writing in a literary style; (6) sufficient time and resources; (7) the audiences are receptive, and (8) to emphasize the researcher’s role as an active learner who can tell the story from the participants’ view rather than as an expert who passes judgment on a participant.

3.3. Research Site

This section introduces the research site to the study in order to generate an understanding and familiarity about the case. This section therefore starts with the location of the research, accounting development in Indonesia, then follows a discussion of the accounting professional body, the requirements for public accountants, and auditor independence in Indonesia.

3.3.1. Location of the Research

The people who are researched in this study are Indonesian auditors who practice in Jakarta and Bandung. The reason for selecting Jakarta is because Jakarta is the capital city of the country and a large multicultural city. Auditors
in Jakarta come from a range of cultural and religious background. Major cultures including Javanese, Sundanese, Batakinese, Padanginese, Indonesian Chinese and Arabian exist in Jakarta, and various religions also such as Islam, Christianity, Hindu and Buddhism and others. All big five-audit firms are also located in Jakarta, as well as medium and small audit firms.

Bandung is a provincial city and is little different from Jakarta. It has various cultures and there are small and medium audit firms as well as branches (representatives) of the big-five audit firms.

As well as the above reasons, the accessibility and availability of interviewees in Jakarta and Bandung were important factors to be considered.

3.3.2. Accounting Development in Indonesia

Abdulkadir (1982) classified the history of accounting in Indonesia into three phases (1) Before World War II; (2) During World War II; and (3) After Indonesian independence. In the first phase, he asserted that accounting in Indonesia has developed since 1642 when the Dutch Governor General of East Indies (Indonesia) issued a regulation regarding the administration of cash receipts, receivables and the budget for garrisons and ship-dockages in Batavia (Jakarta) and Surabaya (p. 28), while the first public accounting office in Indonesia was opened in 1918 by Frese and Hogeweg (p. 29).
During the World-War II phase, the Japanese took over the occupancy of Indonesia from the Dutch government. In this phase as reported by Abdulkadir, many positions in the Ministry of Finance were offered to Indonesians. This was a starting point for Indonesia people to become involved in accounting.

After its independence, the Indonesian government sent students to the UK, the Netherlands and the US to study accounting. However, since the 1960s the influence of Dutch accounting was replaced by the influence of US accounting. To date, all matters that relate to accounting and auditing standards are mirroring the US situation.

3.3.3. Accounting Professional Body in Indonesia

There is only one accounting professional body in Indonesia namely the Ikatan Akuntan Indonesia (The Indonesian Institute of Accountants). It is commonly abbreviated as IAI and located in Jakarta. It was established on 23 December 1957 by Prof. R. Soemardjo Tjitrosidojo and another ten Indonesian senior accountants.

To date, according to the official website of the IAI, the membership of the IAI numbers more than 5,000 accountants. This number can still be increased, because the number of Indonesian accountants who hold an accountant’s certificate is about 20,000. Compared to the population of Indonesia which is over 200 million, the number of accountants is still very small.
Membership is compulsory for those who will engage as public accountants and voluntary for the rest as regulated by the decree of the Finance Minister No. 43/KMK.017/1997. The members are spread throughout Indonesia, especially in the big cities. They work as internal auditors, independent auditors, tax accountants and in top management at many business institutions.

The Institute holds its congress every four years. In addition to this, the Institute also conducts seminars, continuing professional education, and training and education and it also conducts the Public Accountant Certification Exam and produces professional publications. It’s also able to look after and provide training or advice for small business enterprises.

3.3.4. The Requirements for the Public Accountant

According to the Use of the Title of Akuntan (Accountant) Act No. 34 1954, to be eligible to practice as a public accountant in Indonesia, they have to:

1. Hold a sarjana (equivalent to Bachelor) majoring in accounting from the following state Universities (University of Indonesia, Gadjah Mada, Airlangga, Diponegoro, Andalas, Syah Kuala), State College of Accountancy, and all graduates from private universities majoring in accounting who have passed the state examination and passed in the Basic Accounting and Professional Accounting State Exams.
2. Register to the State Registration under the Finance Department and possess a licence to use “Ak” (Akuntan/Accountant) behind their name.
3. Working as auditor by using a Public Accountant Office name, Accounting Bureau, or other name which contains name of accountant or accounting is only allowed if the office or bureau is operated under one or more accountants.
However, in addition to the above Act, the current decree of the Finance Minister No: 43/KMK.017/1997 has renewed the requirement for accountants to be able to practice as a public accountant in Indonesia as follows:

1. Living in Indonesia
2. Pass the Public Accountant Certification Exam
3. Member of Indonesian Institute of Accountants
4. Experience as an accountant with a good reputation for at least three years.

3.3.5. Auditor Independence in Indonesia

In Indonesia, auditor independence was regulated for the first time in 1973 at the IAI’s congress (Supriyono, 1986, p17). Furthermore, Supriyono asserts that the auditor code of ethics has changed twice, in 1981 and 1986.

The Professional Standards of The Indonesian Institute of Accountants (SPAP) states that an auditor has to be independent, that means the auditor must not easily be interfered with, because the auditor serves the public interest (IAI, 1996, p.220.1). However, the Professional Standards do not mention auditor independence clearly. The Institute’s Code of Ethics also does not state auditor independence completely, it only states that the auditor must be independent in fact and in appearance. Furthermore, Mulyadi (1994, p. 47) states that so far the Indonesian Institute of Accountants has no complete definition and regulation. The code of ethics therefore is adopted from the AICPA.
3.4. Research Design

3.4.1. Why Ethnography

Ethnography has a long and distinguished history among qualitative methods (Sanday, 1983, p. 19). There are many definitions of ethnography, and this is still a controversy (Atkinson & Hammersley, 1994, p. 248). The word ethnography, however is formed by two words, ethno that means folk and graphy which means description (Schoepfle, 1987, p. 42). Schoepfle, furthermore defines ethnography as “the study of another culture and therefore the study of the ethnocentrism of natives” (p. 42). In a short definition, it can be stated that an ethnographic study is a study about culture. The fundamental purpose of ethnography, therefore as stated by Spradley (1979, p.3) is to understand from the native perspective, another way of life.

Spradley (p. 7) states that ethnographers observe behaviour, artefacts and natural objects, but ethnographers go beyond behaviour, artefacts and natural objects to discover the meaning assigned to them. Ethnographers therefore not only observe and report what people say, but ethnographers also analyse the meaning of what people say and what people do about what they say.

The main purpose of this study is to discover and learn about auditor independence and factors affecting it as it concerns Indonesian auditors in Jakarta and Bandung. The study, as already mentioned, will consider the effects of auditors’ local culture, religion, work environment, ages, authority/position, sex, and the experiences of the auditors’ perceptions on
independence and related matters. This area of study needs to be investigated thoroughly and it is obvious that cultural nuances will be inherent to this study.

According to Hammersley (1992, p. 12) ethnography is a qualitative method that can be applied to this study in order to answer these needs. Furthermore, he states that ethnography can provide a theoretical analysis or thick description. He also claims that ethnography can integrate description and theory. From these rationales, an ethnographic qualitative method will be suitable for this study.

3.4.2. Data Collection Method

3.4.2.1. Semi-Structured Interviews

Data collection in this study is based on interviews with twenty-nine auditors. In terms of structure, Krathwohl (1998, p. 288) states that interviews can be categorised as structured or relatively unstructured. The sort of interview used in this study was selected, based on the purpose of the research. Sarantakos (1993, p. 178) states that structured interviews are based on a rigorous procedure and heavily structured questions. The use of this type of interview is associated with survey research (May, 1997, p. 100). May (1997, p. 110) furthermore, asserts that structured interviews allow the researcher to compare between responses.
While unstructured interviews, conversely have no strict procedures to follow like the wording of questions, the order of questions, or the interview schedule (Sarantakos, 1993, p. 178), by using unstructured interviews, the researcher has an aim in mind but the interviewee can be free to talk about topic (May, 1997, p. 113).

For the purpose of this study, the researcher expected to be able to compare the responses through the use of a confirmation survey, one of the data collection methods proposed by LeCompte & Goetz (1984, p. 45), to verify the issues raised with the auditors and to make a comparison between the auditors’ responses. Therefore a semi-structured interview that lies between a structured and an unstructured interview, seems to be the best choice for this study. As suggested by Fetterman (1998, p. 481) the “...semi-structured interview is the most valuable when the fieldworker comprehends the fundamental of a community from the ‘insider’s’ perspective. At this point, questions are more likely to conform to the native’s perception of reality than to the researcher’s”.

In conducting the interviews, I (the researcher) used the list of questions (ten issues) as an interview guide and also explored ‘immediate’ questions depending on the issues raised in the interview.
3.4.2.2. Criteria for Selecting Interviewees

In order to gain information from the ‘right sources’ with comprehensive views, in selecting interviewees, LeCompte & Goetz (1984, p. 46) suggested the researcher meets the representativeness of the objects being researched. In this research therefore, interviewees come from:

- Big five and non big-five audit firms
- Partners and non-partners
- Experienced and less experienced
- Male and Female
- Various religious and cultural backgrounds

All the interviewees from the non big-five audit firms are partners. On the other hand, the interviewees from the big-five audit firms are partners, managers, assistant managers and supervisors. The reason for selecting partners in the non big-five audit firms, was because the number of employees in this type of audit firm is normally less than fifty. Therefore the hierarchy of audit firms is not very ‘complicated’. Meanwhile, the hierarchy of the big-five audit firms is more complicated. The number of employees (in the Jakarta office) is also very big, normally from about three hundred to a thousand. For of these reasons, the interviewees from the big five need not necessarily be partners of those firms, but managers or supervisors seem to be appropriate for this research.

To know whether culture and religion affect auditors’ perceptions of independence, cultural and religious backgrounds, are also considered in
selecting interviewees. The interviewees consist of Moslem and non-Moslem auditors, Javanese and other local cultural groups, and males and females.

3.4.2.3. Interviewees' Profiles

Twenty-nine auditors were interviewed for this study. This number was not predetermined in advance. The reason for this number is because the study deeply investigated the interviewees' responses and therefore a larger number of interviewees was not possible due to the limitations of time, funds, and other resources. As stated by Goetz and LeCompte (1984, p.164) "data collection usually ends because time, energy, funds, and forbearance have been exhausted rather than because the sources of information have been depleted".

The process of selecting interviewees was based on the criteria determined above. This study interviewed twenty-nine auditors with the following backgrounds. Sixteen of them were members of the big five (six partners, one director, one senior manager, three managers, three assistant managers, and two supervisors) and the rest (thirteen) were partners of non-big five audit firms. Twenty of them were male and nine were female auditors. Twenty-one auditors were Moslems and eight were Christians (6 Catholic, 1 Adventist and 1 Protestant). Their cultural backgrounds were various: Javanese, Chinese, Sundanese, Menado, Padangnese, and Arabic. Their ages ranged from twenty nine to seventy six years. The length of work experience was from five to forty years. The levels of a formal education background were
from bachelor to doctor level, there were twenty-one bachelor degrees, six master degrees and two doctoral degrees. The complete profiles of interviewees have been tabulated in Appendix A.

With the interviewees profiled above, it was expected that the interviewees could provide complete and comprehensive responses, as LeCompte and Goetz (1984, p. 46) suggest to meet ‘representativeness’ of the object being researched.

3.4.3. Data Analysis

Brewer (2000, p.188) defines data analysis as “the process of bringing order to the data, organizing what is there into patterns, categories and descriptive units, and looking for relationships between them”.

There is no consensus among researchers as to the forms of analysing qualitative data (Creswell, 1998, p. 140). Marshall and Rossman (1999, p. 152) for example, identify analytic procedures into six phases. These are: (i) organizing the data; (ii) generating categories, themes and patterns; (iii) coding the data; (iv) testing the emergent understandings; (v) searching for alternative explanations; and (vi) writing the report.

On the other hand, Miles and Huberman (1984, p. 21) state that data analysis involves three sub-processes: data reduction; data display; and conclusion drawing/verification. Data reduction ‘refers to the process of selecting, focusing simplifying, abstracting, and transforming the ‘raw’ data’ (p. 21).
They assert that data reduction is part of analysis. Data display refers to ‘an organized assembly of information that permits conclusion drawing and action taking’ (p. 21). This involves assembling data into displays like matrices, charts, graphs, and networks. This process is considered to be analytic activities. Conclusion Drawing is ‘beginning to decide what things mean, noting regularities, patterns, explanations, possible configurations, causal flows and propositions’ (p. 22).

Wolcott (1994b) prefers to use the term transforming rather than analysing data. For him, transforming qualitative data involves three phases, these are: (i) description (addresses the question ‘what is going on here?’); (ii) analysis (addresses the question ‘how things work?’); and (iii) interpretation (addresses the question ‘what does it all mean?’) (p 12).

However, if the analytic procedures above are looked at carefully, it seems that all of the researchers have common features for analysis strategies (Creswell, 1998, p. 140). Their common features include grouping data into meaningful segments, analysing it to compare contrasting and identifying patterns that shed light on the beliefs and practice of the people being studied (Roper and Shapira, 2000, p. 94). This study however, follows the combination of the analytic procedures developed by Wolcott (1994b) and Miles and Huberman (1984) in analysing qualitative data for two reasons. First, by borrowing the transforming qualitative data of Wolcott, the researcher will be able not only to analyse what the auditors said, but also be able to analyse the meaning of what they
have said. Second, by using data reduction, display and conclusion drawing on Miles and Huberman (1984), the researcher will be able to organise and present data in a comparable format between responses.

### 3.4.3.1. Organizing, Analysing and Interpreting Data

Data in this study was collected by interviews with twenty-nine auditors in the Indonesian language. Therefore, organizing and presenting data in this study includes the following steps: (i) transcription; (ii) translation; and (iii) data reduction and pattern coding.

In the transcription process, twenty-nine taped interviews were transcribed 'still' into the Indonesian language. After typing all the interviews, the data were translated from Indonesian to English. At this stage, the interviews remain in individual (twenty-nine) question and answer formats.

The next step was data reduction. Data reduction according to Miles and Huberman (1984, p.21) refers to the "process of selecting, focusing simplifying, abstracting, and transforming the 'raw' data". The raw data was selected and focused to be able to answer research questions. Therefore in this step some data that did not relate to the research questions was not used.

Two ways to organize and present data were taken. First, the data collected is presented and organized based on the order the issues were raised in the interviews, this is what Wolcott (1994b, p.18) calls the 'researcher order'.
Second, data is presented from broader to particular issues, this is what Wolcott (1994 b, p. 18) calls ‘progressive focusing’.

To allow the researcher to be able to compare responses, data is presented based on issue/questions in order to answer the research questions. Therefore, data is presented based on the classification of issues raised from interviews in ‘question-answer’ format.

After having classified interviews based on the issues, the next step is pattern coding. According to Miles and Huberman (1984, p. 68) pattern coding is a way of grouping summarised segment data into a smaller number of overarching themes or constructs. Furthermore, they identify the importance of pattern coding as follows:

1. It reduces large amount of data into a smaller number of analytic units.
2. It gets the researcher into analysis during data collection, so that later data collection can be more focused.
3. It helps the researcher build a cognitive map, an evolving schema for understanding what is happening locally.
4. When several researchers are engaged in individual case study work, it lays the groundwork for cross-site analysis by surfacing common themes and causal processes.

(Miles and Huberman, 1984, p. 68)

In doing pattern coding, the interviewees’ answers for each issue are classified into ‘key answers’. For example, on the issue of the effect of
providing Non-Audit services to auditor independence, each answer can be classified as ‘impair independence’, ‘no effect on independence’ or ‘not sure’. Then, after having classified twenty-nine answers into key answers for this issue, all key answers are listed to identify pattern regularities. In accounting and auditing studies, Beattie and Fearnley (1998) have used the pattern coding technique for their interview study of auditor changes and tendering.

Data reduction and data display cannot be separated as an analysis process (Miles and Huberman, 1984, p. 22). After having reduced and pattern coded, data then be analysed on an individual issue basis. Ten main issues were raised from the interviews. In analysing them, the researcher used the ways to analyse data, proposed by Wolcott (1994b). Analysis according to Wolcott (1994b) includes highlighting findings then displaying them by using charts, diagrams and figures. Then the researcher follows and reports ‘systematic’ fieldwork procedures and also searches for pattern regularities. He also suggests the comparison of the cultural group to others, contextualising it in a broader analytical framework, a critique of the research process, and also proposes a redesign of the study.

Through interpreting the data, the researcher can explain or report not only what the people said but explain the meaning of what the people said. In this part, the researcher will relate the research findings to theory. The relationship between personality, culture, religion, and regulation with auditors’ independence are discussed.
3.5. Getting Access

In order to gain access to the potential interviewees, I (the researcher) used two approaches, formal and informal, to maximise the expected responses. I used a formal approach to the big-five audit firms (except for one), and both formal and informal approaches for all non-big five audit firms. This was because, the big-five audit firms are big organizations and therefore it was not possible to approach them on a person to person basis. They have certain departments to handle people wanting to do research. On the other hand, the non-big five audit firms have small hierarchies and therefore informal approaches in addition to formal were possible.

The first step in preparing a formal approach to gain access was to provide a support letter from my supervisor that explained the purpose of the research and the intent to interview auditors. This letter was considered to be powerful enough to convince the potential interviewees of my interest and seriousness. After having listed all the big-five and ten non-big five audit firms, I sent them a letter requesting interviews with their partners (for the non-big five audit firms) and with partners and managers (for the big five audit firms). In the letter I told them of my research proposal, and asked them for an interview of one to two hours duration. I also asked them to indicate the time and the preferred place for the interviews. In addition to the letter I sent, I attached the supporting letter from my supervisor. In addition to that, for the non-big five audit firms I also made informal approaches. In doing this, I was helped by my colleagues who contacted them (non big five audit partners) to ask them to help me.
In terms of time of responding to my letter, their responses were various. All the big-five audit firm ranged from two days to a week. All their responses were “Your letter is being circulated to those who will be able to be interviewed. Once I have one, I will contact you again”. These responses were very understandable, since all of the big-five audit firms are big firms, and have at least ten to thirty partners, and three hundred to about a thousand staff.

In contrast, the ten non-big five audit firms quickly responded to my letter with ‘final’ answers. Seven audit firms said that their partners were able to be interviewed and they provided a time and place preferred for interviews. This was I thought because at that time they were available and also the ‘power’ of the informal approaches of my colleagues had worked. Another three non-big five audit firms, said sorry they were not able to provide a time for interviews because they were away from the office. At this stage, I had access to seven non-big five audit firms.

In the following week (second week) I started to receive some good news from the big five audit firms. At the end of the second week, I had second responses from all big five firms. Four big five audit firms were able to be interviewed. While one big five audit firm was not able to provide me with an interview, because they were very busy at that time. In my opinion, interviews with four of big five audit firms was a positive start for getting information and understanding on auditor independence, but an interview with all big-five audit
firm would have been better. Therefore, I tried to approach a colleague to contact a partner from that big-five audit firm informally. Fortunately, once again, because of the power of the informal approach, one partner from that firm, gave me time for an interview. I then had appointments for interviews with all big five-audit firms and seven non-big five audit firms.

However, during the interview period, some interview schedules were cancelled. Therefore, I rearranged new schedules for those interviews. Within two months, from the beginning of gaining access, my interviews were completely done. Twenty-nine auditors were interviewed for about ninety minutes on average. These twenty nine auditors were thirteen partners from seven non big five audit firms and sixteen auditors from big five audit firms with the following levels: six partners; one director; one senior manager; three managers; three assistant managers; and two supervisors.

3.6. Role of the Researcher

In this research, I (the researcher) cannot be detached from the research process. In the analysis process, I (the researcher) have used analytical, interpretive and critical abilities to seek to understand the issues and phenomena reported by the interviewees. Therefore, the subjectivity of the researcher in this study is involved and I (the researcher) cannot be objective.
3.7. Summary and Conclusion

The purpose of this chapter has been to describe the research methods applied in this study. The chapter has described the purposes of the study. This chapter has discussed the rationale for using an ethnographic, qualitative approach since all previous studies used a quantitative approach. General and particular research questions as interview guidelines have been identified. The research sites including the location of the research and other relevant issues such as accounting development and the accounting professional body in the research site, requirements for public accountants, and auditor independence in the research site have been discussed.

In the research, designed, semi-structured interviews have been selected to collect data from the auditors. Criteria of potential interviewees and actual profiles of the interviewees have been described. There are four stages in the data analysis: first, summarising the interviews data (Miles And Huberman, 1984); second, pattern coding to classify the category (Miles and Huberman, 1984); third, making a description of data summarised and pattern coded (Wolcott, 1994); and fourth, analysing and interpreting data (Wolcott, 1994). The process of getting access to the research site has been described in the chapter. The role of the researcher was also discussed.

The next five chapters will discuss the research findings.
CHAPTER FOUR

Audit Firms’ Characteristics:
Their Sizes and Services

4.1. Introduction

This thesis investigates the beliefs and perceptions, held by auditors, of factors that could affect auditor independence. So this chapter and the next three will discuss the findings concerning these factors. The central theme of this chapter is to discuss the effects of the characteristics of audit firms on auditor independence. The findings show that characteristics such as firm size and non-audit services offered could affect an auditor’s independence.

The audit firms can be classified into big, medium and small firms. In this study, however, audit firms have been classified as the big-five and non-big
five audit firms. The reason for this is because there is no clear cut-off between small and medium audit firms. On the other hand, the big-five audit firms can easily be distinguished from the other ones.

In terms of services offered by audit firms to audit clients, audit firms can be classified as to whether they offer non-audit services in addition to audit services. This chapter contains two major sections dealing with audit firm size and non-audit services. Each section contains an introduction, the effect of the issue discussed on auditor independence, the reasons why the issue discussed affects/does not affect auditor independence and a discussion of the issues. Finally the chapter ends with a summary and conclusion.

4.2. Audit Firm Size

Audit firm size is considered to be one of the issues that could affect auditor independence. This is because the larger audit firms are considered to be more independent for at least two reasons. First, because of the firms’ size, the audit fee generated from a particular client constitutes a smaller percentage of the audit firm’s total revenue. Second, larger audit firms normally have many divisions to provide the services needed by clients, and therefore the person who audits the client would be different from the person who provided non audit services. On the contrary, the situation at a small audit firm differs as an auditor handles more varied duties and also the audit fee generated from a particular client constitutes a larger percentage of audit firm total revenue.
From this situation, there is a proposition that auditors from a larger audit firm would act more independently than auditors from a smaller audit firm. Therefore, this study aims to investigate auditors’ perceptions as to whether audit firm size could affect auditor independence or not.

4.2.1. The Effects of Audit Firm Size

To investigate the effects of audit firm size on auditor independence, twenty-nine auditors were interviewed, sixteen were from the big-five audit firms (Arthur Andersen, Deloitte, Ernst and Young, KPMG, and Pricewaterhouse Coopers) and thirteen from non-big five audit firms. The sixteen auditors from the big five included partners, directors, senior managers, managers, assistant managers and supervisors. The thirteen auditors from small and medium audit firms were all partners.

This configuration of interviewees is expected to give a proper representation in terms of audit firm size, because they all come from different sized audit firms. All the interviewees were asked about their perceptions as to whether auditor independence was affected by audit firm size (their audit firms) or not, using the following question, “Do you think auditor independence is affected by audit firm size?” To aid understanding of the issue being discussed, before asking that question they were told that there was a proposition that the bigger the audit firm the more independent would be their auditors, and in the smaller the audit firm the auditors would be less independent.
From the twenty-nine auditors interviewed, there were two main answers. Seventeen auditors did not agree with the proposition, and twelve auditors agreed with the proposition with some ‘notes’. The interviews on this issue are summarized in Appendix 1.

4.2.1.1. Auditor Independence: A Personal Matter

Of the seventeen auditors who did not agree with the proposition that audit firm size affected independence, nine of them worked for a big-five audit firm and seven auditors worked for a non big-five audit firm. They did not agree with the statement for the following three reasons.

The first reason was that because independence is a personal matter, auditor independence was not caused by the size of the audit firms where the auditors work but rather it depended on the auditor’s integrity and personality. As stated by Mr. E, a big five audit partner.

I don’t agree with that statement, because that statement is too generalized about people’s character. I believe that independence is an individual matter, so where they work will not necessarily affect their independence. I can be independent in this audit firm, not because of this firm but because of my integrity and personality as an auditor. However, it doesn’t mean that the above statement is completely wrong. Public opinion, I think is constructed by the existence of audit firms themselves. I mean the bigger the audit firms, the better their management, the better their job description and distribution. The smaller the audit firms, the more centralised decisions will be made by staff, which will lead to conflict of interests. Therefore, in my opinion that statement is a general statement that we need to be careful of in order to avoid misleading statements. (Mr. E)
The second reason they argue is that there are some auditors from the big five who compromise auditor independence. It is not necessarily that the big five auditors are always independent. It is because the big five auditors sometimes also ‘compromise’ their independence, as stated by Mr. B, a non big-five audit partner.

I don’t agree with that statement, I know that some auditors from big audit firms some times have their independence impaired. In my opinion the thing that can make a difference between a big audit firm and a small audit firm is only prestige. (Mr. B)

Another reason why auditors object to the statement is because it is viewed as a general statement, and they prefer to view the situation on a case by case basis. However, this group of auditors does not totally disagree with the proposition saying that the bigger the audit firm, the more independent their staff. They view big audit firms as being better in terms of management, job description and distribution and, this view can be seen in the statement of Mr. E.

### 4.2.1.2. Large Audit Firms: Building Confidence, Less Dependence

On the other hand, there were another twelve auditors who agreed with the opinion, that the larger the audit firms, the more independent their auditors. These twelve auditors mentioned the following reasons for their agreement with the statement.
According to this group of auditors, the first reason why audit firm size could affect auditor independence is because they perceive that the bigger the audit firms the more clients they have. Therefore, big firm auditors will depend less on individual clients compared to small firm auditors who have a lesser number of clients. This situation would improve the confidence of big firm auditors from the threat of losing clients, so consequently big firm auditors would be ‘more’ independent compared to small firms auditors. The following statement of Mr. A, a partner of a non-big five audit firm clarifies this situation.

I believe that auditors who work in a bigger audit firm will be more independent than auditors who work in a smaller audit firm. Because the bigger the audit firm, the more clients they have, so they will not depend on some clients. However, it does not mean that auditors from the bigger audit firm will always be more independent than auditors from smaller audit firms. (Mr. A)

From Mr. A’s statements, it is obvious that Mr. A believes that small firm auditors can still be independent as long as they are strongly self-confident as independent auditors. Maintaining a high integrity as independent auditors, will generate auditors with a good reputation. With a good reputation, finally a small audit firm will be a survivor and will have no fear of losing clients.

A second reason why this group agrees with the view that the bigger the audit firm, the more independent their auditors is because this group of auditors believes that the bigger the audit firm, the more instruments they have to maintain auditor independence, for example they have many divisions to provide different services (consequently they have more appropriate experts).
they possess more advanced technology and are internationally linked. The following reason stated by Mr. O, a big-five audit partner reveals this clearly.

I agree with that statement but I don’t totally agree. I said that I agree because in a big audit firm, auditors have many instruments to support their independence, for example: they have different divisions, they have more advanced technology, they have more advance audit system, they have more confidence and so on. While in smaller audit firms, they have less facilities compared to the bigger audit firms. However, I don’t totally agree with the above statement because even though auditors work in smaller audit firms, they can be independent without worrying about the above factors I mentioned as long as they try to be a real independent auditor is their profession. (Mr. O)

In my opinion, Mr. O’s statement explicitly acknowledges the importance of those factors mentioned. This is because auditor independence can be constructed by both work environment (external factor) and the auditor’s personality (internal factor).

Another reason why they agreed with the view that the bigger the audit firm the more independent their auditors was because small firm auditors tend to look for clients, while big audit firms do not. This was stated by Mr. F, a non big-five audit firm as follows:

In small audit firms we are required to look for clients not like in big firms. So, auditors’ independence in small audit firms could be more impaired than auditors in large firms. The above statement could be right. But we have to see that case by case and not generalize. (Mr. F)
Those twelve auditors mostly agree with the proposition. However, they do not totally agree with the proposition saying that the bigger the audit firm the more independent their auditors. Those auditors included some provisos such as everything relates to auditors’ integrity (Mr. A), it needs to be viewed on a case by case basis (Mr. F), and small auditors also can be independent (Mr. A).

4.2.2. Discussion

From the twenty-nine auditors who were interviewed, there were seventeen auditors who disagreed with the proposition saying that the bigger the audit firms, the more independent their auditors. Another twelve auditors agreed with the proposition. Both groups were not absolute in their opinions but presented a number of provisos.

The reasons put forward by those who disagreed with the proposition included the belief that auditor independence is a personal matter, not affected by the firm where they work. They also believed that some big firm auditors compromised auditor independence, and they viewed the proposition as being too general. They needed to view each case individually.

In my opinion, independence as a personal matter can be seen from their practice. Those who have a high integrity will not compromise their independence just to get or retain their clients. Even though they are non-big five audit firms, those who believe that independence is a personal matter will
gain confidence from their independence. However, it must be remembered that the public still hold the view that the bigger the audit firm the more independent they are able to be.

Another reason for this group of auditors not to agree with the proposition is the belief that some big firm auditors also compromise auditor independence. In my opinion, this could be true because some big five auditors are not immune from compromising their independence. A story told by a big five partner is an example of how some big-five partners “compromise” their independence by accepting audit engagements with very low fees (compared to audit works). This situation can be a justification for non-big five auditors to “also compromise” their independence. In this situation therefore audit firm size cannot be guaranteed to enhance or impair auditor independence.

The last argument for not agreeing with the proposition is that auditors must not be viewed generally. This group of auditors preferred not to generalize about auditors. In my opinion the view of this group could be true because I have observed that some auditors easily accept any audit engagement and quickly issue their opinion. In this regard I believe that proper audit procedures were not conducted.

From the reasons provided by those who disagree, it appears that they viewed independence as an individual matter. Any auditor can be independent as long as they have a strong integrity and personality regardless of where they work. This view is consistent with the first
circumstance affecting independence introduced by Flint (1988) saying that independence depends on the auditor’s quality, which includes integrity, objectivity and strength of character. This is also consistent with the warning proposed by Goldman and Barlev (1974) that auditors of large firms are not immune from client pressure.

However, this group of auditors do not totally disagree with the proposition, they still ‘understand’ that the bigger the audit firms the more specialization and better management they have and the smaller the audit firms the more centralization of decisions and the potential for conflict of interest. It would seem that even though they disagreed with the proposition, they could not refuse the realities as stated by Mr. E, that big audit firms have better instruments for being independent. Because of that this group of auditors did not agree that auditor independence was determined merely by audit firm size (where they work). They preferred, therefore, to see auditor independence as an individual case, not as a generalization.

The reasons given by those who agree with the proposition saying that the bigger the audit firm the more independent their auditors, is because they said that the bigger audit firms had more clients. This is understandable, since the big audit firms (the big-five) normally have hundreds to thousands of clients, from small to big clients, compared to small audit firms who may have only about ten (or sometimes less than ten) to fifty clients. This reason interestingly is acknowledged not only by the big-five audit partners, but also by the non-big five audit partners.
This group of auditors also held the opinion that the bigger audit firms had more instruments for being independent. Instruments like divisions for providing different services that are not possessed by small audit firms and this, they thought, would minimize conflicts of interest. More experts possessed by big audit firms would improve the auditors' confidence, whereas small audit firms have only a limited number of staff. Control from the headquarter office of big five audit firms, also contributes to the confidence of big five auditors.

The last reason was that small audit firms tend to look for clients, while the big audit firms do not. Since the number of clients of small audit firms is limited, it is not surprising that they tend to ‘seek’ clients or try to retain their clients more than the big five audit firms. This second group of auditors supported the studies of Shockley (1981), Amernic and Aranya (1981), Supriyono (1988) and Lindsay (1989), which found that the smaller audit firm tend to be less independent.

However, all these auditors do not totally agree with the proposition. They still think that there is a big possibility for those who work at small audit firms to be independent, as stated by Mr. A and Mr. O. Therefore, the generalization for auditors in this regard, is not appropriate, it would be better to see the effect of audit firm size on auditor independence on a case by case basis as stated by Mr. F.
The reasons given by auditors who agreed with the proposition are based on audit firm sizes. While the reasons proposed by auditors who disagreed with the proposition are based on the auditors’ integrity and personality. It is important to note that audit firm characteristics (such as separating services by divisions, advanced technology, more expert, better management, control from headquarter) would support auditor independence. On the other hand, the strength of auditor integrity and personality would be very significant for auditors.

4.3. Non-Audit Services
The rendering of non-audit services such as taxation, information system design, human resource management and management consultancy to audit clients will increase the question of auditor objectivity and independence (Agacer and Doupnik 1991; Firth 1997). Once an audit firm renders non-audit services to its particular client, its auditors’ independence will be attacked by their conflict of interest, between maintaining its independence and professionalism and following the client’s pressure to gain financial interests. This is at least caused by two reasons, first, the audit firm does not want to criticize the work done by its non-audit service division and second, the audit firm doesn’t want to lose profitable non-audit services, therefore the audit firm will not be keen to disagree with management’s interpretation of accounting matters (Firth 1997). From this situation, there is a proposition that rendering non-audit services to audit clients could impair auditor independence. This study therefore intends to investigate auditors’ perceptions as to whether
providing non-audit services to audit clients could affect auditor independence or not.

4.3.1. The Effects of Providing Non-Audit Services

To investigate the effects of providing non-audit services (to audit clients) on auditor independence, the twenty-nine auditors were asked for their opinion with the question “Can you tell me the effects of providing non-audit services to audit clients on your independence?” Before being asked the question, they were told that there were views and empirical studies stating that providing non-audit services to audit clients by auditors (audit firms) can impair auditor independence, and the question was being asked to confirm whether it was ‘true’ or not according to the auditors’ perceptions. Responses on this issue are summarized in Appendix 2.

Of the twenty-nine auditors, five of them said that they never offered non-audit services to their audit clients. Therefore, only twenty-four auditors offered non-audit services to audit clients. Twenty auditors said that providing non-audit services to audit clients has no effect on auditor independence. While another four auditors said that providing non-audit services to audit clients has an effect on auditor independence. Of those four auditors, three of them clearly said that providing non-audit services impaired auditor independence, and one said that it impaired independence to some degree.
4.3.1.1. Various Divisions, Selective and Limiting Non-Audit Services

This section will explore the reasons provided by the twenty auditors who said that providing non-audit services to audit clients has no effect (did not impair) on auditor independence. In the interviews each auditor’s answer provided one or two reasons. For those who said that providing non-audit services has no effect on impairing independence, their answers, however, can be categorized into five general reasons.

First, fifteen auditors (ten from the big-five audit firms and five from non big five firms) said they believed that providing non-audit services to their clients would not impair auditor independence because the big five audit firms had different divisions for different services. And those from the non big-five audit firms said that even though they had no ‘formal’ divisions they sent different staff to provide different services. The reasons given by the ten auditors from the big five are similar to the following statements of Mr. O, a partner of a big five firm and reasons given by the five auditors from the non big five are similar to the answer of Mrs. M, a senior partner of a non big-five audit firm.

Well in our audit firm, we have different divisions like the audit division, financial advisory services and so on. Based on the divisions we have, we can be more professional because there wouldn’t be a responsibility overlap. By separating our services the responsibility overlap will be minimized, so through this way independence in appearance will not be impaired because the public know that we have separate work divisions and responsibilities. This maintains our independence in fact automatically, because by separating the divisions it can minimize conflicts of interest. So, in my opinion providing both services to the same client would not result in impairing independence. (Mr. O)

We rarely provide both services to the same clients, but if this happen we can still be independent, because we assign our different assistants when we do audit and non-audit services. By sending our different
assistants, we feel secure about our independence. I don’t have any responsibility to defend my client’s interest even if they are my non-audit clients (Mrs. M)

Second, three auditors (all from the big-five, two partners and one manager) said that providing non-audit services will not impair auditor independence because they were selective in offering non-audit services, not all services were offered to clients, and only less risky non-audit services were offered to clients. The following statement by Mr. L, a senior partner of a big five firm, argued that selecting the NAS offered to audit clients is a way to ‘maintain’ independence.

Well, this matter has guidance in audit standards. If you are an auditor you are not allowed to be a clients’ financial advisor, because those works have a conflict of interest. But if you provide non-audit services like tax, management consulting, accounting compilation, it’s no problem at all. Auditors will have a conflict of interest when they act as a decision-maker for their clients or they have significant roles for their clients. But so far, in my case I have no problems with my independence as an auditor as long as we are strict to avoid something that could lead us into a conflict of interest. (Mr. L)

The third reason why providing non-audit services has no effect on auditor independence is because non-audit services offered to clients have no significant role in the clients’ decision making process. This reason was proposed by two auditors, both of them were partners of non-big five audit firms. The following statement delivered by Mr. B, a partner of a non big-five audit firm highlights this reason:

We provide both services, but not many companies are clients of both. However, even though some of them are both audit and non-audit clients our independence is not affected, because we provide a small part of the non-audit services, which is not significant to the clients’ decision making process. (Mr. B)
The fourth reason why providing non-audit services does not impair auditor independence is because of the strength of the auditor's integrity and personality, and the fifth reason is because the auditor follows audit rules and standards. The fourth and fifth reasons were only stated by one auditor each.

4.3.1.2. Non-Audit Services: Generating Conflict of Interest

On the other hand, four auditors (three were members of big five firms, and one of a non big-five firm) said that providing non-audit services to audit clients would impair auditor independence. Their reasons were because they saw a conflict of interest while performing audit tasks to their non-audit services clients. The following paragraphs express the views of those auditors.

Mr. J, an assistant manager of a big five firm and Mr. Y, a partner of a non big-five firm said that providing non-audit services to the same clients will impair auditor independence during the performance of audit tasks, but they said that this impairment is still tolerable because it is not significant.

Mrs. T a senior manager from a big five firm says that providing non-audit services could impair auditor independence if both services were done by the same staff, but it would depend on the auditor's integrity if audit service and non-audit services were conducted by different staff and a different division.
Mr. X, a partner of a big five firm said that providing non-audit services to audit clients probably would impair the appearance of independence because the public would look at the services provided by the one audit firm, even though it had different divisions. However, independence in fact according to Mr. X, will depend on the auditor’s integrity. The following statement by Mrs. T is similar to Mr. X’s, and suggests that it is obvious that the auditor’s integrity is very important in maintaining auditor independence.

In my opinion, providing both audit and non-audit services, if conducted by the same persons, could impair auditor independence both in fact and in appearance. If those services are conducted by different persons from different divisions, this case is dependent on the auditors’ integrity. If they have strong integrity they wouldn’t be affected, but if they have weak integrity, they would be affected. So, it depends on how good audit firms manage their staff and divisions, and how strong the integrity of their auditors is.

4.3.1.3. Not Offering Non-Audit Services: A Safe Choice

Five auditors, all partners of non-big five audit firms prefer not to offer Non-Audit Services to their audit clients at the same time, even though there is no prohibition in offering and accepting those services. Their reason is to avoid a conflict of interest. The following statement by Mrs. P makes more obvious their fear of getting involved in a conflict of interest.

I have no clients that accept both of our services. If they are audit clients, I don’t offer them non-audit services. If I offer them non-audit services, I don’t want to be their auditor. Also I don’t offer tax services in my business, because in my opinion taxation is more negotiable. So I have no experience in providing both services to the same clients. Consequently, my independence has nothing to do with that issue. (Mrs. P)
4.3.2. Discussion

The majority of the auditors (twenty) interviewed agreed that providing non-audit services to audit client does not impair auditor independence. This view is consistent with studies of Gul and Teoh (1984) and Knapp (1985). The main reasons why auditors felt that providing non-audit services did not impair their independence were: first, the big five audit firms had different divisions for different services; second, they were selective in offering non-audit services, not all services were offered to clients, and only less risky non-audit services were offered to clients; and third, they stated that non-audit services offered to clients had no significant role in the clients’ decision making process. Another two reasons, the strength of auditors’ integrity and following audit rules and standards, were mentioned by only a few auditors.

In my opinion, all the arguments above combined the work environments (division/work separation/limiting rules, selecting clients) and the auditors’ personality (integrity and following rules/standards). Their arguments of course can be true only as long as they can maintain the situation. However, they need to be aware that public can perceive them to have compromised audit opinion because they earn both audit and non-audit fees from a particular client.

Only four auditors thought that providing non-audit services to audit clients could impair auditor independence. This study shows that only four auditors support the studies of Shockley (1981), Moore (1983), Supriyono (1988), Lindsay (1989), and Teoh and Lim (1996). Although not many of the auditors
could recognise their limitations, those four auditors’ views about independence impairment seem to show their honesty about their inability to handle both audit and non-audit services, therefore, in my opinion separating job with different staff and audit partner will have a significant positive effect on maintaining auditor independence. This step, at least, can minimise any conflict of interest that could possibly be raised during audit work, but there is no guaranty that public will immediately trust it.

While five auditors preferred not to offer non-audit services, in addition to audit services, to their clients. In my opinion, the way taken by this group of auditors is a very safe way, not to endanger themselves and the public interests. This came from their awareness, because they knew that they were a small audit firm and had a limited staff. It is a very wise choice for a small audit firm not to offer both audit and non-audit services to the same clients. Even though from a business point of view, this is not advantageous for the auditors but it is beneficial for the public interest and auditors themselves in the long-term.

The question on non-audit services raises three issues: auditing and non-audit services divisions; auditor’s integrity; and conflict of interest. The existence of a non-audit services division in audit firms has been proposed as the main reason for maintaining independence for those who said that providing non-audit services has no effect on auditor independence. For those who said that providing non-audit services could impair auditor
independence, they thought that the existence of a non-audit services division could only minimize the impairment of independence.

It is important to note, that all big-five audit firms have divisions for providing different services. While the non-big five audit firms generally do not have different divisions for providing these services, this study suggests that all audit firms should have appropriate divisions to conduct different services, otherwise it would be better not to offer non-audit services to audit clients, as has been instituted by five auditors.

The existence of different divisions for providing different services is important, but would be of little use if an auditor's integrity is weak. The strength of an auditor's integrity is one reason proposed by an auditor who thinks that providing non-audit services to audit clients has no effect on auditor independence. Integrity can be possessed by anyone, whether they are a member of a big-five firm or a non-big five firm.

Conflict of interest can cause auditors trouble. Their independence is threatened when they have a conflict of interest. The best way to maintain auditor independence is by avoiding conflict of interest. It is important that all services offered to clients do not result in a conflict of interest for auditors. Also, the role of non-audit services offered to clients needs to be reviewed to see how significant they are in affecting client's decision making process. Again, the decision taken by those who do not offer non-audit services to their audit clients is a very good example of avoiding conflict of interest.
4.4. Summary and Conclusion

This chapter has discussed the findings of the study relating to the effect of two characteristics of audit firms, namely audit firm size and non-audit services offered by audit firms to audit clients. On the audit firm size issue, seventeen of twenty-nine auditors did not agree with the proposition that the bigger the audit firm, the more independent their auditors. Their arguments were that auditor independence depends on the auditor's integrity, personality and strength of character. Therefore, some of these auditors suggest viewing auditor independence not from the size of the audit firm but more specifically in relation to auditor qualities.

Conversely, another twelve auditors supported the proposition with the following two arguments. First, the bigger the audit firms, the less they depend on individual clients. Second, the bigger the audit firms, the more 'instruments' they have for maintaining independence such as appropriate divisions, more experts, more advanced technology and international links. These two reasons were consistent with the view of Mautz and Sharaf (1961, p. 213) and the study by Shockley (1981).

Even though this study did not find consensus on this issue, both groups acknowledge that all auditors can be independent wherever they work, as long as they have proper auditor qualities as argued by Flint (1988). However, for illustration purpose, if there are two auditors with the same
'quality', where one works for a big five firm and the other one works for a small audit firm, the first auditor can be argued as being potentially more independent than the second. This is because the characteristics of the big audit firm are more encouraging than a small audit firm in maintaining independence. But once again, auditors from a small audit firm can be independent as long as they maintain integrity.

This study is unable to conclude whether audit firm size enhance or impair auditor independence but rather concludes that for some auditors the bigger audit firm can enhance its independence, whereas for some other auditors audit firm size has no effect on their independence.

On the issue of providing non-audit services to audit clients this study did not find conclusive responses from the auditors. This study found that a majority of auditors (twenty of twenty-nine) did not agree with the proposition saying that the provision of non-audit services by audit firms to audit clients could impair auditor independence. Their arguments were: first, the big five audit firms have different divisions for different services, and the non-big five audit firms send different staff for different services; and second, they offer non-audit services which have no impact on the clients’ decision making process. This finding is consistent with studies conducted by Gul and Teoh (1984) and Buchman (1996).

On the other hand, four auditors believed that providing non-audit services by audit firms to audit clients could impair auditor independence. Their reason
was simply that this issue could generate a conflict of interest for auditors. These four auditors supported the studies conducted by Shockley (1981), Moore (1983), Lindsay (1999) and Wines (1994).

Meanwhile, the study found that five auditors, all of them from non-big five audit firms do not offer non-audit services to their audit clients at all. This was interesting, since there was no prohibition on the offer of non-audit services to audit clients. Their decision not to offer non-audit services to their audit clients was to avoid conflict of interest. These auditors were aware that providing non-audit services was potential income, but they were worried that the provision of this service would lead to the impairment of their independence.

Although no prohibition on offering non-audit services to audit clients exists, this study suggests that those who have no non-audit services divisions should not offer non-audit services to their audit clients unless they have different staff and a different partner in charge of audit and non-audit services to minimise a conflict of interest.

The next chapter will discuss the findings concerning the effect of the clients’ characteristics on auditor independence.
CHAPTER FIVE

Clients’ Characteristics: Backgrounds/Reputations, Audit Committees and Fees Contributions

5.1. Introduction

The previous chapter discussed the effect of the characteristics of audit firms on auditor independence, this included audit firm size and the provision of non-audit services. The central theme of this chapter is to discuss the effects of the characteristics of clients on auditor independence. This includes the clients’ reputations, the corporate audit committee and the role of the audit fee paid by clients.

Audit firms have various types of clients. Some audit clients have a strong financial situation and well-recognised directors, other clients don’t. Some clients have audit committees and some clients don’t. Some clients pay small audit fees and some clients pay large fees. These client characteristics will
be discussed in this chapter with a view to their effect on auditor independence.

This chapter contains three major sections: it will discuss firstly, the effect of clients’ backgrounds/reputations; secondly, the effect of corporate audit committees; and thirdly, the effect of the role of the audit fee paid by clients. The chapter ends with a summary and conclusion.

5.2. Clients’ Backgrounds/Reputations

Auditors, while performing audit tasks, could be affected by the backgrounds/reputations of the clients. The study conducted by Beattie et al (1999) found that a weak financial condition of a client, as perceived by public accountants and financial directors, was a factor that could enhance auditor independence. Conversely, financial journalists viewed the weak financial condition of clients as a factor that could threaten auditor independence. Therefore, one of the purposes of this study was to investigate the effects of audit clients’ reputations (such as client revenue, healthy ratios, well recognized owners and managements, listed or non-listed companies) on auditor independence. Therefore the proposition was that the worse a client’s reputation, the more independent would be the auditors in doing their work.

5.2.1. The Effect of Clients’ Backgrounds/Reputations

To investigate auditors’ perceptions about the effects of the clients’ backgrounds/reputations on auditor independence, the interviewees were
asked the following question, “What is the effect of clients’ background/reputations on auditor independence during the performance of audit tasks?” Before asking this question, the auditors were told what was meant by clients’ backgrounds/reputations. They were asked whether conditions such as strong financial condition, healthy ratios, well recognized owners and management, listed or non-listed companies affected auditor independence. The interviews about this issue were summarized in Appendix 3.

Of the twenty-nine auditors interviewed, all of them stated that the clients’ backgrounds/reputations had no effect on auditor independence, but eighteen of them believed that clients’ backgrounds/reputation had other effects. These other effects related to the scope of the audit work and differing audit requirements, and they built the auditors’ early perceptions of the client as well as being a consideration in accepting audit engagement.

5.2.1.1. Clients’ Backgrounds: No Effect on Independence and Some Effects on Other Things

Based on the interviews, all the auditors agreed that clients’ backgrounds/reputations had no effect on auditor independence. The reasons were because the auditors apply the same audit rules and standards to all clients and there are no ‘special’ treatments for certain clients.
However, eighteen auditors stated that the clients’ backgrounds/reputations raised some differences but not in relation to auditor independence. Those differences include the scope of the work as mentioned by twelve auditors and different audit requirements as stated by four auditors caused by different clients’ backgrounds as stated by Mr. E, a partner of a big five audit firm.

I never differentiate my clients by such backgrounds, because we have to do the same audit program and procedures for all clients. What will make a difference for them are things such as the companies’ size, complexities and whether they are listed or non-listed companies. These differences will make a difference in terms of audit time, scope and audit requirements, but not in the perceptions of whether they are better or worse than others. So in my opinion companies’ backgrounds have nothing to do with my independence. (Mr. E)

For Mr. F and Mr. Y, -both of them partners of non big five audit firms- the clients’ backgrounds/reputations will influence them in building their ‘perceptions’ or ‘images’ about clients, however, it doesn’t mean that audit findings will be ignored. Both Mr. F and Mr. Y will make a correction if they find anything wrong, as stated by Mr. F “However, all of those will depend on the audit process. This is a view just like a feeling, not a final judgment”. Mr Y clearly said “…this perception will not affect audit findings. If I find something that needs to be adjusted or corrected I have to tell them to change it”. This situation was also acknowledged by Mrs. T, a senior manager of a big five audit firm.

Another auditor stated that clients’ backgrounds/reputations can be a consideration in accepting engagements but once again it has no effect on
auditor independence. Mr. F said “clients who had good reputations will be good to audit. So, I am not in doubt in accepting that type of engagement, because I hope that the client will have a clean opinion, or that the clients will have good reports to be audited”. This is similar to Mr. Y’s view “I think I have a feeling that a good person should have a good report”.

5.2.2. Discussion

Twenty-nine auditors were asked to comment on whether clients’ backgrounds/reputations have or have not an effect on auditor independence. All of them believed that clients’ reputations have no effect on auditor independence. The interviewees’ reasons were because in their view all clients must be audited with the same rules and standards. This view did not support the study by Beattie et al (1999) who found that a weak financial condition of a client was perceived by public accountants and financial directors as a factor that could enhance auditor independence.

On the other hand, auditors expressed the views that clients’ reputations affected the scope of audit work as mentioned by twelve auditors. While four auditors believed that clients’ background could affect audit requirements as for instance in the case of listed or non-listed clients. Three auditors suggested that the effects of clients’ reputations would only affect auditors’ ‘perception’ or ‘images’ of their clients. However, this would not endanger auditor independence, because as Mr. F, Mr. Y and Mrs T said, everything depends on audit findings, and their ‘perceptions’ are not a final judgment, but
only an initial view. All the auditors interviewed have properly practiced scepticism in the performance of their audit tasks, although one auditor said that clients’ background could be a consideration in accepting audit engagement.

Even though all the interviewees acknowledged the effect of their clients’ backgrounds on the scope of the audit works, audit requirement and early perceptions, I think auditor independence will also be affected by the clients’ backgrounds, since everything in the Indonesian culture is normally based on background and attributes. For example, a man coming to a super market with poor clothes, will be poorly treated by the shop assistant compared to a man wearing nice clothes. A man with a car will more appreciated compared to a man who travels on the bus. In this regard, I think auditors are no different from the ‘public culture’, they will form a view of their clients based on their reputation/backgrounds. Early perceptions, a reputable client and good image will lead auditors’ perception in the doing of audit tasks. Auditors will be more "cooperative" with clients who have good image and vice versa.

5.3. Corporate Audit Committee

The existence of a corporate audit committee is believed by interested parties to enhance auditor independence. This is because the committee is composed mainly of non-officer directors as stated by the AICPA as quoted by Braiotta (1994, p. 4) who said that “An audit committee should be organized as a standing committee of the board composed mainly of non officer directors”. It is felt that this could maintain auditor independence
because there would be no conflict of interests. The Audit committee members, according to the committee on corporate laws of the American Bar Association, have the following obligation:

1. To recommend the particular persons or firm to be employed by the corporation as its independent auditors.
2. To consult with the persons so chosen to be the independent auditors with regard to the plan of audit.
3. To review, in consultation with the independent auditors, their report of audit, and the accompanying management letter if any, and
4. To consult with the independent auditor (periodically as appropriate, out of the presence of management) with regard to the adequacy of internal controls, and if need be, to consult also with the internal auditors (since their product has a strong influence on the quality and integrity of the resulting independent audit).

Braiotta (1994, p. 11)

From the above, the formation of an audit committee significantly helps the confidence of the auditor. This view has led this present study to investigate the effects of the existence of audit committee on auditor independence, with the proposition that the existence of a corporate audit committee will enhance auditor independence. In Indonesia, the existence of a corporate audit committee is voluntary except for the banking industries, who are required to have this committee.

5.3.1. The Effects of a Corporate Audit Committee

According to the interviews, only sixteen auditors have dealt with clients who have a corporate audit committee. This is understandable because the existence of corporate audit committees are something new in Indonesia. These sixteen auditors were asked the following questions, "Can you tell me
The sixteen auditors indicated that there were four main roles for audit committees in relation to the audit work of the auditors. These roles were first, the audit committee was useful and cooperative to the audit work, second, the audit committee was a source of additional information, third, auditors can discuss findings with the audit committee and, fourth the audit committee was perceived as a representation of commissioners and a mediator between clients and auditors.

The sixteen auditors had different perceptions when they were asked the question "Can you tell me what is the effect of the existence of a corporate audit committee on auditor independence?" Thirteen said that the existence of an audit committee had no effect on auditor independence. While the other three auditors had different beliefs. The interviews on this issue are summarized in Appendix 4.

5.3.1.1. Audit Committee: Useful without Effect on Independence

There were thirteen auditors interviewed who stated that a corporate audit committee had no effect on auditor independence. There are two main reasons for this that emerge from the interviews. First, they believe that the existence of a corporate audit committee had no good or bad effect on auditor
independence as long as they were aware and careful of it. They believed that it assisted the audit work. As stated by Mr. E, a big five audit partner.

We have audited some clients with such a committee. Here, the clients who have an audit committee are normally banks and large companies. The role of this committee to our audit work is very useful. I prefer to audit companies who have an audit committee, however, it won’t affect my independence, because I believe that the committee works for them not for us, so we have to be careful, but as I said it is very helpful to the audit work. (Mr. E)

The second reason why they think that the audit committee has no good or bad effect on auditor independence is because they do not view the audit committee as the only ‘reference’. The following statement by Mr. G, a big-five audit manager makes this clearer.

We have some clients with an audit committee, and their role normally supports our work, but we do not rely on them. We see this committee as our partner to support us, but we do not treat them as our reference. The role of this committee has no effect on my independence. (Mr. G)

A similar view was also delivered by Mr. R, a big-five audit partner who also said that a corporate audit committee was useful in terms of audit work, but had no effect on auditor independence.

The audit committee is a new thing in Indonesia. But I have met them at several clients, banking clients or big company clients. Their role is to discuss our audit findings and the existence of an audit committee is very helpful. However, there is no correlation between an audit committee and our independence. We audit all clients with ‘scepticism’, so we do not rely on them. We treat all clients with same treatment. In my experience, many clients complain to us by stating “why are your audit staff so suspicious of us?” Do you know what it means? It means that in this audit firm all audit staff must be independent, not just rely on information given by clients, but we have to investigate them. (Mr. R)
5.3.1.2. Audit Committee: Enhancing Independence

There were three auditors who stated that an audit committee had an effect on auditor independence. One auditor believed that a corporate audit committee could enhance auditor independence. He argued that he must be careful with that client because its audit committee consisted of non-director members so consequently he felt that he must be more independent. Another auditor stated that a corporate audit committee could impair or enhance auditor independence. It depended on how auditors took advantage of this committee and how the auditor interacted with it. If auditors tended to be steered by the corporate audit committee, their independence would be impaired. But if auditors followed the audit rules and standards, it wouldn't be a problem for auditor independence. While another auditor stated that the effect of a corporate audit committee on auditor independence is dependant on who were members of that committee. The following opinion was put by Mrs. T, a big-five audit senior manager regarding the effects of a corporate audit committee on auditor independence.

Yes, I audited some clients with an audit committee. Their roles was to assist us in providing information and assist us when we needed some discussion, they also discussed with us our audit findings. In my opinion, their existence is useful to our audit tasks, but if their members consist of management or directors, their independence should be questioned. But if their members consist of the owners or other independent elements, it would be independent, and we could better work together with them. (Mrs. T)

From these three auditors' views, it can be concluded that the existence of an audit committee could enhance auditor independence when the members of
the committee consists of non-director members. The reason is because in performing their tasks the non-director members would have no conflict of interest.

5.3.2. Discussion

From the twenty-nine auditors who were interviewed, there were only sixteen auditors who had dealt with clients who had a corporate audit committee. The interviews indicated four roles of a corporate audit committee that could be investigated. These were: first, a committee is useful and cooperative to audit work; second, it provides additional information; third, auditors discuss findings with it; and the last, it acts as a mediator between auditors and clients in performing audit tasks. These findings are consistent with the study by Mautz and Neumann (1970) concerning the advantages of an audit committee for independent CPA, and the study of Marrian (1988) on audit committees when he investigated whether or not an audit committee was worthwhile. It is therefore not surprising that all (sixteen) auditors think that a corporate audit committee is very beneficial to their work.

However, in terms of the effect of a corporate audit committee on auditor independence the sixteen auditors have various views. Most of them state that the corporate audit committee has no effect. This view is consistent with the study of Gul (1989). And only one auditor supported the findings of Teoh and Lim (1996) and Beattie et al (1999) who argued that the corporate audit committee could enhance auditor independence. Another auditor said that, it
was dependent on its members. A third auditor said that it depended on how the auditor perceived and interacted with the corporate audit committee.

From these views, it appears that the existence of a corporate audit committee could assist audit work. None of the interviewees said that auditor independence was impaired by the existence of this committee. The establishment of an audit committee would be expensive, since it is a new thing in Indonesia, and it is still limited to the banking businesses only. However, it is suggested that the existence of a corporate audit committee is significant especially in assisting audit work, and it is important that members of this committee be considered as independent to avoid conflict of interests.

In my opinion, the most important thing is the membership of the committee. If the members of the committee consists of management/directors, it will not be effective. But if the membership of the committee consists of non-directors (at least most of them are non-directors), the committee not only will help the audit work but also will enhance auditor independence. The reason why the membership of the committee should be non-directors, is to avoid conflict of interest or an unhappy feeling by the auditors about the directors. Because it is common, in Indonesia, that someone will not openly ‘fight’ those who have ‘helped’ him/her auditors must be careful about this situation.

5.4. Major Clients

The rendering of audit services could cause economic dependence of audit firms on their clients if these services represent a large percentage of the
firms’ total revenue. The dependence on particular clients could lead to the impairment of auditor independence. To anticipate this circumstance, some professional bodies such as: the Hong Kong Society of Accountants, the Institute of Chartered Accountants in England and Wales, and the Institute of Chartered Accountants in Ireland (Barkess, et al 1995) have restricted the percentage of revenue generated from a particular client. This situation generates the proposition that the greater the auditor’s economic dependence on major clients, the greater the chance of independence impairment.

The findings of previous empirical studies concerning this issue were various. Some studies (e.g. Supriyono, 1988; Teoh and Lim, 1996; Beattie et al, 1999) asserted that fee size from a particular client has a significant effect on the impairment of auditor independence, while other studies (e.g. Barkess et al, 1995; Craswell, 1997) did not find any significant effects. This study investigated auditors’ perceptions as to whether reliance on major clients could impair auditor independence or not, and it also explored how and why auditor independence could or could not be affected by major clients.

5.4.1. The Effects of Major Clients

To avoid a misunderstanding of the questions asked, the interviewees were given a definition of the term ‘major clients’. Major clients were regarded to be audit clients who generated a significant fee compared to total firm audit incomes. Then, all the auditors were asked the following question “Can you
tell me your opinion about the effects of major clients on auditor independence during audit work?"

From the twenty-nine auditors, there were three auditors who had no major clients. Therefore, there were only twenty-six auditors who had major clients. From twenty-six auditors who had major clients, twenty-two auditors said that major clients had no effect on auditor independence. While four auditors said that major clients had an effect on auditor independence. The summary of interviews on this issue is outlined in Appendix 5.

5.4.1.1. Confidence and Matching Risks Vs Fee

In responding to the question in the interviews, each auditor provided one or more reasons why major clients did not impair auditor independence. The responses given by twenty-two auditors can be classified into five main reasons.

First, nine auditors were confident with their audit quality therefore they believed that they could retain their major clients. They believed that they could be independent even though they had some major clients, because they were not dependant on those clients. The following statement of Mr. CC, an assistant manager of a big-five audit firm highlights this.

Yes we have some major clients. But our audit firm has many other clients, so it is not a problem with our independence. We are a big audit firm, we have confidence and clients will come to us to be audited (Mr. CC).
Since seven of the nine auditors were members of big five audit firms, the above statement seems to indicate the self-confidence of auditors, especially the big-five auditors. A similar view was also stated by Mr. X, an audit partner of a big-five audit firm when he said...

Yes we do have some major clients. As I have said that we are not worried about losing clients, so in conducting an audit we are confident of our performances and therefore we don’t really care whether clients will be coming back or leaving us. It doesn’t affect my independence (Mr. X).

Second, five auditors argued that the bigger the clients they had, the more work they needed to do and the more risks they had to be aware of. In other words, they thought that the larger fee they received, the more work and risk they would have to face. This could be compared to small clients who generated small fees, but also had less work and risks. This was stated by Mr. D, a non big five partner.

Yes I have some major clients, but we have to remember that the bigger the clients the riskier and more work we need to do. So in my opinion, big or small clients are not significant, because they are proportional in size in terms of fee and risks or work. (Mr. D)

The reasons given why auditor independence is not affected by major clients are understandable because the auditors say that there are no actual major clients since they also face bigger risks and more work.
Third, four auditors said that they were not worried about losing clients. Three of them were big-five audit partners and only one of them was a non big-five audit partner. Their reason was that because they had so many clients even though some of them terminate they would be replaced by new clients. It seems that these auditors were very confident with their position and they had strong bargaining power as previous group of auditors. The following is a statement by Mr. R, an audit partner of a big-five firm.

You can’t think that our independence is affected by major clients. We have more than a thousand clients, we won’t be worried if some clients leave us. We are not dependant on individual clients. Every year about one hundred become new clients and about thirty clients leave us. Even though we have some major clients they cause no problems to our independence. We maintain our independence as tight as possible because this is our commitment. (Mr. R)

Fourth, four auditors (two auditors were members of big-five firms and two were members of non big-five firms) said that by following the rules and standards, they would be independent or at least they could minimize auditor impairment from dependence on major clients. The following is a statement by Mrs. U, a big-five audit manager.

Yes I have some major clients. But I think when I perform audit work I never follow what they want, but rather I refer to audit standards. As long as we remain professional, major clients have no effect on our independence. (Mrs. U)

Fifth, an auditor said that by applying religious values she could do audit tasks independently and not be affected by major clients. She believed that clients
were given to her by God and the only thing she does is her best by following the audit rules and standards.

In my opinion this approach is not only applied by this auditor but also followed by other auditors. This approach provides the auditor with a philosophy to “do the best and let God do the rest”. However, history (at least in Indonesia) has shown us that some of those (businessmen or national leaders) who were viewed as “religious” persons, have to spend their life in jail for inappropriate behaviour, something that we have to be careful of.

5.4.1.2. Major Client: Generating Dependency

Four auditors said that major clients could impair auditor independence. These four auditors were three members of non big-five firms and only one partner of a big-five firm. The following paragraphs contain the reasons stated by these four auditors as to why major clients could impair auditor independence. Mr. E, a partner of a big-five audit firm, states that there is a tendency to fear losing major clients when performing audit work. The larger the clients, the greater the fear will be.

Yes we have major clients among several hundreds of our clients. When we audit those major clients to be honest there is a tendency to fear losing them, the more extreme our major clients, the more fear of losing clients. (Mr. E)

The key reason why major clients could impair auditor independence is because the firms are afraid of losing income. It seems that income dependence on certain clients can lead auditors to impair (or tend to impair)
their independence. This experience was stated by Mr. A, a partner of a non
big-five audit firm:

I feel pressured because, to be honest, I am worried about losing my
major clients. But I always work to maintain standards. That is my key
point, because maintaining independence is my business. (Mr. A)

Mr. A was also worried about losing major clients, however he tried to follow
the rules and standards, because by doing that he could minimize the chance
of further ‘wrong doing’.

Mr. B, a partner of a non-big-five firm stated that major clients could put him
into a difficult situation and consequently major clients could lead to
independence impairment.

Yes I have some, but not really extreme major clients. In my
experience this position can put us into hard situation, I think it could
lead into independence impairment. (Mr. B)

While Mr. W, a partner of a non big-five firm stated that even though major
clients sometimes could affect auditor independence it was still tolerable
because he tried to follow audit rules and standards, not to violate them.

Some times there are effects from this situation. However, I have
some restrictions in doing this, I can suggest and compromise about
our audit works but those are still in the audit standards. I can be
flexible but still not violate our standards. (Mr. W)
5.4.2. Discussion

Of the twenty-nine auditors who were interviewed, twenty-six had major clients. From that number of auditors, most of them (twenty-two) believed that major clients had no effect on auditor independence. In other words, for twenty-two auditors major clients did not impair auditor independence. Five main reasons were generated from interviews to support this argument.

The first reason was that auditors believed that they generated quality audits. They have shown that auditors (especially big five members) are highly confident in dealing with clients and this is because they believed that they provided a quality audit and they had a big number of clients. This would not happen if they were not confident of their audit quality and they had only a small number of clients. They believed that a large number of clients gave them confidence, this is rational because they have a stronger bargaining position when facing clients. They are not afraid of the clients leaving. However, this group of auditors must not be over confident.

The second reason why auditors stated that major clients did not impair auditor independence was seen to be more 'rational'. This was because the larger the fee, the more work that needed to be done, and the riskier the clients were. Large clients are more risky since they have a more complicated accounting system and more business activities. This situation needs more time and responsibility from the auditors. Therefore major clients are not different compared to small clients because small clients generate small fees with less work and less risks.
The third reason is they are not worried about losing clients because they have plenty of clients and do not depend on some clients. But it must be remembered that all the audit firms’ objective is to maximise profit, therefore there would be a tendency to accept more clients rather than to let some go.

The fourth reason seems to be a ‘formal’ answer. The interviewees said that major clients did not impair auditor independence because they (the auditors) followed audit rules and standards. However, their statements (stick to the rules) are not a guaranty that they must be independent in doing audit work, it could be true or lip service only because talking is easier than acting.

While the fifth reason seems to be a personal and individual view, in that she believed that by applying religious values (such as no cheating or violating rules and standards) she could be independent with or without major clients. In my opinion this approach is not only applied by this auditor but also followed by other auditors. This approach provides auditor a philosophy to “do your best and let God do the rest”.

There were four auditors who agreed with the proposition saying that major clients could impair auditor independence. According to these four auditors major clients could impair or at least could make auditors tend to impair auditor independence. Their statements were based on the reality that they were worried about losing major clients who generated a large income, and
this was realized not only by three auditors from non big-five firms, but also by one member of a big-five firm.

Even though there were only four auditors who believed that major clients could impair auditor independence it is important to note that in practice most, if not all, firms are profit oriented. Consequently, they have to think that maintaining independence could result in an opportunity cost if their major clients left them. In this situation, they are in a difficult position to be completely independent. Even though, there were only four auditors who said that major clients could impair their independence, it does not mean that major clients only had a small negative effect on auditor independence. A patron-client relationship in Indonesian society is common, this is an alert to auditors to be aware of this threat (major clients) because auditors probably will take a position as the client with the major client as their patron.

5.5. Summary and Conclusion

This chapter has examined and discussed the effect of the nature of clients on auditor independence. This included the clients’ reputations, whether there was a corporate audit committee and the size of the audit fee paid by the clients. On the issue of client reputation this study found that most auditors (twenty-seven out of twenty-nine) did not agree with the proposition saying that auditor independence was affected by the client’s reputation. Their argument was that auditors performed an audit task based on the same audit rules and standards for all clients. They did not differentiate their clients
based on the clients’ backgrounds. Regardless of their clients good or bad reputations this did not affect auditor independence. But, in my opinion the clients’ background will lead the auditors’ perceptions of their audit work and finally their opinion.

Conversely, two auditors believed that a client’s reputation could influence the perceptions of the auditor before the acceptance of an audit engagement and at the beginning of the audit examination. According to their view, the better the client’s reputation then the better the audit opinion would be. This argument is somewhat consistent with the study by Knapp (1985) and Beattie et al (1999) stating that a better financial condition of a client could impair auditor independence. However, these two auditors, in an audit examination would try to go back and rely on the ‘facts’ they found in the audit work and not be influenced by their clients’ reputations. On this issue, auditors seem to use professional judgments rather than emotional judgement. Even though clients’ background had no effect on twenty–seven auditors it did influence two auditors, so this study therefore concludes that a client’s background could ‘potentially’ have an effect on auditor independence. The better clients’ backgrounds would ‘potentially’ be perceived as having a better audit opinion, consequently auditors would potentially agree with the clients’ opinion.

On the issue of corporate audit committees, this study found that they were new in Indonesia. There is no requirement from the government for listed companies to have a corporate audit committee except in the banking industry. The study found that only sixteen of the twenty-nine auditors have
dealt with clients who had an audit committee. Of the sixteen auditors, thirteen auditors did not agree with the proposition saying that a corporate audit committee could enhance auditor independence. They believed that the existence of a corporate audit committee assisted audit work, but that it had no effect on auditor independence. Whereas, three auditors agreed that a corporate audit committee could enhance auditor independence and also suggested that the committee could assist them in doing the audit as long as most of the committee members were non-directors. On this issue this study found that all auditors acknowledged the benefits of the existence of a corporate audit committee, and some of them felt that it could enhance auditor independence. This study therefore concludes that corporate audit committees could assist auditors' work and it 'potentially could enhance' auditor independence.

On the issue of audit firms' dependency on major clients, this study found that twenty-six of twenty-nine auditors stated that they had major clients, whereas the other three auditors did not. The majority of those who had major clients believed that major clients did not impair auditor independence. Their arguments were based on their confidence in their audit quality and the view that the more fees they received the more work and risks they faced.

Conversely, this study identified that there were four auditors who supported the proposition saying that audit firms’ dependence on major clients could impair auditor independence. Their reasons were because they feared losing clients or incomes. Even though only four auditors of the twenty-six auditors
who had major clients believed that major clients could impair their independence and the other twenty-two auditors did not agree, this study considers major clients as a ‘potential factor’ that could negatively affect auditor independence. This is based on the logical reason that the larger the clients the more audit firms would depend on them and the practice of patron-client relationship in Indonesian society would affect auditors’ behaviour.

The next chapter will discuss the effect of the relationship between audit firms and clients on auditor independence.
CHAPTER SIX

Audit Firms and Clients:

Effects of Their Relationships

6.1. Introduction

The previous two chapters have discussed the findings of the study concerning the effect of audit firms and clients’ characteristics on auditor independence. This chapter will discuss the findings concerning the effect of the relationship, first, among audit firms and second, between audit firms and clients on auditor independence. The relationship among audit firms can be seen from their competition for retaining and attracting clients. Tight competition among audit firms could lead audit firms to tend to treat the clients favourably.
The relationship between audit firms and clients can be seen from two perspectives. First, in the process of an auditor appointment and during audit engagements, auditors interact with clients’ directors (management). In this relationship, the real role of directors could be a source of pressure on the auditors. Second, the length of the relationship between the auditors and particular clients could also be a source of independence impairment.

This chapter therefore starts with a discussion of the effect of competition among audit firms on auditor independence. Then follows a discussion of the effect of the real directors’ roles and the length of audit tenure on auditor independence. The chapter ends with a summary and conclusion.

6.2. Audit Market Competition

A relationship among audit firms that requires them to compete in order to retain and attract their (potential) clients is one factor that could affect auditor independence. The more audit firms there are, the higher the competition among them will be. This situation leads to the question of the impairment of their independence, because in order to attract or to retain their clients, audit firms have to offer a high performance with low audit fees, otherwise the client will appoint another audit firm. In this situation, audit firms will offer a ‘low balling marketing strategy’ which means they offer their engagement for very low fees. Consequently, to maintain their best profit performance, audit firms will cut their staff budget for audit tasks. Those who are not able to maintain
their independence, because of tight competition will tend to submit to a client’s pressure. From this situation there is a proposition that competition could impair auditor independence.

This study, therefore, aims to investigate whether or not high competition in the audit market is one of the factors affecting auditor independence, according to the perceptions of the auditors.

6.2.1. The Effects of Competition

This section investigates the effects of competition among audit firms on auditor independence. In this study the twenty-nine auditors were asked the following question “Can you tell me the effects of audit market competition on auditor independence? Before being asked this question, they were told that the audit market was getting tighter because there were many ‘new comers’ and there was a ‘price/fee war’ among audit firms.

Most of the interviewees (twenty-one auditors) said that competition had no effect on their independence in accepting and doing audit tasks. Two auditors said that their independence was impaired. Another three auditors stated that their independence was only slightly impaired. However, there were three auditors who were not certain whether their independence was impaired or not. The summary of interviews on this issue is outlined in Appendix 6.
6.2.1.1. Various Reasons for No Effect

In the interviews, each auditor provided one or two reasons why competition among audit firms had, or had no effect on auditor independence. Twenty-one auditors stated that competition among audit firms had no effect on auditor independence. Their responses can be categorized into at least five main reasons. The following reasons were raised from interviews from the most to the least common.

First, the most common reason (stated by ten auditors) given by those who said that competition had no bad effect on auditor independence was because they offered a normal audit fee with good quality work. Auditors or audit firms never cut their audit fee to an irrational price but rather, they still offered a normal price while improving their audit quality, enabling them to compete with other audit firms. As stated by Mr. H, a manager of a big five audit firm.

I know that our competitors sometimes cut their fee to a low rate when proposing an audit fee. This is possibly caused by tight competition among audit firms, but in this firm we never cut the audit fee to an irrational rate. We believe that by maintaining a rational and reasonable fee, we can do audit work properly with high quality, otherwise a junk opinion and a poor quality audit will be produced. (Mr. H)

The second reason (stated by six auditors) why competition among audit firms had no bad effect on auditor independence was because auditors were selective in accepting clients and avoided ‘risky’ clients. The auditors did not want to accept all clients, but preferred to accept only ‘safe’ clients. This is the strategy for a long-term period as stated by Mr. R, a partner of a big-five audit firm.
In terms of fees, our audit firm is well known as an expensive firm. This is in order to select our clients, and the worse the clients the more expensive the fee offered to them. So the ‘worse’ clients will turn to other audit firms, as is their choice. Sometimes we will not accept the next audit engagement if we consider that this client has too many troubles. Even so in the audit work process, we can stop immediately if we are not happy with the clients’ response or if clients tend to push us to do something ‘risky’. We have even refused an audit engagement with billions of Rupiah fees because we knew that such companies had troubles and we don’t want to become liable. Although we select our clients, not all our clients bring us honey, some also bring us poison, we have to be careful. (Mr. R)

The third reason (stated by four auditors) why competition had no bad effect on auditor independence was because auditors considered the following factors: the man hours in doing an engagement and the length and the scope of the work. Even with tight competition, auditors would never tender an audit fee without these considerations. As stated by Mr. X a partner of a big five audit firm.

I think this situation would not impair my independence, because when we charge an audit fee we have already calculated how long one assignment will be and who will do that job, so we can already calculate how much the fee will be to our client. We will not offer an audit fee under our operational cost, and we are not worried about losing our clients, because they know who we are. (Mr. X)

The fourth reason (stated by two auditors) why competition had no bad effect on auditor independence was because of the auditors’ visions in establishing audit firms. For Mrs. K and Mrs. Q, partners from two non big-five audit firms, their objective in establishing audit firms was not merely to seek money,
since their security came from other sources. The following statement of Mrs. Q is an interesting phenomenon.

We are female auditors so we don’t rely on our salary as major income for our family. Consequently, we don’t really seek as many clients as we can. We are more interested in maintaining our quality than our income. We are professional and wish to be independent, and we do not wish to sell or impair our independence for money. So, competition among audit firms is not a problem for us. It can’t impair our independence. (Mrs. Q)

The fifth reason (stated by two auditors) as to why competition had no bad effect on auditor independence was because they had strong integrity. This reason was argued by Mrs. T, a senior manager of a big-five audit firm in the following statement.

Competition is a business issue that could impair the independence of auditors. However, strong auditors are able to separate and differentiate between a business decision and independence, and competition shouldn’t impair their independence. I myself can still be independent while tight competition is taking place. (Mrs. T)

Mrs T’s statement can be true, but although the auditors stated that they had strong integrity, it does not mean that they necessarily were independent, there were some auditors who discussed or commented very well about integrity, but their clients could present a different view.

And finally the following reasons why competition had no bad effect on auditor independence are each mentioned only once by each auditor. They include offering a high fee to hire a qualified auditor, religious reasons and performing audit tasks effectively and efficiently.
In my opinion even though they stated that competition had no bad effect on their independence, auditors must be aware that the possibilities are that, they must be competitive (for example by offering normal price with a quality audit) or compromise their independence to get and retain clients. If they are consistent with their answer above they will select the first type of survival strategy, if not they would compromise their independence in order to maintain their existence.

6.2.1.2. Various Arguments for Impairment

The following sections will discuss auditors’ perceptions about the effects of competition on auditor independence, as to why auditor independence is impaired, why auditor independence is slightly impaired, and why auditor independence is not impaired.

Two of the twenty-nine auditors clearly stated that their independence was impaired. Both of them are partners of non big-five audit firms. The following statement of Mr. Y points out...

I think competition among audit firms can impair auditor independence. In my experience, about fifty percent of my clients are continuous clients. I even have clients who have been audited for more than seven years. The taxation office has no problems with this audit tenure. But, for the banks’ purpose they sometimes ask clients to change their auditors. Anyway, I think the competition issue can lead auditor independence towards impairment. (Mr. Y)
Even though they do not state clearly their reason for the impairment of their independence, it seems that auditors are under ‘pressure’, and could lose their clients without warning.

Another three auditors said that their independence was slightly impaired. These three are Mr. C a supervisor from a big-five firm, Mr. J an assistant manager from a big-five firm and Mr. W a partner of a non big-five firm. Their statements consecutively are as follows:

To be honest, as a staff member in this office, I can feel that the effect of competition among audit firms can slightly impair our independence. But, this effect is not significant, it’s still tolerable I guess. (Mr. C)

I am not a partner and in doing my job I am never involved in finding clients. In my opinion, I think competition could affect us as we tend to follow clients’ expectations, but we still meet the rules and standards, I mean if these things are still tolerable and reasonable that they wish us to do, we can do them. But when the clients’ wants do not meet audit standards we will refuse them. In my opinion, there is an influence of competition but it’s not dangerous. (Mr. J)

I think there will be impairment caused by tight competition, however it can still be managed, I mean this effect is not so serious. Because auditors will also not go too far in getting clients, they will also consider the risks involved. (Mr. W)

From these three statements above, it ‘s clear that their independence is impaired but this is not serious. They try to minimize this, however by not offering a fee at a cheap price but at a normal price and they consider the risks that they may have to face.

Another three auditors provide unclear views about whether competition could or could not affect auditor independence. They prefer to say that auditor
independence is dependant on the auditors themselves. As stated by Mr. P, a partner of a non big-five audit firm:

It is dependant on the auditor's mental attitude. If an auditor has a weak mental attitude as an independent auditor, his/her independence will be impaired by that issue, because he/she will be worried about not having clients. However, as an auditor I feel confident to be independent while competing with other firms. In offering an audit fee, I also offer a normal fee. It depends on the scope of the work and the man hours. Competition will only impair auditor independence for those who have a bad attitude. (Mr. P)

6.2.2. Discussion

Twenty-one auditors said that competition among audit firms had no bad effects on auditor independence for attracting and retaining clients. On the other hand, only five auditors support the research findings of Shockley (1981), Supriyono (1988) and Lindsay (1989) that competition had a negative effect. Two of them believed that competition impaired auditor independence. While another three auditors stated that auditor independence was only slightly impaired. A further three auditors provided unclear views about whether auditor independence was impaired or not, this is consistent with the study of Knapp (1985).

When the big five auditors said that competition had no negative effect on auditor independence, it showed that they were confident to compete with others. When they said that competition has no negative effect on auditor independence, the big five auditors normally noted that “they (the clients) know who we are”, “we have many clients” or “we are an expensive audit
A statement by Mr. E, a partner of a big-five audit firm clearly shows confidence in the big-five audit firm.

Other partners and I feel confident that our services offered to our clients are highly respected by our clients and the public. I know that competition among audit firms is getting tighter, but as I said we are not worried about this issue, even though we offer our service with a high rate, because we sell quality and our clients and the public know this. (Mr. E)

Most auditors who answered that competition had no negative effect on auditor independence were big-five auditors and gave as their reason the view that they offered a normal price (never a cut price) with a quality audit. This means that the big five auditors were confident that they could generate a quality audit with a high price. Even though they offer a high price (or normal price at least), they still believed that they can attract their clients. They also believed that with a quality audit clients would be happy and would not leave their audit firm. The question here to these auditors is can they perform audit work based on audit rules and standards? Because there are so many stories about auditors that can issue an audit report without a proper audit examination.

Another reason why competition had no negative effect on auditor independence was that auditors were selective in their acceptance of clients in order to avoid ‘risky’ clients. This reason was stated by six auditors all of whom were big five auditors. It is also understandable that the big five audit firms have plenty of clients, so it is possible for them to select their clients,
and even though some clients leave them they are always replaced by new clients. To accept clients selectively is very hard for those who have a limited number of clients, this is only practicable by audit firms which have too many clients compared to their staff. But it is hard to believe a statement that “we have not enough staff so we refuse to accept an audit engagement” because normally they will recruit new staff to handle such works.

The third reason why tight competition had no negative effect on auditor independence was because auditors, in calculating audit fees will consider such matters as manhours and the scope of the work. In my opinion, even though an audit firm may calculate working hours or a rate per hour, an audit firm in a tight competitive situation will tend to make everything finish sooner with a lower level of costs. Therefore, this situation will lead auditors to cut their budget, it is not easy for auditors to work properly in this situation.

In contrast the non big five auditors said that competition had no negative effect on auditor independence, and they relied more on ‘individuality’ such as their vision for establishing their audit firms, and the auditor’s integrity and religious convictions. It is understandable that Mrs. K and Mrs. Q, who did not depend on their firms for their livelihoods, established audit firms not simply to seek money. Their vision was to accommodate their interests in audit practices, applying and practising their knowledge.

I believe, that a firm will continue to be an independent auditor as long as their vision is not only to seek money, they will be more able to be independent
compared to those who view money as everything. A tight competition among auditors will not impair their independence as experienced by Mrs. K, Mrs. Q, and the following statements of Mrs. M and Mrs. Z.

The reason why auditor independence is not impaired by tight competition is because of their vision (objective) in establishing an audit firm. This argument was stated by two female auditors who regarded their status to be housewives. These two female auditor's opinion can be true since there is a common phenomenon in Indonesian society that seeking money is a husband's responsibility, a wife can work but only to support her husband, or even sometimes a wife is not allowed to work for religious or cultural reasons. However, not all female auditors are like these two auditors, many female auditors work for money so they can earn a larger amount of money compared to their husbands.

Mrs. M, a partner of a non big-five audit firm, expressed the view that auditor independence was not impaired by competition among audit firms, because she served the public interest more than her client's. She offered a reasonable price with a high quality audit. Mrs. M's statement will be true as long as she can maintain her independence from her vested interest or she can handle any other pressure. If she fails to do that, she will be the same as other auditors who have a weak integrity.

A religious approach in running an audit firm was also a reason for auditor Mrs. Z, a partner of a non big-five audit firm. In her view, by applying a
religious approach, competition would not have a negative effect, because she believed that clients (or 'wealth') came from God, so she did not need to be 'greedy' or to compromise her independence. Although this argument was stated by only one auditor, I believe that other auditors also practise this reason in maintaining auditor independence.

On the other hand eight auditors had different opinion about the effect of a tight competition on auditor independence. Two auditors who said that competition could impair auditor independence were both non-big-five partners. While three auditors who said that competition could slightly impair auditor independence consisted of one non-big five audit partner, and two big five auditors (supervisor and assistant manager).

Three non-big five partners did not provide a clear view as to whether competition could or could not impair auditor independence. They preferred to say that the effect of a tight competition on auditor independence is dependant on the integrity of each individual auditor.

In my opinion, these three auditors' views can be classed as saying that competition has a negative effect on auditor independence, because they think that auditor independence can be threatened by competition where the auditors' integrity is weak. Therefore, I conclude that those eight who viewed that competition could affect (impair, slightly impair and not sure) auditor independence were mainly (6) non-big-five partners.
Even though only eight auditors who stated that a tight competition can lead to auditor independence impairment, it must be an alert for other auditors. It is understandable that competition could impair auditor independence especially for those who have a small number of clients. However, in line with Mr. P’s statement, in my opinion the important thing is not only their situation (such as lack of clients or no competitive advantage) but the more important thing is the auditors’ attitude. The better their mental attitude as an independent auditor, the more independent they will be in doing audit work, and vice versa. In other words, there is still a chance for small auditors to be independent in a tight competition arena as long as they have strong mental attitude as independent auditors.

6.3. Roles of the Clients’ Directors

Commonly, in public companies, the appointment and remuneration of auditors is carried out by shareholders, but in small companies, in which the owners are also the management of the company, the appointment and remuneration of the auditor is made by the management as the owners.

In fact however, even in public companies, the directors involve themselves in the appointment of the auditor and this situation could lead to the impairing of auditor independence. Beattie et al (1999) considered this as a research variable. In their research findings, the directors’ real control of the appointment of the auditor and the auditors remuneration was found to be variable in that it could impair auditor independence. In this present study, the
real control of directors in the appointment of the auditor and their real control in the determination of the remuneration of the auditor was investigated.

6.3.1. The Effects of Clients’ Directors’ Roles

All the auditors participating in the study were asked by the following question, “Can you tell me the effects of directors’ roles on auditor independence?” Before asking that question, all the auditors were told about the directors’ roles in selecting the auditor and determining the audit remuneration.

Most of the interviewees (twenty five) said that the roles of directors had no effect on auditor independence. On the other hand, three auditors said that directors’ roles have bad effects (impair) on auditor independence. And another auditor said that directors’ roles had a small negative effect on auditor independence. The interviews on this issue are summarized in Appendix 7.

6.3.1.1. The Quality of the Auditor Removes Clients’ Pressure

According to twenty-five auditors, the directors’ roles in auditor appointment and remuneration had no effect on auditor independence. Their arguments were based on the following reasons. First, according to them, auditor independence is not affected by the directors’ roles because they follow audit rules and standards and avoid wrong doing. The following statement of Mr. E, a big-five audit partner shows that he was aware of this threat but that he always tried to stick to the rules.
Well, the shareholders annual general meeting normally delegate to the management to arrange about their auditor. So we are involved with management in dealings about audit appointment and remuneration. Even though this procedure could lead both auditor and management to ‘mutual advantage’ but as I said that in doing audit works I try to be always independent, and not to retain our clients by compromising our independence. Because in my opinion, once I make mistakes by compromising my independence, for example, the public will not rely on me or this audit firm. Because a client who has made deal with me will tell others that I can be bribed. (Mr. E)

Second, reliance on a quality audit could maintain auditor independence from the threats of the directors. Mr. X, a big-five audit partner has made it clear that his philosophy is to do his best as an auditor to maintain auditor independence from this hazard.

My philosophy is do our best, do our audit work as ruled by standards. I believe that if we maintain our quality the public will know what we have done. So I don’t care whether management are proposing us or not for the next engagement. I won’t ‘negotiate’ our independence to be selected as the next auditor for them. (Mr. X)

The third reason why auditor independence is not impaired by the directors is because they limit their relations with the client to a professional relationship only. The fourth reason is because the auditors do not expect to be selected as the auditor for the next engagement. The third and the fourth reasons can be seen in the following statement by Mrs. M, a non big-five audit partner.

I know that the board of directors propose audit firms in the annual meeting and also the board has authority to negotiate the audit fee and remuneration with the auditor. But you have to know that our staff try not to be too close with our clients, even though for example we have a close relationship with our clients, our relationship is limited to a professional relationship. And we are still able to maintain our objectivity. I don’t really worry whether I will be selected as the next
auditor or not, I don’t expect our client to assign us to the next audit engagement by negotiating our professionalism. (Mrs. M)

6.3.1.2. Raising Interdependence and Conflict of Interest

There were four auditors who said that the directors’ roles could impair auditor independence. Their arguments were based on the following reasons. First, according to them the position of auditors and clients are interdependent. They each need one another as stated by Mr. B, a non big-five audit partner.

Even though my clients are shareholders, some times our relationship with management could lead to independence impairment, because the auditor and management are interdependent. (Mr. B)

The second reason is because their clients are normally small companies where the owners are also management. In this case, the directors’ roles can significantly affect auditor independence as stated by Mr. W and Mr. AA, both non-big-five audit partners.

Yes, my independence some times can be compromised because of force from the directors. In my case it is hard to avoid it because, the directors are also the owners of the company who appoint us to do the audit. What I can do is to maintain that I do audit works and still follow the rules and standards. (Mr. W)

I think this situation could lead an auditor to the impairment of his independence, especially in my case. Because our clients are the owner of the companies, so we deal with them in the audit appointment, we have to choose whether we will solely be professional or also would be a businessman. If we will be professional, we will have no problem with independence, but if we will be both professional and businessmen, we might impair our independence. It’s a critical situation for me. (Mr. AA)
From the four auditors who said that directors’ roles could impair auditor independence, three of them were non big-five auditors, and only one was a member of the big five. Mr. C, a big-five audit supervisor states that auditor independence can be impaired by the directors’ roles because of the closeness with clients, but he states that this impairment still can be managed and is not dangerous.

I think that situation could lead to an independence impairment, but that is not significant. Because we do audit works still within the rules and standards. If we face a material risk, we will refuse to do that, but if it is still tolerable, we could do that. (Mr. C)

6.3.2. Discussion

Twenty-nine auditors were interviewed to investigate the effects of the real roles of directors on auditor independence. Twenty-five auditors said that auditor independence was not impaired by the directors’ roles. This group of auditors argued that auditor independence was not impaired because the auditors followed audit rules and standards to avoid wrong-doing. They also relied on the quality of the audit. They minimized their relationship with the clients and they did not expect to be selected for the next engagement.

It seems that the reasons proposed by this group were based more on the strength of an auditor’s integrity (internal factor) than external factors. The confidence of auditors in their audit quality leads them to be confident of their independence for the next audit engagement, they were ready not to be appointed should there be any attempt to compromise their independence.
Those twenty-five auditors were members of both big and small audit firms. It seems that the characteristics of audit firms are not valued in maintaining independence from this threat. Because the directors’ roles were very strong and could affect audit work, only those who had strong integrity could remain independent.

The process of selecting an auditor is also an important thing in this regard. For big companies, where their managements are not the owners, the process of auditor selection is much better than small companies where their managements are also the owners. With the big clients, the owners (shareholders) appoint auditors in their Annual General Meeting. While for clients where their managements are also the owners, they will face hardship in the process of separating their functions as management and owner. This situation will affect auditor independence differently. The former situation will not usually affect auditor independence, while the latter situation could be more of a threat.

Even though this group of auditors believed that the roles of the clients’ directors had no bad effect on their independence, it must be remembered that Indonesian auditors (who normally find it hard to have a different perception especially when there is a seniority or superiority relationship) could keep silent about their unsolved problems and they (for those who have no strong bargaining position) will finally compromise their independence under pressure from the clients’ directors. However, this is only a warning to
be considered by those auditors doing audit works, there are many auditors who have a strong enough integrity not to be dictated to by clients.

On the other hand, there were four auditors who said that the real roles of directors could impair auditor independence. Their arguments were based on the following reasons. According to them, auditors and clients are interdependent, and particularly for small audit firms, their clients mostly are small companies where the owners are also management, also clients and auditors can develop a closeness.

It cannot be denied that many audit firms, especially small audit firms, look for clients in order to survive. Many small companies (clients) also look for audit firms who can serve them ‘better’. For small companies, their financial statements are audited in order to fulfil credit requirements. Therefore, some companies (clients) look for audit firms who can help them make their financial statement look good. In some cases (as stated by Mr. Y) some bankers could interfere with an auditor’s decision or opinion. Bankers have a financial interest, because once the clients’ proposal is approved by the banks, bankers will have financial benefits. This is like a triangle between clients, auditors and bankers in that they work ‘together’ for their mutual benefit. This situation is only possible when audit firms have a lack of clients, they have a close relationship with their clients, and they have weak integrity as auditors. Even though only four auditors stated that the roles of the clients’ directors had a negative effect on their independence, it does not mean that the effect of the roles of the clients’ directors is small especially in relation to
the auditors’ culture where (Indonesian) auditors are normally not keen to have different views from their senior or boss. This ‘culture’ is dangerous when clients force auditors to be in line with them. Only those who have a strong personality will be remained independent.

6.4. Audit Tenure

The length of an audit engagement with an auditor by a particular client is viewed as a factor that could impair the auditor’s independence. A longer period of audit engagement to a given client could easily affect this independence. The view of the US Senate (1976, p. 21) as cited by Shockley (1981, p. 789) concerning audit tenure is as follows:

Long association between a corporation and an accounting firm may lead to such close identification of the accounting firm with the interests of its client’s management that truly independent action by the accounting firm becomes difficult.

However research findings in this regard have produced varying results. For instance, a study conducted by Shockley (1981) found no significant impact by audit tenure on auditor independence, while a study done by Supriyono (1988) supports the statement of the US Senate above. By the limitation of audit engagement to a certain period, auditors are expected to be more independent, because their economic dependence on the clients will be limited to only a short period of time. However, this is not easily practised because it will necessitate additional costs in the changing of an audit firm. The inconsistency of these research findings has led to the inclusion of this issue in this present study. This study therefore, will investigate whether audit tenure could impair auditor independence or not.
6.4.1. The Effects of Audit Tenure

Audit tenure or the length of audit engagement has become a threat to auditor independence. The auditors were asked the following question “Can you tell me the effects of audit tenure on auditor independence?” Before asking this question, the interviewees were told of the possibility of auditor independence being impaired owing to the length of an audit engagement. From the interviews, there were three categories of answers. First, twenty-one auditors stated that audit tenure had no effect on auditor independence. Second, six auditors said that audit tenure could affect auditor independence, four of them believed that audit tenure did impair auditor independence, and two of them said that audit tenure only slightly impairs auditor independence. Third, two auditors said that they were not sure whether audit tenure had an effect on auditor independence or not. The summary of these interviews is in Appendix 8.

6.4.1.1. Arguments for no Impairment: Staff Rotation, Change of Directors and Professional Relationships.

Of the twenty-nine auditors, most (twenty one) said that audit tenure did not impair auditor independence. Their arguments were based on the following reasons. First, this group of auditors believed that by applying staff rotation, audit tenure had no effect on auditor independence. The following statements of Mr. E, a big-five audit partner and Mrs. M, a non big-five audit partner
clarify the situation that auditor rotation was practised at both big and small audit firms to avoid the bad effect of audit tenure.

In my case I have a close relation with my clients, but it is limited to a professional relationship only. In my opinion, having a close relationship with clients makes our work easier. However, this will also be viewed negatively by the public. People have to know that even though we have audited a certain client for several years, our audit staff changes from year to year and also our clients’ staff, changes from time to time. So there is no reason for fearing ‘collusion’ between the two. (Mr. E)

In doing an audit I always send my manager and my staff to our clients. And I also rotate our manager and staff. In my case the rotation takes place about every four years, so our relations with clients is not too close. By rotating our manager and staff we can maintain our professionalism, and besides that after several years there is a possibility that the board of directors will have changed. So according to my experience, audit tenure does not affect our independence. (Mr. M)

The second reason argued by this group is that because the clients’ management also changes from time to time there is no opportunity to create an improper relationship between them. The third reason is that auditors try to only keep a professional relationship with their clients, no more than that. They don't want to go too far, because they know the risk. The statement of Mr. K, a big-five audit partner makes it clear that the clients’ management is also rotated and they could still ‘manage’ their relationship with the ‘old’ management members while maintaining a professional relation.

I have some clients who have been audited for several years. But I have no special relationship with them. I keep my relationship to a business relationship, no more than that. Their directors and staff have changed from year to year, so it is not possible to have a special relationship. Every year we meet the new directors and staff, even
though for example there are some old directors, I can manage my distance from my clients. My independence is not a problem. (Mr. K)

The last reason proposed by this group is that auditors follow audit rules and standards. Therefore, according to them by following these rules and standards, they have to treat new and old clients equally. As pointed out by Mr. O, a big five audit partner.

To me, old or new clients are not different. They have to be treated as professionally as possible. Even though I am more familiar with my old clients compared to the new, in my opinion this is not a reason to loosen my independence, because I have to follow the rules and standards. (Mr. O)

6.4.1.2. Long Engagement: Generating Mutual Interest, Conflict of Interest and Pressure

On the other hand, there were six auditors who believed that audit tenure could affect auditor independence. Four of them said that audit tenure could impair auditor independence and two of them believed that audit tenure could do this to a lesser degree.

Four auditors stated that audit tenure could impair auditor independence because they believed the following arguments. First, a long engagement could impair auditor independence because there would be some mutual interests, as stated by Mr. B, a non big-five audit partner.

I don't doubt that through this client, auditor independence could be impaired, because there are some 'mutual interests' between the two. (Mr. B)
Second, this group of auditors believed that auditors will find it hard to separate their position as independent auditors from their relationship with old clients as they will face a conflict of interests. This was discussed by Mr. AA, a non big-five audit partner.

In my opinion, it can obviously affect my independence, because we have maintained our relationship for several years. I, as an auditor must be independent, but I am a human being and it’s hard to separate my position as an auditor from my relation with old clients. (Mr. AA)

The last reason is because auditors feel hard pressed to refuse clients’ ‘orders’. This is because they have a close relationship caused by a long audit engagement, as stated by Mr. Y, a non big five audit partner.

Yes this relationship could sometimes impair my independence, because I know much about them so when they ask me something, sometimes it’s hard to refuse them. However, I try not to go too far with my clients’ ‘expectations’. If I think that what I will do will get me into trouble, I’d rather refuse them. (Mr. Y)

Two auditors said that audit tenure could slightly impair auditor independence. Their arguments are based on the following reasons. First, one auditor believed that a long relationship could lead to an improper relationship. Second, the other auditor believed that audit tenure could lead him to become more ‘flexible’ in performing audit tasks. The following statement of Mr. C, a big five audit supervisor states...

I think closeness with clients could lead us to become more flexible, I mean in this regard there is a little impairment. But once again all things should be based on standards and if they are very risky, we will not do that. (Mr. C)
Two other auditors said that they are not sure whether audit tenure could impair auditor independence or not. They believed that the longer they audit clients, the easier their audit tasks become, and they are not sure whether auditor independence is affected or not, because although they are in a close relationship they also follow audit rules and standards. The following statement of Mr. A, a non big-five audit partner indicated this...

I feel the longer I audit the client, the easier the audit process will be. For most clients the longer they interact with auditors, the better things are in terms of a financial statement. It makes it easier for me to audit. It's hard to say whether my independence is affected or not, but the feeling I possess when I audit such clients is I do the audit more easily. I can't answer and say I am affected or not, because as long as I do the audit and follow the standards whatever the feeling, it will be all right. (Mr. A)

6.4.2. Discussion

To investigate the effect of audit tenure on auditor independence, twenty-nine auditors were interviewed. From the interviews, twenty-one auditors believed that audit tenure did not affect auditor independence. Four auditors believed that audit tenure could impair auditor independence, two auditors said that audit tenure could slightly impair auditor independence and another two auditors were not sure whether auditor independence was affected by audit tenure or not.

The reasons given by those who stated that audit tenure did not affect auditor independence were that they rotated their auditors, clients' management changed from time to time, auditors followed audit rules and standards and
auditors managed their relationship on a professional basis only. These reasons imply that auditor integrity (following rules and standards and managing a professional relationship), audit firm policy (staff rotation) and external factors (clients’ management changes) support auditor independence from the threat of audit tenure.

Even though this group of auditors believed that a long engagement will not impair their independence they must be careful in the following situations. While they rotate their audit staff, they normally do not rotate their audit partner (someone who responsible for the audit opinion). Therefore the partner will have a long relationship with the clients, this situation could lead to the impairment of the partner’s independence.

Established clients (big clients), normally have a certain period for changing their board of directors, but it must be remembered that directors can be appointed more than once, therefore this situation also can lead to a long relationship with the auditors. Also in small companies, the directors are the owners, therefore the auditors will normally have long engagement with the clients.

From a cultural point of view, auditors also must be aware that the Indonesian culture especially the Javanese culture is a ‘soft’ culture where someone will hardly have a different view from those who are respected (boss, senior etc). This ‘culture’ does not support auditor independence, therefore auditors must be aware of it.
On the other hand, four auditors believed that audit tenure could impair auditor independence. Their arguments were based on the following reasons. Auditors and clients had mutual interests, auditors had a conflict of interests, auditors faced the difficulty of refusing the clients’ order, while two auditors believed that audit tenure could slightly impair auditor independence because an engagement could lead to an improper relationship and a more ‘flexible’ treatment. In my opinion, the longer the audit tenure, the closer a relationship could develop and therefore the harder it would be for auditors to maintain auditor independence. This is easy to understand because a characteristic of most Indonesians (auditors are no exceptions) is the reluctance to have a different point of view from anyone in a close relationship.

Of six auditors, five of them were members of non big-five audit firms, and only one was from the big five firm. The arguments of the six auditors can be categorized into financial factors (mutual and conflict of interests) and a social factor, (the close relation with clients).

Another two auditors were not sure whether audit tenure could affect auditor independence or not. As stated by them, they faced a hardship because they had a close relationship with their clients built on a long engagement, but they also tried to follow audit rules and standards.

In my opinion the way for all auditors to maintain auditor independence or to reduce the threat of audit tenure is by adhering to the following important points. Auditors need to be confident with their position as independent
auditors even with old clients. They have to maintain a professional relationship with their client and not a ‘personal’ relationship. Auditors must not expect to be appointed for the next engagement. Finally, from an organizational (audit firms) approach, the big-five and non big-five audit firms must rotate auditors and partners for a certain period.

6.5. Summary and Conclusion

This chapter has investigated and discussed findings related to audit market competition, directors’ real roles and audit tenure. On the competition among audit firms issue, this study found that most auditors (twenty-one of twenty-nine) believed that competition did not impair auditor independence. Their arguments are: first, because they offer normal fees with a quality audit; second, they are selective in accepting clients to avoid risky clients; third, they considered man hours, length and scope of works; fourth, their vision in establishing an audit firm could avoid independence impairment; and, fifth, strength of integrity. Interestingly, two female auditors from non-big five audit firms stated that their vision in establishing audit firms was not only for making money, but rather for accommodating their professionalism as auditors. These two auditors had no overwhelming reason to seek money since they have income from other sources, therefore competition among audit firms had no effect on these auditors.

According to the above arguments the auditors considered that a tight competition between audit firms did not impair their independence, but it must be noted that auditors still need to compete with others in order to exist and
get clients. In this effort, off course, auditors will do “their best”. It is unarguable that clients also will appoint auditors who are “in favour” with them.

Whereas, five auditors stated that competition among audit firms could impair auditor independence. They (especially auditors from small audit firms) believed that they were under clients’ pressure where clients could change their auditors if they want to at any time. From the facts that for some auditors competition could impair auditor independence, this study concludes that competition among audit firms is a potential factor that could negatively affect auditor independence. The tighter the competition among audit firms, potentially had the worse effect on auditor independence. However, it must be remembered that auditors’ integrity and their state of professionalism will also determine the effect of competition on auditor independence.

On the issue of clients’ directors’ real roles in auditor appointment and remuneration, this study found that twenty-five of twenty-nine auditors believed that this issue did not impair auditor independence for three reasons. First, they argued that they work by following audit rules and standards and avoid wrong doings; second, they relied on a quality audit free from the threat of directors’ interventions; and third, they limited their relations to a professional one only. These arguments however must be tempered because the auditors are influenced by the Indonesian culture. In the Indonesian culture, being apart from those who have contributed a beneficial thing is not something that is easy to do. Normally, if they have such a relationship, they
will have a "closer" and "further" relationship between them. Can these auditors be different from most people in Indonesia?

On the other hand, four auditors stated that clients' directors' roles in auditor appointment and remuneration could impair auditor independence for two reasons. First, they viewed that auditor and clients are interdependent, they need one each other. Auditors would hardly be able to audit independently, because the auditors are under the clients' (directors') pressure. Second, especially for small clients, their owners are also directors. In this case, auditors face a harder situation, because of the owners' conflict of interests, and therefore clients would easily 'dictate' to auditors.

Even though this study did not find consensus among auditors on this issue, the facts showed that it is a dangerous situation for some auditors. Therefore, this study concludes that clients' directors' real roles in auditor appointment and remuneration could potentially impair auditor independence.

On the issue of the length of the audit engagement (audit tenure), this study found that the majority of auditors (twenty-one of twenty-nine) interviewed argued that audit tenure did not impair auditor independence. They believed that staff rotations, a change of clients' directors and limiting of their contact with the client to a professional relationship only could avoid independence impairment. However, it must be noted that all those changes are not all applicable, for example, although audit firms rotated their staff not all audit firms rotated their partners. Many clients' directors were appointed as
directors for more than one period and so there will be a potential long relationship between clients and auditors.

On the contrary, eight auditors stated that a long audit engagement could impair auditor independence. The longer the audit tenure, the worse was the potential for independence impairment. This argument is based on the following reasons. First, a long relationship could generate mutual interests between auditors and clients. Because they have mutual interests, auditors would tend to follow the clients' favour in performing audit tasks. Second, as human beings, after a long relationship, they would hardly have different arguments. Particularly for the local culture, people would tend not to have different views (arguments) with those who have maintained a long relationship. This study therefore concludes that the longer the audit engagement, the greater the potential for auditor independence impairment.

The next chapter will discuss the auditors' obedience to regulations and religion as factors that could affect auditor independence.
CHAPTER SEVEN

Sanctions, State of Professional Ethics

and Religion: Motivation Sources for Independence

Individual behaviour may be influenced by a variety of factors: environmental, organizational, physiological, psychological, and background.

(Ferris and Dillard, 1988, p. 282)

7.1. Introduction

The previous three chapters have discussed the findings related to audit firms, their clients and the relationship between them. This chapter discusses sources of motivation for independence. This chapter therefore will discuss, first, the effect of sanctions, as the punishment for those who violate audit regulations, on auditor independence and second, the effect of the auditor's religious beliefs (since all the interviewees believe in God and embrace a religion) on their perception of auditor independence.
This chapter will discuss and argue that sanctions become an external factor that could enhance auditor independence. Furthermore, this chapter will also argue that the professionalism of auditors and the auditors' religious values are internal sources of independence. Finally, the chapter ends with a summary and conclusion.

### 7.2. Sanctions

The presence of audit regulation is to support the practice of the audit profession. According to Mitnick (1980, p. 20), regulation is defined as "...the intentional restriction of a subject’s choice of activity, by an entity not directly party to or involved in that activity". The purpose of regulation, therefore, is to detect fraud, misinterpretation and unfair practices. As stated by Turley & Serer (1991, p. 45) audit regulation is needed by the audit profession in order to promote and sustain certain desirable characteristics, such as cost effectiveness, independence, and appropriate education and training. It also helps the involved parties protect their interests. The source of regulations in this regard, could be government, accounting professional bodies, and other relevant institutions (Corporate Law).

This study will investigate the effects of sanctions and punishments given by an accounting professional body on auditor independence and whether auditor independence is affected by sanctions or not.
7.2.1. The Effect of Sanctions

To investigate the effects of sanctions on auditor independence, the twenty-nine auditors were asked the following question “Can you tell me what is the effect of sanctions (given by an accounting professional body) on auditor independence, and what is your opinion regarding the role of the Institute and your expectations of the Institute to its members? Before asking this question, they were told that the existence of an Accounting Professional Body is to educate, protect and regulate its members. Therefore, those who produce a poor audit or violate audit rules and standards will be sanctioned by the professional body. All the interviewees agreed that sanctions could enhance auditor independence with various reasons. The summary of the interviews on this issue is outlined in Appendix 9.

7.2.1.1. Sanctions Enhancing Auditor Independence

All of the twenty-nine auditors agreed that sanctions or punishments could maintain or even enhance auditor independence because of the auditors’ fear of sanctions. Their answers however can be grouped into three specific areas. First, sanctions meant that auditors would become more careful in accepting clients and performing audit tasks. This was the reason given by most of the interviewees. Because they would know the consequences of sanctions, they would therefore practice as independent auditors more carefully, as stated by Mr. AA, a non big-five audit partner.

I agree that those who produced poor audit quality should be given sanctions or punishments by the institute or government because this
would teach auditors to do audit work more carefully and they would accordingly be more independent. However, as far as I know, the law enforcement conducted by the government and the audit profession still needs to be implemented. (Mr. AA)

The second reason given by the auditors was that sanctions could enhance auditor independence because auditors would be forced to be independent. Whether they agreed or not, auditors would have to follow audit rules and standards set up by a professional body. The consequences of violating the rules could be very heavy. As stated by Mr. X, a big-five audit partner, he believed that sanctions could force auditors to be independent for otherwise they would face hardship.

Yes, punishment would lead auditors to maintain their independence or otherwise they would be in trouble. Here, I see that the role of the Institute is very significant in that it forces its members to follow the rules and standards...(Mr. X)

The last reason why sanctions could maintain or even enhance auditor independence was because sanctions would tend to make auditors avoid trouble and that’s because auditors would fear sanctions. Auditors would not want to get themselves into trouble because they would understand the risks involved, from threats such as warnings and license cancellation. The following statement by Mr. M, a non big-five audit partner, took a more obvious view.

The Institute has rules that have to be followed by its members. If there is a member who violates the rules the Institute can punish its members, from a warning to membership cancellation. It is dependant on the seriousness of the mistake. If you ask me about the effect of punishment, I think it is obvious that punishment can maintain and improve auditor independence. (Mr. M)
These sanctions will only be effective in enhancing auditor independence when the professional body can force its members to obey the audit rules and standards. A weak monitoring or weak law enforcement will induce auditors to break the audit rules and standards.

7.2.2. Law Enforcement and Members’ Suggestions for the Professional Body

Concerning the effects of sanctions (given by a professional body) on auditor independence, the auditors agreed that sanctions could maintain or even improve auditor independence. In particular, in relation to the role of the Indonesian Institute of Accountants, the auditors had various views and expectations. This section, therefore will discuss these views and the auditors’ expectations about what the Institute should do in order to improve its role, particularly concerning the question of auditor independence.

Most auditors think that the Institute plays an important role in maintaining audit quality, especially as it relates to auditor independence. However the institute’s role, according to the auditors, still needs to be improved. The following suggestions came from the interviews on how to enhance the role of the Institute for its members.

First, most auditors suggested that the Institute still needed to enforce its laws on its members, because the auditors believed that by improving law
enforcement, auditors would be more independent as stated by Mr. F, a non big five audit partner.

I think punishment or law enforcement can improve auditor independence. Whatever the reasons, being independent is a must for auditors. So, I agree with that. But I see that the Indonesian Institute of accountants' role in this, still needs to be improved. (Mr. F)

Second, the auditors suggested that the Institute be more active in monitoring its members’ activities, because at the present time, the Institute seems to be inactive. The Institute will only take legal action (investigate its members’ mistakes) when its members are sued by other parties. If there is no impeachment of its members, there will be no action taken. Therefore, many auditors want the Institute to monitor its members’ activities in a more active manner, as stated by Mrs. V, a non big-five audit partner.

So far, the Institute doesn’t actively monitor a member who produces a poor quality audit. However, the Institute will do something if somebody or an institution reports on its members’ misconduct. I agree if the roles of the Institute could be more activated, auditors would be more aware of their profession and that it needs to be independent... (Mrs. V)

Third, the auditors also suggested the Institute apply equal sanctions to its members. There were some cases where the auditors viewed decisions as ‘not fair’ and that the Institute should be fair and equal to all its members as stated by Mrs. S, a big-five audit director.

... I see that the roles of the institute still need to be improved. They have to apply rules to all members equally. (Mrs. S)
7.2.3. Discussion

The twenty-nine auditors had the same view concerning the effects of sanctions (given by the professional body to those who generated a poor audit) for auditor independence. All of them agreed that sanctions could maintain or even enhance auditor independence. Their reasons were that auditors are fearful of sanctions and therefore auditors would try to follow the audit rules and standards. This finding is consistent with the study of Shafer, Morris and Ketchand (1999) who investigated the effects of formal sanctions on auditor independence.

Although auditors believed that sanctions could enhance their independence, it must be realised that some auditors still tried to avoid sanctions when they broke the rules and standards. Therefore monitoring conducted by public and professional bodies is necessary to force auditors to be independent through law enforcement. In this case, the role of the Accounting Professional Body as a watch-dog will be more important to watch and monitor its members’ activities. Complaints delivered by some interviewees mentioned unequal treatment by The Accounting Professional Body of auditors’ misconduct. Some auditors think that some audit misconduct was not given an appropriate sanction by the Professional Body while other cases were treated differently. This unfair practice must be evaluated to enforce the audit rules and standards in order to enhance auditor independence.

From the interviews, it could be surmised that not all auditors become independent because of their professionalism, but some of them, become
independent because they have no other choice or because they are fearful of sanctions given out by the professional body. However, whatever the reasons, as long as independence is maintained, there will be no problems for financial statement users.

The important thing that needs to be done by the accounting professional body is to make itself more active in monitoring its members' activities. That is a professional standards requirement that its members suggested and expected.

7.3. Auditors' Religious Values

Religions provide for human beings a guidance for life. Religion guides people on how to interact as human beings with God (as the Creator), among human beings and with other creatures. The Islamic religion, for instance, has a set of rules for operating business transactions (what kind of businesses are allowed or prohibited), banking systems (interest free and profit sharing system), Islamic accounting and the share market.

Most people believe that religious values (regardless of the kind of religion) affect human behaviour. As argued by Preston (1996, p. 24) religion serves as a most powerful sanction and motivation for people to behave morally. It is expected therefore, that the more religious a person is the more ethical they are. Auditors as human beings are no exception in this regard. Their actions and decisions in doing their job are affected by the religious values they possess.
Therefore, this present study investigated the religious values possessed by auditors as a factor that could affect auditor independence. This is a new issue to be investigated, because up until now there have been no previous studies that have investigated religious values as a factor affecting auditor independence.

7.3.1. The Effect of Religious Values

The interviewees who all embrace different religions, were interviewed in order to investigate the effects of religious values on auditor independence. Twenty-one of the auditors were Muslim, six were Catholic, one was an Adventist and one was a Protestant. They were asked the following question “Do your religious values affect your independence during the performing of audit tasks?” Before being asked this question, the relationship of faith (religious values) to daily activities and particularly to the work ethic and spirit was discussed.

Eight auditors said that religious values had no effect on auditor independence. On the other hand, twenty auditors believed that religious values had a positive effect on auditor independence. One auditor said that religious values had a slightly positive effect. A summary of these interviews is in Appendix 10.
7.3.1.1. Religious Values: Irrelevant to Independence

Eight auditors believed that religious values had no effect on auditor independence. In responding to the question, each auditor provided one or two reasons why religious values had no effect on auditor independence. Two main reasons emerged from the interviews as to why religious values had no effect on independence. First, seven auditors said that, there was no relevancy between religious values and their independence. Secondly, five auditors believed that auditors could be independent without involving religious values as long as they followed audit rules and standards.

The following is a statement of Mr. E a partner in a big-five firm, his view clearly said that religious values had no relevancy on auditor independence.

> In my experience, I never incorporate religious matters in my business life. As an auditor, I base my work on rules and standards, so religious values don’t affect my independence. I believe that religion teaches us to be a good person in relation to God, not to the audit profession. (Mr. E)

The following argument, stated by Mr. Y a partner of a non big-five firm, says that to be independent, he just needed to follow rules and standards not religious values.

> In my experience, I think my religious values have no effect on my independence. Because in doing audit work, I follow clear rules and standards. (Mr. Y)

From the eight auditors who believed that religious values had no effect on independence, four of them were Muslim, three were Catholic and one was
Protestant. In my opinion, this group of auditors show that they see religious values as being separate from daily life and so they believe that religious values are not relevant to auditor independence. Mrs. V, a non big-five audit partner also stated that religion had a certain place, but not at the work place.

Religion teaches about the relationship between humans and God. While auditor independence is ruled by the audit profession. So, in my opinion there is no relation between the two. Auditors, who are not independent owe their responsibility to the profession and not to God. In other words they are not professional. In my opinion, religion has a certain place but not in the work place. (Mrs. V)

7.3.1.2. Religious Values: Enhancing Auditor Independence.

Twenty auditors believed that religious values enhanced auditor independence. In answering the question, each auditor provided one or two answers. According to these twenty auditors there were five reasons raised from interviews, concerning why religious values do have a positive effect on auditors. First, seven auditors stated that as auditors they are responsible both to the public and to God. This was stated by Mrs. W, a non big-five audit partner as follows:

In my experience, religious values have significantly contributed to my daily life. This includes what I’ve been doing as an independent auditor. In other words, religious values positively affect my work especially my independence, because I believe that an auditor has responsibility to serve the public interest and also to God in doing the right thing. (Mrs. W)

Second, six auditors believed that being independent is a kind of obedience to God. Third, four auditors believed that religious values could build peoples’ characters. Fourth, three auditors believed that professional and religious
matters were an essential element of mental attitudes. Two auditors believed that in doing anything (including audit tasks) they were being supervised by God.

While another auditor said that religious values had only a slightly positive effect on auditor independence. Her reason was:

> In my experience, religious values have no strong effects on my audit work, especially my independence. What makes me independent is my professional values as an independent auditor. However, religious values have only a small contribution in building my independence. (Mrs. U)

From this answer, it can be seen that she put her professional values first as her ‘motivation’ to be independent. However, she still recognized, even a little, the effects of religious values on her ‘practice’.

### 7.3.2. Discussion

Twenty-one of the auditors believed that religious values could enhance auditor independence. There were only eight auditors who believed that religious values had no effect on auditor independence. Of those who believed that religious values could enhance auditor independence, it seems that these auditors practise religious values in their daily life, including their attitude to work. They do not separate religious values as their background from their daily life. It is no wonder when Mr. D conducts a weekly religion course for their audit staff in order to support and maintain auditor
independence from a religious aspect. This program, I think, is an alternative way to improve auditor independence since most Indonesians (including auditors) believed in God regardless of their religion. As stated by Mr. D, a weekly lecture on religious issues can assist him and his staff to always remember that they have to be responsible for any engagement, not only to the public but also to God. This is consistent with behavioural theory argued by Ferrish and Dillard (1988, p. 282) that individual behaviour could be affected by a variety of factors: environmental, organizational, psychological and background. Particularly, this view is consistent with Preston (1996) stating that religion becomes a most powerful force to behave morally.

On the other hand, those who believed that religious values had no effect on auditor independence, in my opinion seem to view religious values as ritual matters. They did not attach them into their daily life, particularly into their work ethic.

It is important to note that, the auditors’ perceptions about the effects of religious values on auditor independence were not dependent on the religion they embrace, but depended on how they viewed religious values. Because from the eight auditors who believed that religious values had no effect on auditor independence, four of them were Moslems and the other four Christian. Therefore, it can be concluded that for those who perceived religion as a ritual, where they did not practise religious values in daily life (but they still practiced their religious duties), they believed that religious values had no effect on auditor independence. In contrast, for those who perceived
that religious values were to be practised in daily life, along with other ritual matters, they believed that religious values could enhance auditor independence.

7.4. Summary and Conclusion

This chapter has investigated and discussed the findings related to the effect of sanctions and auditors’ religious values on auditor independence. Each auditor agrees to abide by a set of professional ethics on joining the profession. This study therefore conclude that each auditor has state of professional ethics, but their strengths are different from one auditor to other, and it is dependent on an auditor’s commitment to the profession.

On the sanctions issue, the study found that sanctions become an external source for motivation to be independent. All auditors believed that sanctions could enhance auditor independence. This consensus was based on the following reasons; first, auditors are frightened of sanctions, therefore they have to follow and apply audit rules and standards; second, auditors are forced to be independent otherwise formal or informal sanctions would have to be faced.

From this fact, it can be stated that sanctions are one of the external sources of motivation to be independent. Whatever the motivation to be independent, the most important thing is to be independent. The study also found that all auditors suggested the Indonesian Institute of Accountants should be more
active in monitoring and controlling its member’s practices in order to improve their professionalism.

On the religious values possessed by auditors issue, the study identified that all the auditors believed in God and embraced religions such as Islam, Catholic, Advent and Protestantism. Most of them (twenty-one of twenty nine) believed that their religious values could enhance auditor independence in performing audit tasks. This argument is based on the following reasons: first, auditors are responsible to the public and God; second, being independent is a kind of obedience to God; and third, the auditors' character and mental attitude are affected by their religious values.

On the other hand, eight auditors argued that religious values did not have any effect on auditor independence. Their argument was based on the following reasons: first, there was no relevancy between religious values and auditor independence; and second, auditors could be independent without religious values as long as they followed audit rules and standards.

In respect to religious values, the first group of auditors who believed that religious values could enhance auditor independence can be categorised as professional 'religious' auditors, whereas the second group of auditors who believed that religious values have little, if any, effect on auditor independence can be classified as professional auditors. Their different views come from their understanding and perceptions of religion, no matter what religion they embrace. Auditors who practise religious values in their daily life and thus
applied these values to their audit work would fall into the first group of auditors and auditors who separated their daily life from religious values and practised them only at the mosque or the church would fall into second group of auditors. However, in terms of independence both groups can be independent with only the motivation to be independent being different.

For the first group of auditors, the internal sources of independence are their professionalism (state of professional ethics) and their religious values. As auditors, they are committed to comply with audit standards and professional ethics. In addition, their behaviour is also guided by their religious values to do the right things and more away from wrong doing. For this group of auditors, impairing independence is a violation not only from a professional point of view but also from a religious standpoint.

For the second group of auditors the internal source for independence is only their professionalism, and the state of professional ethics that comes from complying with the audit standards. From this point of view, the study concludes that internal sources of independence are the auditors’ state of professional ethics and the auditors’ religious values. While sanctions are one of the external sources for being independent, the better the law is enforced the more independent auditors would be.

The next chapter will discuss the findings on the meanings of independence, major threats to independence, major factors enhancing independence,
possibilities whether or not auditors become totally independent and their efforts to maintain independence.
CHAPTER EIGHT

Independence:

Meanings, Threats, Motivations,

Possibilities and Efforts

As an attitude of mind, independence is a psychological state. That state remains undefined. Indeed, accountants have ...[stated]... overtly that it is undefinable. (Wolnizer 1987, p. 124)

8.1. Introduction

The previous four chapters have discussed factors that could affect auditor independence. In this chapter, the meanings of independence perceived by auditors will be discussed. This is to evaluate how well the auditors interviewed understood the meaning of independence compared to the Professional Body's definition.

This Chapter will also discuss major factors that could impair auditor independence. The purpose is to recognise these threats and therefore look at ways to minimise them. The major factors that could enhance auditor
independence are also discussed in this Chapter with a view to maximising them. The question of whether auditors can be totally independent or not is also discussed in this chapter, and finally the auditors’ efforts in maintaining their independence will be discussed. The chapter ends with a summary and conclusion.

8.2. Meanings of Independence

The most distinctive feature of a professional body is its ability to regulate its members. The Indonesian Institute of Accountants as a professional body aims to regulate its members by setting up standards and professional ethics. The performance of its members in practising their profession therefore has to comply with what the Institute has regulated.

The central purpose of this section is to seek to understand the meanings of independence as perceived by the auditors that were interviewed. Despite, the definition of independence stated by the Indonesian Institute of Accountants, this study intends to observe, first, the auditors’ perceptions of the meanings of independence as they practise and second, to observe how close the auditors’ perceptions of independence (as they practise) compare to the definition or meanings of independence as stated by the Indonesian Institute of Accountants.

This section therefore consists of the following parts. First, it contains the definition and guidelines of independence set by the Indonesian Institute of
Accountants. Second, it provides the findings from the interviews, as to how the auditors defined independence, and how they perceived independence. The last section is a discussion of the auditors' perceptions compared to the ‘theory’ set by the Institute.

8.2.1. The Institute’s Definition

The Indonesian Institute of Accountants has defined auditor independence as a mental attitude in which “an auditor must not easily be interfered with by other parties because the auditor must serve all parties” (IAI, 1996, p.220.1). On the other hand, the Indonesian Institute of Accountants’ Professional Code of Ethics provides guidelines on how to be independent. The following paragraphs are quoted from the Indonesian Institute of Accountants’ Code of Professional Ethics (translated from the Indonesian Language) to provide an idea as to how the Institute perceives independence and its rules for its members.

Sub chapter 12

A public accountant must be independent.

Sub chapter 13

1. A public accountant in performing audit tasks must be free of any interests which can lead into independence and objectivity impairment, therefore he is able to state his opinion without being committed to any interests.

2. If a public accountant is not independent from any interest as stated on verse (1) of this sub chapter, he must refuse or give up such an engagement.

3. A public accountant must refuse or give up an engagement as stated on verse (1) of this sub chapter, if he is in the situation, where other people will suspect his independence and objectivity.
Sub chapter 14

A public accountant, who performs audit tasks on behalf of clients, must be independent by explaining that he is on duty on behalf of clients with certain limitations, authorities and responsibilities.

The above definition and guidelines are set by the Institute for its members with the expectation that its members would be able to transfer independence to their practices. However, in reality auditors might have different perceptions of independence from that definition and code of professional ethics, as stated by Amernic and Aranya (1981) that different people will have different definitions of independence. This study aims to investigate what auditors understand about auditor independence. Do they for instance have a proper understanding of auditor independence as envisioned by the professional body? It is important to observe how good auditors understand the idea of auditor independence compared to the ‘theory’ that must be followed by them. The following section therefore will discuss auditors’ perceptions of independence raised from the interviews.

8.2.2. Auditors’ Understanding

In order to observe auditors’ perceptions of independence, the twenty-nine auditors were asked the following question “Can you tell me what you understand about auditor independence?” Before asking the question, the meaning of auditor independence as stated by the Indonesian Institute of Accountants was not discussed. Rather they were asked to reply from their
own understanding, to say and determine what auditors really understand about their profession.

From the twenty-nine auditors interviewed there were fourteen views (meanings) of independence put forward, where each auditor provided one or more views. However, after having categorized those meanings they can now be classified into five main categories. The interview summary on this issue is in Appendix 11.

First, ten auditors thought that auditors could be stated as being independent where they had a mental attitude of being neutral and serving the public interest. They argued that as auditors they had to put the public interest as the number one consideration. They did not defend their clients’ interests, but the public’s. This was as stated by Mr. M, a non big five audit partner when he said...

...In my opinion and understanding, independence means that in doing audit works we should stand in the middle not to tend to defend certain parties’ interests, but rather to serve public interests. The important thing in here is we should maintain our integrity as an independent auditor. (Mr. M)

Second, nine auditors believed that independent auditors must not be interfered with by other parties (clients’ managements, companies’ owners, bankers etc). This group of auditors believed that auditors must stand independently, based on audit rules and standards. Auditors must be resistant to any pressures. In other words, once auditors submit to or tend to
submit to pressures by others they can no longer be regarded as being independent. Mr. X, a big five audit partner put forward this view of independence.

In my opinion independence is a situation that we as auditors can freely express our findings and opinion, and independence also can be stated when there is no intervention from other parties to auditors. (Mr. X)

Third, eight auditors stated that auditors can be regarded as independent when they are free from any interests. Auditors must not have a vested interest or financial interests, as stated by Mr. D, a non big-five audit partner.

In my opinion independence is similar to pillars which protect auditors from wrong doings. Auditors must be free in stating their opinion, and the auditor must be free from any interests. (Mr. D)

Fourth, seven auditors viewed independence as an objective action. This means that auditors have to see clients’ financial statements as they are. If the auditors find something that needs to be corrected or adjusted in the financial statements then the auditors have to inform the clients, otherwise the auditors will report on the financial statements as they are. This view was put forward by Mr. L and Mrs. U, a big-five audit partner and manager respectively.

Well, as an auditor our duty is to do the attest function. It means that we have to see everything as it is... (Mr. L)
In my opinion independence means that an auditor presents audited financial statements as they are, without taking any advantages. Independence means also that auditors can be fair to all parties. (Mrs. U)

The last view, stated by seven auditors, indicates that auditors can be regarded as independent if the auditors follow audit rules and standards in performing the audit tasks, as Mr. H, a big five audit manager, said…

In my opinion an auditor can be said to be independent if he does audit works and meet audit rules and standards. (Mr. H)

In short, from all auditors’ responses, their answers can be condensed into five meanings. These five views on the meanings of independence are that auditors must serve the public interest, must not be interfered with by others, must be free of any interest, must be objective and must follow audit rules and standards.

8.2.3. Discussion

The twenty-nine auditors were asked the same question concerning the meaning of independence. All responses had various meanings, there were no answers that were exactly the same. Interestingly, no one auditor referred to the Institute’s definition and guidelines of professional ethics in a direct way. Even though, the essence of their answers is similar to what the Institute defines and rules.
The auditors’ responses were merely based on their understanding, and their answers are practical, therefore their answers better represent what and how they practice independence rather than what the Institute ‘says’.

The differences among the auditors’ answers reflect that they have a range of understandings of independence. Based on the investigation of the auditors’ understanding of independence, it seems that auditors have a proper understanding of the role of their profession. All these views are similar in spirit to the independence guidelines of the Indonesian Institute of Accountants. The thing needed by auditors in their practice is an implementation of their understandings of auditor independence, then there will be a harmonization between understanding of concept and practice.

8.3. Revealed Major Factors Impairing Auditor Independence

Besides investigating the factors affecting auditor independence, this study also aimed to investigate the major factors that could impair auditor independence. To investigate these major factors, the twenty-nine auditors were interviewed about this. The auditors were asked the following question “Can you tell me what major factors could impair auditor independence?” Before being asked this question, they were told that all of the questions they had previously been asked related to factors that could impair auditor independence and they were asked to pick one or two major factors. The interview summary can be seen in Appendix 12.
Twenty-seven auditors replied with one or two major factors, and two auditors said that there was no major factor impairing auditor independence. Twenty-seven auditors generated thirteen distinctive answers. However, from these answers only three major factors could be discovered that could impair auditor independence because the remaining answers were mentioned by only one or two auditors. These three major factors were, first, a close (improper) relationship with clients, second, major clients, and the third was the weakness of the auditor's integrity.

It was mentioned by eight auditors, that a close (improper) relationship with clients was perceived as the most dangerous factor that could threaten auditor independence. Of these eight auditors six of them were non big-five audit partners and only two were members of the big five. From this it follows, in my opinion, that auditors from small audit firms face stronger pressure from clients than auditors from big firms. The following statement by Mr. B, a non big-five audit partner, indicates that they face a difficult situation when they have a close relationship with their clients.

I think the major factors that can impair auditor independence are first, a close relationship with clients or management. With old clients normally we have good relations and it makes it hard to be independent... (Mr. B)

A close (improper) relationship with clients is normally generated from a long audit engagement. Therefore besides the fact that auditors have to maintain a professional relationship with their clients, a limitation of the audit period must be considered in an effort to minimise this risk.
Major clients were perceived to be the second major factor that could impair auditor independence as stated by six auditors. Of these six auditors, three of them were members of the big five, and another three were members of non-big-five audit firms. They said that auditors will tend to retain their major clients because these clients generate a significant amount of fees, consequently the auditors would be reluctant to have a different opinion from or an argument with the clients because of the fear of losing these clients. The following statement by a big-five audit manager asserts that auditors will tend to retain their large clients.

I think major clients who generate significant fees could affect auditor independence, because auditors will try to retain such clients to run their business (Mr. G).

It is very natural, especially for a small audit firm, that they have major clients who contribute significant fees to the firm. An effort can be made to obtain fees from a greater number of clients, so they are not dependent on a few major clients. Other efforts also can be made to improve their state of professionalism as independent auditors.

Weak integrity is the third major factor in impairing auditor independence, as mentioned by five auditors. This is because auditors who have weak integrity will be easily interfered with or affected by other parties’ interests. The following statement by Mr. H, a big-five audit manager makes it clear that auditor integrity is vital.

The major threat in impairing auditor independence comes from auditors’ integrity and personality. Those who have a weak personality
and integrity will be easily affected by any other force and temptation. Their attitude can change because they have weak integrity (Mr. H).

The weakness of auditor integrity is the most difficult to solve because it comes from auditors themselves. It depends on auditors’ motivation whether they will be independent or not. Therefore rules and standards must be enforced to minimise any misconduct.

Only one or two auditors mentioned the following factors. Factors such as lack of knowledge, fee dependence, superiority of partner, conflict of interest, audit firm size, lack of confidence, non audit-services, competition, intervention from clients’ bankers, and early stages of audit firm establishment.

The last two factors are interesting. Intervention by the clients’ bankers with the auditor is a common practice (according to Mr. M) in small audit firms. They (auditors, clients and bankers) are like a triangle, they need one another. The auditor needs clients, clients need a ‘good’ audited financial statement to obtain credit from the banks, and bankers ask auditors to ‘approve’ clients’ financial statements as ‘good’ audited financial statements. Even though this was only mentioned by one auditor, in my opinion auditors (especially small audit firms) need to be aware of this threat.

The early stages of an audit firm’s existence, according to two auditors, is the hardest phase in running an audit firm. Because, at the beginning of the audit firm’s business, they have few clients and they have to look for clients. If they
conduct an audit task very ‘severely’, they will hardly attract clients. This stage, according to two auditors, is the hardest stage in maintaining auditor independence. It is important to note that those who would establish an audit firm, must be aware of this situation.

8.4. Revealed Major Factors Enhancing Auditor Independence

This study also aimed to investigate the major factors that could enhance auditor independence. The interviewees were asked the following question, “Can you tell me what the major factors are that could enhance auditor independence?” Before asking this question, the auditors were asked to pick from a list of factors.

In responding to the question, each auditor provided one or two answers as major factors that could enhance auditor independence. From the interviews, the auditors provided seven different answers. However, there were four major answers that were mentioned by at least three auditors. A summary of the interviews can be seen in Appendix 13.

First, thirteen auditors stated that auditor integrity, or professionalism as an auditor, can be the most important factor in maintaining and enhancing auditor independence. To those auditors, auditor integrity is everything, wherever they work, whoever their clients are, whatever the characteristics of their relationship and if auditors have strong integrity then auditor independence will not be impaired. The following statement by Mr. R, makes it more
obvious how important auditor integrity is in maintaining auditor independence.

To me building character to be independent is very important. It must be started from the early stages from the university for example students have to try to be independent. Therefore, if this attitude is possessed by auditors, they will be always independent no matter where they work, in big five audit firms or in small audit firms. No matter whether they audit big clients or small clients, once again independence is an individual matter that has to be owned by auditors. (Mr. R)

Second, for at least ten auditors, sanctions can become a major factor in maintaining and enhancing auditor independence. This is understandable because auditors must face sanctions imposed by the professional body when they violate audit rules and standards. This is viewed by those auditors as quite an effective way to maintain and improve auditor independence, because they are afraid of the consequences, especially in relation to their future business. This was explained by Mr. N a supervisor with a big-five firm:

In my experience, sanctions and punishments can make me more independent. Because, once we violate the rules and standards, we will be punished and we'll finish (Mr. N).

Third, religious values were surprisingly mentioned by five auditors as a major factor in maintaining and improving auditor independence. Four of them were Moslems and one was a Christian. In my opinion, those five auditors have a religious spirit in the performance of their daily tasks, including audit tasks. Therefore, their religious spirit could affect their work attitude particularly their independence.
Fourth, the level of auditors’ education, was mentioned by three auditors as a major factor that could maintain and enhance auditor independence. According to these three auditors, the higher the level of education of auditors (including knowledge, training and skills) the more independent they are.

The following factors were only mentioned by one to two auditors; audit firm internal policy, building independence from an early stage, and mission and vision of auditors.

From those major factors mentioned that could enhance auditor independence, it seems that the auditors themselves are a key point in maintaining and enhancing auditor independence, except for external factors such as audit firm policy and sanctions.

It is normal in a profession such as the auditing profession, that the state of professionalism becomes a major factor in motivating auditor independence. Because a real professional is someone whose actions are based on professional values, this is not an exception for Indonesian auditors. As in other professions or organizations it is not surprising when sanctions enforced by the profession can become a major factor to motivate auditor independence. Whereas religious values as a motivation to be independent is a reflection of those auditors who conduct audit work by following audit rules and standards and follow the values of their religion.
8.5. Auditors: Total or Partial Independence?

Although the factors that could affect auditor independence have been discussed, this study aims to investigate whether auditors can be totally independent or not and to know how badly these factors affect auditor independence. The twenty-nine auditors were asked the following question, “In performing audit tasks can you become totally independent?” Before being asked this question, they were told that some factors could affect auditor independence, and they were asked whether they could be resistant to or affected by those threats. A summary of the interviews is in Appendix 14.

From the interviews, their answers can be categorized into two. First, the answers of fifteen auditors can be classified as ‘try to be independent as much as they can’. Second, fourteen auditors answered directly that they could be totally independent. For those who answered that they tried to be independent, some of them felt that it was hard to answer this question. The following answers of this group of auditors are cited as follows:

As a human being, it’s hard to answer that question. What I do is try to be independent as much as I can, by following the rules and standards (Mr. D).

I am a human being, it is hard to say that I can be totally independent, because to be honest some times there is a feeling to ‘help’ clients as long as it is within the rules and standards (Mr. Y).

It seems that auditors, however, try to be independent as much as they can, because they are aware of their profession. However, in my opinion, this group of auditors, faced some threats (as stated in the previous questions in
the interviews) caused by possibly weak integrity, conflicts of interest, or other related things.

On the other hand, fourteen auditors directly answered that they could become totally independent. Their reason was that because their profession requires them to be independent there is no reason not to be independent. What they do is perform audit tasks as set by the audit rules and standards, as stated by the following auditors.

I can be totally independent because my profession is as an independent auditor, I have enough salary, I work independently, there are no reasons not to be independent (Mr. G).

As an auditor I have to be independent as set by the audit standards and the code of ethics. I never compromise my independence with clients, what I do is I do my best try to audit and stick as much as possible to the rules. I never violate the rules and standards (Mr. Q).

Interestingly most of this group of auditors (eleven of fourteen) were members of the big five audit firms. On the other hand, another three auditors from this group were all female auditors of non-big five audit firms. This is because big five auditors may have strong integrity and are supported by the confidence of their firms. While for three female non big five auditors, it seems that they may have strong integrity and are supported by their conditions of work such as establishing audit firms not merely for seeking money, but also to accommodate theory into practice. Consequently, they have less conflict of interests during the performance of audit tasks.

While the first group of auditors who stated that they tried to be independent, ten of the fifteen are members of non-big five audit firms. This phenomenon
is interesting, because there is a tendency that non-big five auditors tend to answer, “try to be independent”, and conversely big five auditors tend to answer, “can be totally independent”.

This is because of the two reasons relating to auditor integrity and their individual condition. Both big five and non-big five auditors may have the same strong integrity, but their integrity is influenced by their individual condition (individual firms, or auditors). For non-big five auditors, unfortunately the threats they face in maintaining independence are ‘stronger’ than the big five auditors’. Therefore they tend to answer, “try to be independent” as much as they can. But, there is an exception with the three female non-big five auditors, because they experience ‘different conditions’.

8.6. Maintaining Independence: Some Practical Efforts by Auditors

This study aimed to investigate the key success factors practised by auditors in maintaining auditor independence. It is important that this be researched because auditors could have a different experience from each other.

To investigate the auditors’ key success factors in maintaining auditor independence, the twenty-nine auditors were interviewed by asking them the question, “Can you tell me your key factors in maintaining auditor independence from any impairment?” A summary of interviews can be seen in Appendix 15.
From the interviews each auditor provided one to two keys factors in responding to the question. Following the audit rules and standards, as stated by thirteen auditors has become the most frequent answer in maintaining auditor independence. According to this group of auditors, in performing audit tasks auditors will only be independent if they follow the audit rules and standards. This was stated by the following auditor.

To maintain my independence, I always try to be a good independent auditor. Good auditor means that the auditor must follow the audit rules and standards. He must have a strong personality and integrity when facing any situation and conditions, so the rules and standards can be done properly (Mr. H).

Then, the second most popular formula to maintain auditor independence is by strengthening auditor integrity. This was indicated by ten auditors. By doing this, according to this group of auditors, auditors will be always independent in all situations and conditions, as asserted by the following auditor.

In my experience, I think the integrity of the auditor has a very important role in maintaining and enhancing auditor independence (Mr. B)...

Surprisingly, six auditors believed that religious values not only had a positive impact in performing audit tasks, but religious values played a significant role in maintaining auditor independence. The following statement of an auditor makes it more obvious that the religious approach for some auditors has a place in maintaining auditor independence.
In maintaining my independence, I do use a religious approach. I maintain and improve my faith not to fall down because it will affect our mental attitude and professional skills. In my opinion, it is very important because without faith, auditors will be easily affected by bad impacts (Mr. P).

The next key success factors for maintaining auditor independence, as mentioned by two auditors, are the selection of clients. According to these auditors, it would be better to refuse (potential) clients who have bad intentions, such as violating rules and standards. Accepting such clients would put auditors at risk and consequently it would be hard to be independent.

Two auditors proposed another formula for independence. They believed that by managing a proper relationship with their clients they would be able to be independent. The next three key success factors to maintain auditor independence were mentioned by one auditor each. These were the auditors’ ability including skill and knowledge, job satisfaction as auditors including salary and their vision and mission to be auditors.

The key success factors practised by auditors to maintain auditor independence that were raised from the interviews therefore were; first, following audit rules and standards; second, strengthening auditor integrity; third, applying religious values; fourth, selecting clients; fifth, maintaining a proper relationship with clients; sixth, improving auditor ability; seventh, auditor job satisfaction; and last the vision and mission of auditors.
From these key success factors, it seems that the most important thing in maintaining auditor independence are the auditors themselves, and not external factors such as the audit firm size. Another thing that needs to noted is the role of the religious values of auditors in maintaining independence. Previous studies did not take religious values into account as a determinant of auditor independence. This study, therefore could argue that the religious values possessed by auditors could be one source that helps maintain auditor independence, because six auditors acknowledged this.

8.7. Summary and Conclusion

The chapter has investigated and discussed the findings concerning the meanings of independence as perceived by the auditors. The chapter also discussed the findings about the major factors that could impair and enhance auditor independence. The chapter also discussed the auditors' perception as to whether they can be totally or partially independent, and the auditors' efforts in maintaining their independence.

The study found that the auditors have a similar understanding and perception of independence as written in the Institute's definition of independence. This means that the auditors have a proper understanding, and they seem to be familiar with this issue as professional auditors. In this study, the auditors stated that being independent they must serve the public interest, not be interfered with by others, be free of any interests, be objective and follow audit rules and standards. Even though auditors understand very well about independence, it is important to monitor their activities and practices. The
Professional body and public must watch them in order to ensure they maintain their independence as they stated.

This study also investigated major factors that could impair auditor independence as perceived by auditors. The study found that most auditors (twenty-seven of twenty-nine) acknowledged that their independence was potentially impaired by the following major factors: first, improper relations between auditors and clients caused by long association; second, fee dependence on major clients; third, the weakness of the auditor’s personal qualities. On the other hand, two auditors argued that there was no major factor in impairing auditor independence.

A long association between auditors and clients was acknowledged to be a major factor that potentially could impair auditor independence. To reduce this threat therefore, a limitation of audit engagement should be considered by the professional body (or government agent) through rotation of audit firms and audit partners. Not only for the banking industry, but also for all clients, particularly listed clients. Dependence on certain clients should be avoided through distributing potential income by seeking other potential clients. The weakness of an auditor’s personality could be overcome through continuous educational/training and forced through law enforcement by the professional body.

On the issue of major factors that could enhance auditor independence, the auditors believed that the following were important: first, the auditor’s personal
quality (integrity, objectivity and strength of character); second, sanctions; and third, religious values. It is obvious that the major factors are heavily dependant on the internal factors of auditors (auditor quality and religious values) and the law enforcement conducted by the professional body.

On the issue of whether auditors are able to be totally or partially independent, the study found that fifteen auditors believed that being totally independent is impossible, however they preferred to say that they should “try to be as independent as much as they could”. This answer is based on the reality that auditors are professional persons but they are also human beings who can be affected by internal and external factors. However, they try to be independent as much as they can.

On the contrary, fourteen auditors directly stated that they could be totally independent. They argued that being totally independent was a must for auditors; they just follow the audit rules and standards in doing audit work. It is obvious that there was no agreement on this issue as to whether they could be totally or partially independent. One lesson that can be taken from the auditors’ statements is that being independent is possible but they must be careful and resistant to potential factors that could impair their independence and that their independence is a continuum and not dichotomous. This range extends from less independent to more independent, as it depends on how well the auditors can resist negative external factors.
This study also investigated auditors' experiences in maintaining auditor independence. The study identified the following processes conducted by the auditors. Following audit rules and standards was the most common answer for auditors, followed by strengthening auditor quality and significantly applying religious values to the audit work was the third ranked answer, and the last formula was to be selective in seeking and accepting clients. From this chapter, it can be seen that auditors' religious values have an important place in maintaining auditor independence.

The next chapter is a discussion of the research findings and a conclusion of the study.
Chapter Nine

Summary and Conclusion

9.1. Introduction

The primary purpose of this study was to investigate factors that could affect auditor independence. This study was based on the auditor behavioural model of Goldman and Barlev (1974) which explained that an auditor and client have a balance of power. This study was also inspired by the 'material circumstances' affecting auditor independence proposed by Flint (1988). Flint recognised five material circumstances that could affect auditor independence.

Based on the review of the previous empirical research and the models above, this study investigated nine propositions, with the extension of religious values, that effect auditor independence. These propositions were not truths to be proven, rather they were used as a working guide (Thomas, 1993, p. 35 in Creswell, 1994). The inclusion of religious values into the
research guide is based on two reasons: first, individual behaviour as argued by Ferris and Dillard (1988) is affected by environmental, organisational, physiological, psychological and background; and second, religion serves as a most powerful sanction and motivation for people to behave morally (Preston, 1996). Therefore the ten propositions were the main guides for this research. In addition, the auditors were also asked to identify the meaning of independence, as well as the major threats and motivations to be independent. The probability of auditors being totally or partially independent was also identified. Finally the auditors were asked to explain their efforts in maintaining auditor independence.

The central theme of this chapter is to summarise and conclude research methods used in this study, its findings as well as to discuss the implications of the study, the limitations of the study and to make suggestions for future research.

9.2. Research Methods

This was a perceptual study of auditor independence by applying an ethnographic, qualitative approach. This study tried to investigate the auditors’ perceptions of their independence, therefore semi-structured interviews with twenty-nine Indonesian auditors were conducted to collect data. The use of semi-structured interviews followed a suggestion by Fetterman (1998, p. 481) because a “…semi-structured interview is the most valuable when the fieldworker comprehends the fundamental of a community
from the insider’s perspective. At this point, questions are more likely to conform to the native’s perception of reality than the researcher’s”. The following section discusses how the researcher related to the interviewees, the validity of the study and data analysis.

9.2.1. Relation Between the Researcher and the Interviewees

Since the ‘objective’ of the research was to understand auditors’ perceptions, interviews were selected as the way of collecting data from the twenty-nine auditors. The research used an ethnographic approach where cultural values are inherent in the study. Some researchers go to research sites as strangers/foreigners and some are a part of the culture they wish to investigate. This research was the latter type of research site selection. This section will outline my experiences as an Indonesian accountant during the interviews with the auditors.

As a member of the interviewees’ culture, I had a number of advantages, such as understanding the language, concepts, categories, rules, belief, and so forth during data collection and analysis (Van Maanen, 1988, p.13). The interviewees were friendly, since they regarded the interviewer as a colleague. They welcomed me warmly and were willing to be interviewed. In interviewing the auditors, I took a position as an active learner rather than as an expert, as suggested by Creswell (1994, p.17). As an Indonesian, I had no language barrier as outsiders would normally have to face, I was able to understand the interviewees’ tones, expressions, intonations and meanings
during interviews. With these advantages, the interviewees enthusiastically answered all questions frankly. They did not feel as if they were being investigated but felt as if they were helping me to understand. With a the familiarity of language and culture, I was also able to know and understand whether their answers were true or 'lip service'.

9.2.2. Validity of the Study

The main findings of this study concern ten potential factors that could affect auditor independence, the auditors’ understanding of their independence, major factors that could potentially impair and enhance their independence and the possibility of being totally or partially independent. The findings were based on the auditors’ perceptions. Since the objective of this study was to investigate auditors’ perceptions, this study used an interactive, confirmation interview as a way of gathering ethnographic data, as suggested by Le Compte and Goetz (1984, p.45). There were twenty nine auditor-interviewees in this study. They were partners of non big five audit firms and partners, directors, managers and supervisors of big five audit firms. They had from five to forty-five years experience in the profession. They were both male and female auditors and they had various cultural and religious backgrounds (see Appendix A).

The profiles of the interviewees, as suggested by Le Compte and Goetz (1984, p. 46) were expected to be ‘right sources’ to meet the ‘representativeness’ of -sexes, experiences, cultures, religions and level of positions- of the object being studied to provide valid data. Through the ‘right
sources’ of data, this study therefore was expected to represent an accurate evaluation of the auditors’ perceptions to be regarded as valid or true (Hammersley, 1992, p. 69).

As suggested by Goetz and Le Compte (1984, p. 22) in order to maintain the validity of the study, I (the researcher) tried to explain the research questions as clearly as possible during the interviews. Moreover, this study claims to be valid for three reasons: first, the researcher is closer to the ‘object’ being studied; and second, the researcher was able to monitor the research activity through continual questions and reevaluation (Goetz and Le Compte, 1984, p. 221); and third, the data given by the interviewees was checked and compared with that of the other interviewees (Dobbert, 1982, p. 265). However, it must be remembered as Dobbert (1982) states that in a social situation there is always more than one valid view, as for example a person who may have many ways to explain an elephant each according to the angle from which it is viewed.

9.2.3. Data Analysis

An ethnographic qualitative approach has been used in this study in order to analyse and interpret data collected. In analysing data, this study applied the combination of analytic procedures developed by Wolcott (1994b) and Miles and Huberman (1984). The interview data are summarised and pattern coded as proposed by Miles and Huberman (1984) and then analysed through description, analysis and interpretation as suggested by Wolcott (1994). The
use of pattern coding allows the researcher to classify answers and compare responses. Whereas the analysis introduced by Wolcott allows the researcher not only to analyse what auditors say but also interpret beyond what they say.

There were four stages in the data analysis: first, summarising the interviews data (Miles And Huberman, 1984); second, pattern coding to classify the category (Miles and Huberman, 1984); third, making a description of data summarised and pattern coded (Wolcott, 1994); and fourth, analysing and interpreting the data (Wolcott, 1994). Because the researcher was so involved with the research process it was impossible to be objective.

9.3. Summary of Findings

This section summarises and concludes the findings of the study, which include potential external and internal factors that could affect auditor independence. All factors investigated in this study are summarised in Figure 4. The summary of findings are organised as follows: first, the eleven factors investigated in the study will be classified into four subsections; second, the major factors that could impair and enhance auditor independence; third, the meaning of independence, the possibility to be totally independent, and the auditors’ effort in maintaining their independence.
9.3.1. Audit Firms' Characteristics

The study classified an audit firm's characteristics into audit firm size and services rendered to clients. The study found no agreement among auditors on the audit firm size as a factor that could affect auditor independence. Seventeen of twenty-nine auditors did not agree with the proposition saying that the bigger the audit firms, the more independent their auditors. Their arguments were that auditor independence depends on the auditor's integrity.
personality and strength of character. Therefore, some of these auditors suggested viewing auditor independence not from the size of audit firm but more specifically from the auditor’s personal qualities.

Auditors who have a high integrity will not compromise their independence just to get or retain their clients. Those who believe that independence is a personal matter they be confident to be independent even though they are non-big five auditors, this is considered practicable by everyone as long as they have a high integrity as an independent auditor. But it must be remembered that the public still have a view that the bigger the audit firm is the more independent they are.

The phenomenon that some big five auditors also compromised their independence by accepting an audit appointment with very low fees can be an argument for those who not agree with the proposition that the bigger the audit firm the more independent they will be, because in practice, both small and big five auditors potentially compromise their independence. This phenomena can be a justification for non-big five auditors to “also compromise” their independence. In this situation therefore audit firm size cannot guarantee to enhance or impair auditor independence.

The last reason for not agreeing with the proposition is that auditors must not be judged generally. This group of auditors prefer not to generalize about auditors. In my opinion, this is a valid observation because I have observed that some auditors easily accept any audit engagement and quickly issue their
opinion. In this case I believe that proper audit procedures were not conducted. On the other hand, other auditors perform audit work properly. Therefore, we cannot generalize about those auditors.

Twelve auditors supported the proposition with the following two arguments. First, the bigger the audit firm, the less their dependency on clients. Second, the bigger the audit firm, the more ‘instruments’ they have for maintaining independence such as appropriate divisions, more experts, more advanced technology and international links. These twelve auditors were consistent with the previous Indonesian study conducted by Supriyono (1988). Even though this study did not find consensus on this issue, both groups acknowledged that all auditors can be independent wherever they work, at big five audit firms or small audit firms as long as they have proper auditor qualities as argued by Flint (1988). However, if there are two auditors with same ‘quality’, where one works at a big-five firm and the other one works at a small audit firm, it can be argued that the first auditor can be more independent than the second, because the characteristics of the big audit firm are better than those of a small audit firm in maintaining independence. But once again, auditors from a small audit firm can be independent as long as they have proper personal characteristics.

On the non-audit services issue, this study found that a majority of auditors (twenty of twenty-nine) did not agree with the proposition saying that providing non-audit services by audit firms to audit clients could impair auditor independence. Their arguments were: first, big five audit firms have different
divisions for different services, and non-big-five audit firms send different staff to provide different services; and second, they offer non-audit services which have no impact on the clients’ decision making processes.

According to these auditors, having different divisions and sending different staff for different services, means that they will be independent since they can separate their authority and responsibility and there will be no conflict of interest. Limiting their services so as not to affect the clients’ decision making process will make auditors independent from any interests.

However, in my opinion, all their arguments above are related to a combination of their work environments (division/work separation/ limiting rules, selecting clients) and personality (integrity and following rules/standards). Their arguments of course can be true. However, they must be aware that the public view is that such arrangements can prejudice them to compromise audit opinion because they earn both audit and non-audit fees from a certain client.

On the other hand, four auditors believed that the provision of non-audit services by audit firms to audit clients could impair auditor independence. These four auditors support the study by Supriyono (1988). Their reason was simply because this issue could generate a conflict of interest for auditors. Even though only four auditors could recognise their limitations, arguments about conflict of interests that can impair their independence have showed their honesty about their inability to handle both audit and non-audit services.
In my opinion separating jobs with different staff and audit partners will have significant positive effect in maintaining auditor independence. This program, at least, can minimise any conflict of interest that can possibly be raised during audit work, but there is no guaranty that the public will immediately trust them.

Meanwhile, the study found that five auditors from non-big five audit firms did not offer non-audit services to their audit clients. This is interesting, since there is no prohibition on offering non-audit services to audit clients. Their decision not to offer non-audit services was to avoid a conflict of interest.

Even though there is no prohibition on offering non-audit services to audit clients, this study suggests that for those who have no non-audit services divisions they should not offer non-audit services to their audit clients unless they have different staff and a different partner in charge for audit and non-audit services to minimise a conflict of interest. In my opinion, the way taken by these auditors is a very safe way, not to endanger themselves and the public interest. This decision has come from their awareness, because they know that they are small audit firms and have limited partners and staff. It is a very wise choice for a small audit firm not to offer both audit and non-audit services to the same clients. Even though from short-term business point of view, this is not advantageous for the auditors it is beneficial for the public interest and auditors themselves in the long-term.
9.3.2. Clients’ Characteristics

The chapter examined and discussed the effect of the clients’ characteristics on auditor independence. This included the clients’ backgrounds/reputations, the existence of a corporate audit committee and the role of the audit fee paid by clients (major clients). On the issue of client’s backgrounds/reputations this study found that all auditors did not agree with the proposition saying that auditor independence is affected by the client’s reputation. Their argument was that auditors perform audit tasks based on the same audit rules and standards for all clients. Whoever their clients, good or bad clients’ backgrounds/reputations do not affect auditor independence.

On the other hand, auditors still acknowledged the effects of the clients’ backgrounds/reputations on the following things: first, scope of work; second, different audit requirements; third, their early perceptions/images; and fourth, as a consideration in accepting an audit engagement. It is understandable that different clients’ backgrounds such as small and big companies, listed and non-listed companies, could generate a different scope of work, complexities and audit requirements. Also clients with good reputations could influence auditors’ images and consideration in accepting audit appointments. They had the view that the better the client’s reputation the better the audit opinion would be. However, those auditors in an audit examination will rely on the ‘facts’ they found in the audit work and not on a client’s reputation. On this issue, auditors seem to have a professional rather than an emotional judgments.
However, the auditors’ statements above sound more normative than realistic. In my opinion, even though all the interviewees acknowledged the effect of the clients’ backgrounds in relation to the scope of the audit works, the audit requirement and their early perceptions, I think the cultural dimension needs to be considered. Auditor independence will also be affected by clients’ backgrounds, since everything in the Indonesian culture is normally influenced by background and attributes. I think auditors are no different from the ‘public culture’, their view of their clients will be influenced by their reputation/behind grounds. Early perceptions, a reputable client and a good image will lead auditors’ perception in doing audit tasks. Auditors will be more "cooperative" with clients who have a good image and conversely auditors will be “more careful” when facing clients with a bad image.

On the issue of corporate audit committees, this study found that corporate audit committees are a new thing in Indonesia. Only sixteen of the twenty-nine auditors had dealt with clients who had audit committees. Of the sixteen auditors, thirteen did not agree with the proposition saying that a corporate audit committee could enhance auditor independence. They believed that the existence of a corporate audit committee could assist audit work, but it had no effect on auditor independence.

Another three auditors agreed that a corporate audit committee could enhance auditor independence and also the committee could assist them in doing audit tasks but only as long as most of the committee members consisted of non-directors. On this issue this study found that all auditors
acknowledge the benefits of the existence of a corporate audit committee, and some of them felt that it could enhance auditor independence. In order to enhance auditor independence, in my opinion, the most important thing is the selection of the members of the committee. If the member of the committee consists of directors, it will not be effective. But if the members consist mainly of non-directors, the committee not only will help the audit work but also will enhance auditor independence. The reason behind this is the avoidance of conflict of interest and pressure felt by auditors. It is a widespread Indonesian habit, that someone will not be keen to have a different opinion from those who have ‘helped’ him/her. As someone apart from society, auditors must be careful of this phenomenon.

On the issue of the role of the audit fee paid by the client (major clients), this study found that twenty-six of twenty-nine auditors stated that they had major clients, while the other three auditors did not. The majority of those who had major clients (twenty-two of twenty-six) argued that major clients did not impair auditor independence. Their arguments were mainly based on the following reasons: first, quality audit; second, a large number of clients; and third, the larger the fees the more work and responsibilities. The big five auditors normally claim that their work is highly reputable. Therefore they argue that they have a strong position in the eye of their clients, even with their major clients. However, in this situation auditors must remember that major clients can also choose other big five audit firms.
A plentiful number of clients is the reason why auditors can be independent in dealing with major clients. These auditors are not afraid of losing clients so they will be confident to be independent. The other reason for being independent in dealing with major clients is because the bigger client implies bigger work and responsibilities, therefore such clients will generate the same fees compared to a number of small clients.

All of the above reasons are understandable if these arguments are stated by those who do a high quality audit and have a plentiful number of clients. But questions arise to those whose audit quality is still to be determined and have only an average number of clients. Can such auditors be consistent with the arguments stated above?

On the other hand, this study identified that only four auditors supported the proposition saying that major clients could impair auditor independence. Their reasons were because they were frightened of losing clients, however, they tried to minimise auditor impairment by following the audit rules and standards in doing audit work. Although only four auditors said that major clients could impair their independence, it does not mean that major clients only had a small negative effect on auditor independence. A patron-client relationship in Indonesian society is common, those who are dependent on the other will not be keen to have different views, this situation is likely to be similar for auditors who are dependant on major clients. This phenomenon therefore becomes an alert to auditors to be aware of this threat because auditors probably will
take the same position as the client, where they regard the major clients as their patron.

9.3.3. Relationship Between Audit Firms and Clients

The relationship among audit firms is competitive, however, the relationship between audit firms and clients could generate improper relations. The study investigated the effect of competition among audit firm, real roles of directors and audit tenure. On the competition issue, this study found that most auditors (twenty-one of twenty-nine) argued that competition among audit firms did not impair auditor independence. Their reasons were: first, they offered normal fees with a quality audit. This means that the big five auditors were confident that they could generate a quality audit with a high price. They also believed that with a quality audit clients would be happy and would not leave their audit firm. The question raised here is can the auditors perform audit work based on audit rules and standards? Because there are so many stories that auditors can issue an audit report without a proper audit examination, they must beware of it.

The second reason was that they were selective in accepting clients and aimed to avoid risky clients. This is understandable since the big five audit firms have a large number of clients, so it is possible for them to select their clients, and even though some clients leave them, they are always replaced by new ones. To accept clients selectively is not easy for those who have a limited number of clients, this can only be practiced by an audit firm which has too many clients compared to their staff. But it is rare to hear a statement by
an auditor that “we have not enough staff so we refuse to accept audit engagement” because normally they will recruit new staff to handle such works.

Third, in negotiating their fee they considered man hours and the length and scope of the work. In my opinion, even though an audit firm may calculate working hours, if it is in a tight competitive situation they will tend to complete their work with as small amount of costs as possible. Therefore, this situation will lead auditors to cut their budget, it is not easy for auditors to work properly in this situation.

The fourth reason was that independence was part of their vision in establishing their audit. This argument was stated by two female auditors, who regarded their status to be that of housewives. These two female auditors could disregard the economic imperative since there is a common phenomenon in Indonesian society that the seeking of money is a husband’s responsibility, a wife can work but only to support her husband, or even sometimes a wife is not allowed to work for religious or cultural reasons. Therefore, these two female auditors did not seek money as would male auditors, so they could maintain their idealism more compared to others. However, not all female auditors are like these two auditors, many female auditors work for money so they can earn a larger amount of money compared to their husbands.
The fifth reason was because they felt that they had a strong integrity and applied religious values. In Mrs. Z’s view, by applying a religious approach, competition would not have a negative effect, because she believed that clients (or ‘wealth’) came from God, so she did not need to be ‘greedy’ or to compromise her independence. Even though this argument was stated by only one auditor, I believe that other auditors also believed this as a reason for independence.

On the other hand eight auditors had a different opinion about the effect of tight competition on auditor independence. The two auditors who said that competition could impair auditor independence were both non-big-five partners. While the three auditors who said that competition could slightly impair auditor independence consisted of one non-big five audit partner, and two big five auditors.

Three non-big five partners did not provide a clear view as to whether competition could or could not impair auditor independence. They preferred to say that the effect of a tight competition on auditor independence is dependant on the integrity of each individual auditor.

Even though only eight auditors stated that a tight competitive situation could lead to auditor independence impairment, it must be an alert for other auditors. It is understandable that competition could impair auditor independence especially for those who have a small number of clients. However, in line with Mr. P’s statement, in my opinion the important thing is
not only their situation (such as lack of clients or no competitive advantage) but the more important thing is the auditors' attitude. The better their mental attitude as an independent auditor, the more independent the audit work, and vice versa. In other words, there is possibility for small auditors to be independent in a tight competition arena as long as they have a strong mental attitude.

On the real role of directors issue (where directors de facto could control auditors' appointment and remuneration), this study found that most auditors (twenty-five of twenty-nine) argued that this issue did not impair auditor independence for three reasons. First, they believed that they followed audit rules and standards and avoided wrong-doing. Second, they relied on a quality audit as a protection from the threat of directors' intervention. Third, they limited their relations to a professional basis only.

It seems that the reasons proposed by this group were based more on the strength of an auditor's integrity (internal factor) than external factors. The confidence of auditors in their audit quality leads them to be confident of their independence for the next audit engagement, they were ready not to be appointed should there be any attempt to compromise their independence.

The process of selecting an auditor is also an important thing in this regard. With the big clients, the owners (shareholders) appoint auditors in their Annual General Meeting. While for clients where their managements are also the owners, they will face hardship in the process of separating their functions as management and owner. This situation will affect auditor independence
differently. The former situation will not usually affect auditor independence, while the latter situation could be more of a threat.

Even though this group of auditors believed that the roles of the clients’ directors had no bad effect in their independence, it must be noted that as Indonesian auditors (who normally find it hard to have a different perception especially when they have a seniority or superiority relationship) could keep silent about their unsolved problems and they (for those who have no strong bargaining position) finally will compromise their independence under pressure from clients’ directors. However, this is a warning to be considered by those auditors in doing audit works, but there are still many other auditors who have a strong enough integrity not to compromise under clients’ pressure.

On the contrary, four auditors believed that director’s real roles could impair auditor independence for two reasons. First, they thought that auditors and clients were interdependent, that they needed one another. Second, especially for small clients, their owners were also directors. In this case, the auditors faced a harder situation, because of the owners’ conflict of interests.

Undoubtedly many audit firms, especially small audit firms, look for clients in order to survive. Many small companies (clients) also look for audit firms who can serve them ‘better’. For small companies, their financial statements are audited in order to fulfil credit requirements. This is like a triangle between clients, auditors and bankers in that they work ‘together’ for their mutual
benefit. This situation is only possible when audit firms have a lack of clients, they have a close relationship with their clients, and they have weak integrity as auditors. Even though only four auditors stated that the roles of the clients’ directors had negative effect on their independence, it must be a warning to the other auditors. This does not mean that the effect of the roles of the clients’ directors is small especially in relation to the auditors’ culture where (Indonesian) auditors are normally not keen to have views different to their senior or boss. This ‘culture’ is harmful when clients force auditors to be in line with them.

On the issue of audit tenure, this study found that the majority of auditors (twenty-one of twenty-nine) argued that audit tenure did not impair auditor independence. They believed that staff rotations, will avoid independence impairment, because through staff rotation they will have no long association. They also believed that the change of clients’ directors will limit their relationship. The last argument put forward by these auditors is by limiting contact with the clients to a professional relationship only could independence impairment be avoided.

Although this group of auditors believed that a long engagement would not impair their independence, they must be careful in the following situations. Audit firms rotated their audit staff, but they normally did not rotate their audit partner. Therefore it is possible that the partner will have a long relationship with the clients, this situation could lead to the impairment of the partner’s independence.
Big clients normally have a certain period for changing their board of directors, but directors can be appointed more than once, therefore this situation also can lead to a long relation with auditors. Also in small companies, the directors are the owners, so auditors will normally have a long relation with clients.

Auditors also must recognise that Indonesian culture especially Javanese culture has a ‘soft’ culture where someone will hardly have a different view from those who are respected. This ‘culture’ does not support auditor independence therefore auditors must be aware of it.

In contrast, eight auditors believed that a long audit engagement (audit tenure) could impair auditor independence. The longer the audit tenure, the worse the possibility of independence impairment. This argument was based on the following reasons. First, a long relationship could generate mutual interests between the auditors and the clients. Second, as human beings, after a long relationship, they could support each other. These two reasons are common since they can further recognise and more “understand” one another. However as independent auditors, they must keep away from this threat otherwise the auditing profession as a respected group will be damaged by this practice.
9.3.4. Sanctions, State of Professional Ethics and Religion: Sources of Motivation

The study investigated the effect of sanctions and the auditors' religious values on auditor independence. The study showed that sanctions become a source of motivation to be independent. All the auditors believed that sanctions could enhance auditor independence. This consensus was based on the following reasons; first, auditors were frightened of sanctions, therefore they had to follow and apply audit rules and standards; second, auditors were forced to be independent otherwise formal or informal sanctions would be applied.

From this finding, it can be argued that sanctions are one source of motivation to be independent. From the interviews, it could be surmised that not all auditors become independent because of their professionalism, but some of them, become independent because they have no other choice or because they are fearful of sanctions given out by the professional body. However, whatever the reasons, as long as independence is maintained, there will be no problems for financial statement users. The important thing that needs to be done by the accounting professional body is to make itself more active in monitoring its members' activities and avoid unequal treatment to those who break the audit rules/standards just because they are close friends, as stated by some interviewees. This misconduct can diminish the public's trust.

On the religious values issue, the study found that all the auditors believed in God and embraced a religion, such as Islam, Catholicism, Adventism and
Protestantism. Most of them (twenty-one of twenty-nine) believed that their religious values enhanced their independence in performing audit tasks. This view was based on the following reasons: first, auditors were responsible to the public and to God; second, being independent is a kind of obedience to God; and third, the auditors’ character and mental attitude were affected by their religious values.

In contrast, eight auditors believed that religious values did not have any effect on auditor independence. Their argument was based on the following reasons: first, there was no relevancy between religious values and auditor independence; and second, auditors could be independent without religious values as long as they followed the audit rules and standards.

In regard to religious values, the first group of auditors who believed that religious values could enhance auditor independence could be classified as religious professional auditors, on the other hand the second group of auditors who believed that religious values had no effect on auditor independence could be categorised as professional auditors. Their different views were caused by their understanding and perception of religion, no matter what religion they embraced. Auditors who incorporated their religious values into their daily life fell into the first group of auditors and auditors who separated their daily life from religious values and practised them only at the mosque or the church, fell into second group of auditors. However, in terms of independence both groups were independent and only the motivation to be independent was different.
For the first group of auditors, the internal sources of independence were their professionalism and their religious values. As auditors, they were committed to comply with audit standards and professional ethics. In addition, their behaviour was also affected by their religious values. Whereas for the second group of auditors the internal source for independence was only their professionalism, and state of professional ethics from complying with audit standards. From this point of view, it can be concluded that the internal sources of independence are the auditors’ professional ethics and the auditors’ religious values. Sanctions are one of the external sources of independence. It is important to note that, the auditors’ perceptions about the effects of religious values on auditor independence were not dependent on the religion they embrace, but depended on how they viewed religious values.

9.3.5. Independence: Meanings, Major threats and Motivations, Total or Partial and Efforts for Independence

The study found that the auditors have understandings and perceptions that are similar to the Institute’s definition of independence. This means that the auditors exhibited a proper understanding, and they seemed to be familiar with this issue as professional auditors. In summary, from all of the auditors’ responses, their answers can be condensed into five views. These five views on the meanings of independence are that auditors must serve the public interest, must not be interfered with by others, must be free of any interest, must be objective and must follow audit rules and standards.
This study also investigated the major factors that could impair auditor independence as perceived by auditors. The study found that two auditors stated that there was no major factor that impaired auditor independence and on the other hand, twenty-seven auditors identified the following major factors: first, an improper relationship between auditors and clients; second, major clients; and, third, a weakness of the auditor’s integrity.

It is easy to understand, since cultural values where people will be reluctant to have different views from those with whom they have a close relationship, contribute to auditors’ characters. Improper relationships between auditors and clients therefore can become a major threat. A major client from a business view-point is very important, but being too ambitious to attract profit and relying on major clients will endanger auditor independence. A weak integrity can be suffered by any one, including both small and big five auditors. They have to ask themselves who they are and whether they are professional?

The major factors that could enhance auditor independence were: first, auditor quality (integrity, objectivity and strength of character); second, sanctions; and third, religious values. These three major factors both internal (integrity and religious values) and external (sanctions) can enhance auditor independence. In my opinion it seems that auditor independence is depended on the auditors themselves and supported by law enforcement.
This study also investigated the possibility of auditors being totally or partially independent. The study found that fourteen auditors believed that being totally independent was impossible, however they preferred to say that they "tried to be independent as much as they could". This answer was based on a 'reality' that auditors were professional persons but they were also human beings who could be affected by internal and external factors. However, they were trying to be as independent as they could. In contrast, another fourteen auditors directly stated that they could be totally independent. They argued that being totally independent was a must for auditors; they just followed the audit rules and standards in doing audit work. This indicated that auditor independence was on a scale from less independent to more independent, depending on the auditors' personal qualities and on their ability to resist potential external factors.

This study also investigated auditors' experience in maintaining auditor independence. The study identified the following actions taken by auditors to maintain their independence. Following audit rules and standards was the most common answer for auditors, then strengthening auditor' quality was the second, and significantly applying religious values to audit work was the third favoured answer, and the fourth action was to be selective in seeking and accepting clients. These actions were practised by auditors in an effort to maintain auditor independence. This study clearly shows that religious values have a significant place as an internal factor, in maintaining auditor independence.
9.4. Conclusion

The study indicated that the independence concept as set by the Indonesian Institute of Accountants was well understood by the professional members. However, the application of independence to the audit profession was more important. The study classified two potential groups of factors that could affect auditor independence, namely external and internal. Potential external factors were the audit firm characteristics, the client characteristics, the nature of the relationship between auditors and clients and sanctions. Potential internal factors includes the auditor’s state of professional ethics and the auditors’ religious values.

This study prefers to use the term ‘potential factors’ rather than the term ‘factors’. The reason is because the study found no conclusive agreement among auditors on the issues investigated except for sanctions. Therefore, these issues could have effects on auditor independence for some auditors, but may not have any effect on others. Although there was only one agreement among the auditors and various views on the other issues, each of the issues investigated was acknowledged by at least three auditors that these issues potentially affected auditor independence.

This study therefore concludes that these issues potentially affect auditor independence. The strength of auditor quality is different between auditors and depends on how committed each auditor is to being professional, and so the effect of these potential factors on auditor independence is also different.
From this argument, auditor independence can be stated as being a continuum rather than as being dichotomous. As illustrated in Figure 5 the range of auditor independence is potentially affected by external and internal factors. The Figure identified that there are eleven potential factors that could affect auditor independence in a range. It is important to note, that religious values potentially could enhance auditor independence, since religion is one factor that motivates moral behaviour. However, on the Figure, there is no right side (less independent) for the effect of religious values and this is because without applying religious values auditors can still be independent. But the application of religious values for those who believe does give auditors more motivation to be independent.

This study therefore concludes that independence depends on the quality of the auditors themselves. This quality relates to how well they resist potential negative effects and their commitment to strengthen their independence through applying the potential factors that can enhance auditor independence. The study has identified major potential threats and motivations for independence. An improper relationship between auditors and clients as a consequence of a long audit engagement has been acknowledged by most auditors as the most dangerous potential factor. There is a rule set by the Capital Market Supervisory Board in Indonesia, for listed companies to change their auditors after a certain period. But there are no rules requiring auditor change for non-listed companies. This situation requires auditors to take care of this situation, especially when they deal with non-listed clients. Having major clients is believed to be the second most dangerous potential
factor that could impair auditor independence. The main problem of having major clients is fee dependence. Auditors in this situation potentially tend to retain such clients. Consequently auditors can be tempted in their wish to retain the clients' favour. The third major potential threat that could affect auditor independence is the weakness of auditors' personal qualities. Weak auditors could be easily influenced by other parties to accept favours from clients. Weak auditor quality can be strengthened by enforcing laws and tightening sanctions.

The study found that the first major potential motivation to be independent was the personal quality of auditors. Wherever they worked, whatever clients they had, if they had strong personal qualities, the auditors would be independent. Auditors with strong personal qualities could resist any potential threats that could affect auditor independence. The second major potential factor that could enhance auditor independence is sanctions. Obviously through sanctions, auditors are motivated to do the right thing, ie. complying with audit standards. The auditors' religious values were acknowledged to be the third major potential factor that could enhance auditor independence.

The study identified the possibility of auditors being totally or absolutely independent. More than half of the interviewees said that they tried to be independent. This answer implicitly states that independence is a continuum and is not dichotomous. Auditor independence is not black and white but within a range.
Auditors therefore said that they tried to maintain their independence by following the audit rules and standards, by strengthening their personal qualities, applying religious values to their behaviour, to do the right thing and to follow the rules and lastly to be selective in seeking and accepting clients. These actions were oriented to the auditors themselves.

9.5. Research Contributions

The research contributions of this study include theoretical and practical contributions. The study of Goldman and Barlev's (1974) behavioural model of independence and Flint's (1988) material circumstances to independence inspired this present study. The findings of this study relates to those models. Also, this study relates its findings to the study of Kleinman, Palmon and Anadarajan (1998).

In relation to the Indonesian context, this study supports five of six findings found by Supriyono (1988) with some extensions. These five factors that could potentially affect auditor independence are competition among audit firms, audit fee size, audit tenure, audit firm size and provision of non-audit services. While for another finding stated by Supriyono (1988) concerning financial interest in the clients' company, this study did not find auditors who had a financial interest in their clients, auditors should certainly refuse to audit such clients.
Some new evidence found in this study is as follows: first, the existence of a corporate audit committee is useful for audit work and potentially could enhance auditor independence as long as the committee consist of non-directors; second, another finding is the more clients’ directors have roles in dealings with auditors, the greater the potential threat to auditor independence; third, this study found that sanctions enforced by the professional body could enhance auditor independence; and the last and new finding in this study is that religious values could become a source of independence for auditors.

From a practical point of view, this study can provide some recommendations to the Institute of Indonesian Accountants, the Indonesian Government, and relevant parties who use audited financial statements.

9.5.1. Theoretical Models of Independence

Two theoretical models of auditor independence were used to explore and identify the issues to be investigated in this study. These were the behavioural auditor independence model of Goldman and Barlev (1974) and Flint’s (1988) material circumstances.

Goldman and Barlev (1974) explained that auditors are potentially involved in three conflicts of interest: first, the auditor-firm conflict of interests; second, the shareholder-management conflict of interest; and third, the auditor’s self interest-professional standards conflict. The model also identified that
auditors and clients have the potential to influence one another. The firm’s (client’s) sources of power were the ability to hire and fire the auditor, the ability to determine the auditor’s fee and the ability to determine work conditions. On the other hand, the auditor’s sources of power were the nature of the problem solved (routine and non-routine) and the beneficiaries from the services and the state of professional ethics. In this model, the auditor’s ability to withstand pressure is based on the amount of the firm’s power and the amount of the auditor’s power.

Flint (1988) identified five material circumstances that could affect auditor independence. These five circumstances were the personal qualities (probity and strength of character of auditors), personal relationship, financial interest or dependence, investigative and reporting freedom, and organisational status. These two models of independence were used to identify and explore the issues investigated in this study for two reasons.

First, Goldman and Barlev’s (1974) model provided a behavioural approach to auditors and clients, and their interaction and influence on one another. Second, Flint (1988) provided more comprehensive issues/circumstances (from an auditor’s viewpoint) that could affect auditor independence. Therefore these two models were applied to this study to identify and explore the issues to be investigated, since this study investigated auditors’ perceptions which inherently involves culture and behaviour and requires a broader perspective.
9.5.2. Theoretical Contributions

This study provides some theoretical contributions. It argues that auditor independence is a continuum, not black and white and it is potentially affected by internal and external factors. The study proposes a model of auditor independence in a range (see Figure 5) which is affected by potential external and internal factors. The left side circumstances potentially lead the auditors to be more independent, conversely the right side conditions potentially influence the auditors to be less dependent.

With respect to this, this study is consistent with those two models which state that auditor independence is affected by internal and external factors. This present study also proposes new potential factors that could affect auditor independence.

For potential internal factors this study found the religious values of the auditors to be a new source of motivation to be independent. Barlev and Goldman, and Flint recognised that the personal quality of auditors would depend on strength of character or a state of professional ethics. In addition to auditor professionalism, this study found evidence that the religious values of auditors could become a source of motivation to be independent.

For the external potential factors this study found some circumstances that could potentially affect auditor independence, such as audit firm size, clients’
reputations/backgrounds, committee, tight competition among audit firms and sanctions enforced by a professional body.

This study is also consistent with the study of Kleinman, Palmon and Anandarajan (1998) with some extensions. In their study, Kleinman, Palmon and Anandarajan suggested that there were three factors that could influence auditor independence, these were: audit firm’s characteristics, client’s characteristics and the nature of auditor-client relationship. The extensions of this present study have shown that sanctions, religious values and the state of professional ethics were new potential factors that could affect auditor independence.

This study therefore proposes a model of auditor independence as a continuum that potentially could be affected by external and internal factors (see Figure 5). All potential factors have ‘better’ and ‘worse’ circumstances except for religious values. This is because an auditor can be independent as long as s/he has a strong state of professional ethics.
Figure 5

Range of Independence
and Potential Factors/Circumstances

More Independent

External Factors
Bigger Audit Firms
Not Offering Non-audit Services
Existence of Audit Committee
Average Clients’ Fee Size
Normal Competition Among Audit Firms
Less Clients’ Director Intervention
Shorter Audit Engagement
More law/sanctions enforcement

Less Independent

Smaller Audit Firms
Offering Non-audit Services
Absence of Audit Committee
Having Major Clients
Tight Competition
More Clients’ Directors Intervention
Longer Audit Engagement
Less law/sanctions enforcement

Internal Factors
Stronger State of Professional Ethics
Applying Religious Values

Weaker State of Professional Ethics

9.5.3. Practical Recommendations

The study generates some suggestions and recommendation for the following parties: first, the Indonesian Institute of Accountants; second, the Indonesian Government; and third, the relevant parties to audited financial statements.
Suggestions for The Institute of Indonesian Accountants

The study found that the interviewees were familiar with the concept of independence. The auditors felt that the Institute had a significant role in maintaining auditor independence. However, the study identifies and suggests ways for the Institute to improve its role for its members. First, it is suggested that the Institute enforce audit standards (law enforcement). Since sanctions have become a source of motivation for auditors, law enforcement on its members would appear to enhance auditor independence. Second, it is recommended that the Institute becomes more active in monitoring its members' activities. At present, the Institute seems to wait until other parties sue its members, then the Institute takes action. Third, the Institute has to apply equal sanctions to those who violate the rules and standards of professionalism whether or not they be big five or non-big five auditors, friends or not, or the same audit firm. Fourth, non-audit services provision is beneficial for auditors and clients, and there is no prohibition to offer such services, so it is suggested that they be monitored and limited to avoid a conflict of interest between the two parties. Fifth, a long audit engagement (relationship) between auditors and clients, which could generate an improper relationship, is acknowledged to be the most dangerous potential threat to auditor independence. The limitation of audit tenure for listed companies is limited by the Capital Market Supervisory Board, but not for other clients (non-listed clients) and therefore it is suggested that the Institute devises rules to deal with this situation to avoid a bad effect from this potential factor.
Suggestions for the Government

The existence of corporate audit committees are useful for the work of auditors, and particularly for some auditors, this committee could enhance their independence. The requirement for establishing a corporate audit committee in Indonesia at present is addressed to the banking industry only. It is recommended that the government to further investigates the effectiveness of this committee (which consists of non-director members) in other industries, especially in regard to listed companies.

Suggestions for Relevant Parties to Financial Statements

The study found that auditor independence is affected by external and internal factors. External factors include the characteristics of audit firms, the characteristics of clients, and the nature of their relationship and sanctions. On the other hand, internal factors such as the auditors’ qualities play a significant role in influencing their independence. These two factors should be considered by the relevant parties to audited financial statements. The external factors could impair or enhance auditor independence, but the auditors’ qualities would play a more significant role in relation to independence. It is important to note that smaller and larger auditors can be independent as long as they have the right personal qualities.

9.6. Limitation of the Research

There are some limitations to this study. First, since all previous studies concerning auditor independence were conducted by a quantitative approach,
this study has no previous qualitative model on the issue of auditor independence to which to compare. However, this study provides an introduction to the use of a qualitative approach in the field.

Second, due to limitations and difficulty of access to the interviewees, this study is cross sectional in the nature of collecting data process and therefore the study has not been able to identify or trace the auditors' consistency with their perceptions. The relevant parties to audited financial statements other than auditors are directors, shareholders and bankers. This study has focused only on the perceptions of Indonesian auditors.

9.7. Suggestions for Future Research

There are some suggestions for future research on auditor independence. It is suggested that the case be narrowed, for example a study conducted within one big-five audit firm. By narrowing the case, it more detailed variables and circumstances could be explored.

Since there is a lack of a qualitative approach in this field of research, there is a great opportunity for development in this area. A participating, observational and longitudinal study would probably generate a greater experience than the mere interviewing of auditors. Observation and a longitudinal study could identify the consistency of auditors' perceptions. Research on other sites could enrich the literature.
Bibliography


## Appendix A

### List of Interviewees

<table>
<thead>
<tr>
<th>No</th>
<th>As</th>
<th>Names</th>
<th>Position</th>
<th>Ages</th>
<th>Experience</th>
<th>Sex</th>
<th>Religion</th>
<th>Culture</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mr. A</td>
<td>Agung Praptapa</td>
<td>KBS Partner</td>
<td>37</td>
<td>11</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Master</td>
</tr>
<tr>
<td>2</td>
<td>Mr. B</td>
<td>Andiek</td>
<td>R A Z Partner</td>
<td>55</td>
<td>28</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Master</td>
</tr>
<tr>
<td>3</td>
<td>Mr. C</td>
<td>Arief Jauhari</td>
<td>PwC Sup. Visor</td>
<td>29</td>
<td>5</td>
<td>M</td>
<td>Islam</td>
<td>Padangnese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>4</td>
<td>Mr. D</td>
<td>Beddy Samsi</td>
<td>KBS Partner</td>
<td>48</td>
<td>22</td>
<td>M</td>
<td>Islam</td>
<td>Sundanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>5</td>
<td>Mr. E</td>
<td>Boentaran</td>
<td>PwC Partner</td>
<td>52</td>
<td>25</td>
<td>M</td>
<td>Catholic</td>
<td>Chinese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>6</td>
<td>Mr. F</td>
<td>Djoemarma</td>
<td>Djoemarma Partner</td>
<td>45</td>
<td>6</td>
<td>M</td>
<td>Islam</td>
<td>Sundanese</td>
<td>Master</td>
</tr>
<tr>
<td>7</td>
<td>Mr. G</td>
<td>Donny Suwardhono</td>
<td>A A Manager</td>
<td>36</td>
<td>10</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>8</td>
<td>Mr. H</td>
<td>Dwi Dharyoto</td>
<td>PwC Manager</td>
<td>36</td>
<td>13</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>9</td>
<td>Mr. I</td>
<td>Erwin</td>
<td>KPMG Ast. Mgr</td>
<td>34</td>
<td>10</td>
<td>M</td>
<td>Catholic</td>
<td>Chinese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>10</td>
<td>Mr. J</td>
<td>Heriyanto</td>
<td>PwC Ast. Mgr</td>
<td>30</td>
<td>6</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>11</td>
<td>Mrs. K</td>
<td>Ilya Avianti</td>
<td>Ilya Partner</td>
<td>41</td>
<td>16</td>
<td>F</td>
<td>Islam</td>
<td>Javanese</td>
<td>Doctor</td>
</tr>
<tr>
<td>12</td>
<td>Mr. L</td>
<td>Iman Sarwoko</td>
<td>E &amp; Y Partner</td>
<td>53</td>
<td>28</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Master</td>
</tr>
<tr>
<td>13</td>
<td>Mrs. M</td>
<td>Koesbandijah</td>
<td>KBS Partner</td>
<td>75</td>
<td>35</td>
<td>F</td>
<td>Islam</td>
<td>Javanese</td>
<td>Doctor</td>
</tr>
<tr>
<td>14</td>
<td>Mr. N</td>
<td>Laksyito</td>
<td>PwC Sup. Visor</td>
<td>30</td>
<td>6</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>15</td>
<td>Mr. O</td>
<td>Leonard Mamaahit</td>
<td>E &amp; Y Partner</td>
<td>45</td>
<td>23</td>
<td>M</td>
<td>Catholic</td>
<td>Manado</td>
<td>Bachelor</td>
</tr>
<tr>
<td>16</td>
<td>Mr. P</td>
<td>Mansyur</td>
<td>Mansyur Partner</td>
<td>57</td>
<td>35</td>
<td>M</td>
<td>Islam</td>
<td>Sundanese</td>
<td>Master</td>
</tr>
<tr>
<td>17</td>
<td>Mrs. Q</td>
<td>Medina Soepangat</td>
<td>Eka A Partner</td>
<td>45</td>
<td>23</td>
<td>F</td>
<td>Advent</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>18</td>
<td>Mrs. R</td>
<td>Mustofa</td>
<td>DTM Partner</td>
<td>51</td>
<td>25</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>19</td>
<td>Mrs. S</td>
<td>Myrnie</td>
<td>PwC Director</td>
<td>37</td>
<td>14</td>
<td>F</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>20</td>
<td>Mrs. T</td>
<td>Nita Ruslim</td>
<td>PwC Senior Mgr</td>
<td>32</td>
<td>9</td>
<td>F</td>
<td>Catholic</td>
<td>Chinese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>21</td>
<td>Mrs. U</td>
<td>Patricia Dharmatuti</td>
<td>PwC Manager</td>
<td>33</td>
<td>10</td>
<td>F</td>
<td>Catholic</td>
<td>Chinese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>22</td>
<td>Mrs. V</td>
<td>Poppy Sofia</td>
<td>Ilya Partner</td>
<td>37</td>
<td>14</td>
<td>F</td>
<td>Islam</td>
<td>Sundanese</td>
<td>Master</td>
</tr>
<tr>
<td>23</td>
<td>Mrs. W</td>
<td>Pirien</td>
<td>R A Z Partner</td>
<td>37</td>
<td>8</td>
<td>F</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>24</td>
<td>Mr. X</td>
<td>Ronny W Dharma</td>
<td>E &amp; Y Partner</td>
<td>53</td>
<td>27</td>
<td>M</td>
<td>Catholic</td>
<td>Chinese</td>
<td>Bachelor</td>
</tr>
<tr>
<td>No.</td>
<td>Name</td>
<td>Position</td>
<td>Age</td>
<td>Gender</td>
<td>Religion</td>
<td>Language</td>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>------------</td>
<td>----------------</td>
<td>-----</td>
<td>--------</td>
<td>----------</td>
<td>-------------</td>
<td>-------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Mr. Y</td>
<td>Sanusi</td>
<td>61</td>
<td>M</td>
<td>Protestant</td>
<td>Chinese</td>
<td>Bachelor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Mrs. Z</td>
<td>Tia Adityasih</td>
<td>46</td>
<td>F</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Mr. AA</td>
<td>Wahono</td>
<td>64</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Bachelor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Mr. BB</td>
<td>Yusuf Wibisana</td>
<td>40</td>
<td>M</td>
<td>Islam</td>
<td>Javanese</td>
<td>Master</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Mr. CC</td>
<td>Zainal Abidin</td>
<td>31</td>
<td>M</td>
<td>Islam</td>
<td>Arab</td>
<td>Bachelor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix B

Guidelines on Semi Structured Interviews

Part I General
1. The length of working experience in audit
2. What the current position is
3. The length of current position
4. The size of audit firm
5. Client size
6. Professional certification possessed
7. Highest formal degree achieved

Part II Auditor Independence
1. Definition of auditor independence
2. The reasons for being independent
3. The effect (impair or enhance) of the following variables on auditor independence:
   - Non Audit Services, why or why not
   - Audit Market Competition, why or why not
   - Major Client, why or why not
   - Audit Firm Size, why or why not
   - Corporate Audit Committee, why or why not
   - The Real Directors' Roles, why or why not
   - Audit tenure, why or why not
   - Regulation/Law Enforcement, why or why not
   - Client's Reputation, why or why not
   - Auditor's Religious Values, why or why not
4. Other variables than above that affect auditor independence, why or why not
5. Please rank the most four variables that could impair auditor independence
6. What the reasons for that
7. Please rank the most four variables that could enhance auditor independence
8. What the reasons for that
9. Can auditors to be total independent? Why or why not?
10. Efforts taken to maintain auditor independence?
11. Any other things that you want to be noted?
Appendix 1

The effects of audit firm size on auditor independence.

A I believe that auditors who work in a bigger audit firm will be more independent than auditors who work in a smaller audit firm. Because the bigger audit firm, the more clients they have, so they will not depend on some clients. However, it does not mean that auditors from the bigger audit firm will always be more independent than auditors from smaller audit firms.

- Agree in general, but need to see case by case
  - Reasons:
    - The bigger audit firms, the more clients they have

B I don’t agree with that statement, I know that some auditor from big audit firms some times their independence can be impaired. In my opinion the thing that can make a difference between big audit firm and small audit firm is only prestige.

- Don’t agree
  - Reasons:
    - Some auditors from big firm compromise their independence

C I think that statement can be true. Because in my experience in this office all staff are encouraged to be professional and enforce to respect and apply rules and standards in doing audit works. I don’t know with small audit firms. In the big audit firms, they have many levels of staff position from junior accountants to partners, while in small audit firm they have less level of staff. Also in term of number of clients, small audit firms have less clients compared to the big ones. Those situations could support above statement. But in my opinion, there are still auditors from small auditors who can be independent, and conversely those from big audit firms could be less independent from the small firms, it’s depend on the persons.

- Agree
  - Reasons:
    - Big audit firms have more level of position (staff)
    - Big audit firms have more clients

D I agree with that statement, because the more staff and clients we have the more confidence we have. In big audit firms they are not depended on some clients,

- Agree
  - Reasons:
because they have enough number of clients. In small audit firms they have limited number of clients, so indication to compromise or impair their independence would be more exists. However, it doesn’t mean that opinion as absolutely true, in some cases it could be false.

I don’t agree with that statement, because that statement is too generalized about people character. I believe that independence is an individual matter, so where they work will not necessarily affect their independence. I can be independent in this audit firm, not because of this firm but because of my integrity and personality as an auditor. However, it doesn’t mean that above statement is completely wrong. That public opinion, I think is constructed by the existence of audit firms themselves. I mean the bigger audit firms, the better their management, the better their job description and distribution. The smaller audit firms, the more centralize about decision will be made by staff, in which this situation will lead to conflict of interests. Therefore, in my opinion that statement is a general statement that we need to be careful of it to avoid mislead statement.

In small audit firms we are required to look for clients not like in big firms. So, auditors’ independence in small audit firms could be more impaired than auditors in large firms. Above statement could be right. But we have to see that case by case not to generalize that.

I think this audit firm has policy to control its staff independence. For example every year we have to fill the form consisting about our investment or shares, if we have some investment we have to tell where do we invest them. This is done to avoid conflict of interest in audit works. I don’t know in the small audit firms whether they do this policy or not. However, independence is personal
I don’t agree with that issue. Because in my experience, auditor independence is not affected by their firm size, but depend on auditors’ moral and integrity. I can see some auditors from big audit firms are not independent and some auditors from small firms, they can be independent. So, in my opinion it is depend on auditors moral and integrity, not their audit firms size. We can see also, from their out puts I mean we can see from their audited financial statements.

Don’t agree
Reasons:
- Depend on auditors’ integrity

I don’t believe with that statement. I know that some auditors from small audit firms also have a good integrity and personality. And some auditors from the big audit firms give clean opinion and after while, their clients get into bankruptcy, do you know why? In my opinion, independence more relates to auditors themselves rather than audit firm size.

Don’t agree
Reasons:
- Depend on auditors’ integrity

As far as I know, that statement is true, however it is not a hundred percent. When I discuss with my friends from small audit firms, they normally said that the important thing is they can receive fees, and then they can issue audit reports. In this case, I see that their integrity as auditors are weak. This might because they have no control from their audit firm affiliation like in the big firms. In the big firm like here, our audit works are reviewed by our international office, so we have to be careful in doing audit works.

Agree but not hundred percent
Reasons:
- Big audit firms have more control

I don’t agree because independence is an individual matter, not audit firm size. Independence is depended on auditor’s integrity and personality. Many auditors from small audit firms can be independent as long as they can maintain their professionalism. Not all auditors from the big audit firms are independent, some of them are not.

Don’t agree
Reasons:
- Depend on auditors’ integrity and personality
I don’t agree with that opinion, which is too general. Independence is personal and individual matter. Even though their audit firm is small, they can be independent as long as they are professional. In contrast, even though auditors who work in a big audit firm, some of them could be not independent if they are not professional. I don’t agree with generalization, I prefer to see case by case.

Yes, it may happen. I said it may be true, because auditors from small audit firms are more depended on their clients compared to auditors from bigger firms. In contrast to that, auditors from bigger firms not always “better” than auditors from small audit firms, it will be depended on their integrity as auditors. However, in my opinion that statement consist more trues than false.

I think that’s possibly true. Because I see that in the small audit firms, they normally have limited number of clients. It could cause auditors from small audit firms could more easily affected by other parties. While in the big audit firms, they have stronger independence resistance because they have more clients. However, this situation is only general opinion, in certain case, auditors from small audit firms can be more independent than those from big audit firms.

I agree with that statement but not totally agree. I said that I agree because in a big audit firm, auditors have many instruments to support their independent for examples: they have different division, they have more advanced technology, they have more advance audit system, they have more confidence and so on. While in smaller audit firms, they have less facilities compared to the bigger audit firms. However, I don’t totally agree with above statement because even

- Don’t agree

Reasons:
- Depend on auditors’ integrity and personality
- Need to see case by case

- Agree, but not hundred percent

Reasons:
- Small audit firms are more dependent on clients
- However, it depends on auditors’ integrity

- Possibly true (agree)

Reasons:
- Small audit firm have less clients, they are more dependent on clients
- But, not all small audit firm like that

- Agree but not hundred percent

Reasons:
- Big audit firms have many instruments to maintain independence
- However, it depends on auditors’ integrity
though auditors work in smaller audit firms, they can be independent without worrying about above factors I mentioned as long as they try to be a real independent auditor as their profession.

P  I don’t agree with that statement. Some auditors from big audit firms they are some times not professional, because they don’t disclose their report in appropriate ways. In other words, I can state that some auditors from big audit firms some times are not independent. However, I also realize that many small audit firms could compromise their independence. So, in my opinion, independence is not depended on audit firm size, but it is depended auditors’ mental attitude.

Q  I don’t agree with that statement. Because I can see that many auditors from big audit firms are not independent. I can say that many banks with a clean opinion (unqualified) have collapsed recently, who are the auditors? They are big audit firms. From this we probably can see that there is an indication of independence impairment. Conversely, not all auditors from small audit firms are not independent, many of them can be independent too. It depended on the auditors not on the firms.

R  I don’t agree with that. In my opinion, independence is individual matter, not affected by where they work or size of audit firm. Yes, auditor who work in smaller audit firm, their independence will be easier to be affected, but I think many auditors who work in small audit firm have strong integrity and they still be able to be independent. Even they come from big five audit firms, not all of them are independent, some of them I think could be not independent. So, I want to tell you that I don’t like generalization. Independence is individual matter, it depend on the personal integrity.
I don't agree with that opinion. Because independent auditor must be independent wherever and whenever they are. In my opinion independence is not affected by size of audit firms but rather to be affected by integrity and professionalism of auditors themselves. And I can see that some auditors from small audit firms can be independent and professional in doing audit works. And some auditors from big audit firms some times they compromise their independence. So, it's hard to conclude that independence is affected by audit firm size.

Don't agree

Reasons:
• Independence depends on auditors' integrity

It would depend on audit firms’ and auditors' philosophy, because big or small audit firms they follow the same audit rules and standards, it shouldn't be different. If auditors think that their duty is to seek money or business only, whoever they are, their independence will be easily interfered by their interests. While for those who think business and audit profession, they would be independent, no matter where they work, small or big audit firms. So, it's depend on the auditors' integrity.

Don't agree

Reasons:
• Independence depends on auditors' integrity

That statement contents truth, but not for all cases. Some cases have shown that above statement is not true. For example, auditors from the big audit firm can mislead in giving audit opinion, or there are some auditors from small audit firm who can be professional and independent. It is depend on the person.

Agree but not hundred percent

Reasons:
• Still need to see case by case
• Independence depends on auditors' integrity

I don’t agree with that statement. It is depend on the auditor itself not to the size of audit firm. This firm was established not to seek money but to accommodate our needs in professional practices. I am basically a lecturer, and partner in this firm is not my main job. So my vision and mission is not about money, but to

Don't agree

Reasons:
• Independence depends on auditors' integrity
develop our knowledge and theory into practices. By establishing audit firm, I can ask my student to practice as an auditor, you can see that my staff’s turnover in this firm is very high. I am happy if my staff got experience here, and then get a better job somewhere else.

W I don’t agree with that statement, because it is depended on audit partners not audit firms. Even though big audit firms, if their partners have poor mental attitude they can be not independent. Conversely, for those partners from small audit firms, they can be independent as long as they have strong integrity and mental attitude. So, in my opinion it is depended on the person not on the firms.

X I don’t agree with that statement, auditors who work in a bigger audit firm do not mean that they are more independent than auditors who work in a smaller firm. According to my opinion and observation, independence is not depended on audit firm size, but depended on auditors themselves, auditors’ personality. There won’t be small audit firms, if they are not independent, the Institute will cancel their audit license.

Y That is a general issue. In my opinion, for small audit firms their independence is more negotiable, but that is depended on the person. However, my audit firm is medium size so in dealing with clients I have a good bargain position, not dictated by clients. If they ask me to do something “too risky”, I will refuse that appointment. I rather to look for less-risk works.

Z It seems to be a general statement. Personally, I don’t agree with that statement, because I see auditors’ character whether he has strong or weak character or integrity. Not only auditors from small audit firms, even auditors from the big audit firms they can be not independent if their character and
integrity are weak. If those auditors can view for long term benefits, being independent is a must whoever they are, from small or big audit firms.

AA I don’t agree with that statement. I think not all big audit firms will be independent in doing audit, it is depended on their auditors’ mental attitude and integrity. I also can’t say that auditors from small audit firms must be not independent, it is also depended on their auditors’ mental attitude and integrity, some of them are independent and some of them are not. Once again, the size of audit firms in my opinion is not significant, the most important thing is auditors’ mental attitude and integrity.

BB I agree with that statement but not hundred percent because that statement is too general. That statement I think consists the truth but not as a whole. Because I think not all auditors from big firms they’re independent, some auditors from big firms also some times they are not independent. And conversely not all auditors from small audit firm can’t be independent, auditors from small firm they still can be independent as long as they have strong integrity. But I can see that auditors from small audit firms are harder to be independent because of the characteristics of the small audit firms. So, I tend to be more agree with that statement because the reality tend to be like that.

CC I think that opinion could be true. Because big audit firms normally have stronger bargain positions, and small audit firms have less strong bargain positions. Auditors from small audit firm are more depend on their clients than the big ones.

- Don’t agree
  Reasons:
  - Independence depends on auditors' mental attitude

- Agree but not hundred percent
  Reasons:
  - Small audit firms are harder to be independent because their characteristics
  - However, independence depends on the auditors’ integrity

- Agree
  Reasons:
  - Small audit firms are more depend on clients
Summary of the Proposition saying that the bigger audit firm the more independent their staff, the smaller the audit firms, the less independent their staff.

Do not Agree (17 Auditors)
Reasons for not agreeing:
- Independence is personal matter
- Some big five auditors compromise auditor independence
- Do not like generalization

Agree (12 Auditors)
Reasons for agreeing:
- The bigger audit firms, the more clients they have
- The bigger audit firms, the more instruments (divisions, experts, advanced technology, international links) they have to be independent.
- Small firms look for clients, big ones do not
Appendix 2

The effects of providing non-audit services (to audit clients) on auditor independence.

A In my case, most of clients are non-audit clients. This is my business secret actually, that when I provide accounting system or other non-audit services I send my consulting assistants, and when I provide audit service, I send my different audit assistants. So, I can check and cross-check my assistants works, and I can still maintain my independence. The important thing for me is do the job as ruled by the audit standards.

- No effect

Reasons:
- Send different staff for different services

B We provide both service, but not many companies to be both clients. However, even though some of them to be both audit and non-audit clients our independence is not affected by them, because we provide small part of non-audit service, and not significant to clients' decision making process.

- No effect

Reasons:
- Small part of NAS and not significant roles

C I think if audit firm can separate those services by different persons and divisions, I think it wouldn't be problems. But if audit firms, do those audit and non-audit services by same person, it seems to impair auditor independence. In this office, we have some division and different persons to conduct those services.

- No effect

Reasons:
- Have different staff and divisions

D This audit firm has several division and we send our staff depend on what we need, audit or non-audit service. So we never, put our staff into conflict of interests. I can ensure that even though our firm provide both audit and non-audit services to the same clients, we can maintain our independence.

- No effect

Reasons:
- Have different staff and divisions

E In my experience I have no problem with
my independence to audit client that also accept other services from this audit firm. Because we believe that what we do is on the right track, we do not breach the rules and standards as long as we can maintain independence and not to compromise it with clients. I myself is committed to be stick to the profession that requires us to be independent.

F As long as non-audit services do not generate conflict of interests like accounting compilation service, it wouldn't be problems. In my office I have no certain division, but I place some different staff to do different works. As a partner I know when I am as an auditor when I am as a consultant. I have no problem with my independence.

G This audit firm can provide both services to the same clients, but one staff never involved in both services. In this firm we have well established division based on services offered to clients. If one person involve in both services, it would result a bad image, so we avoid this matter. By doing this, my independence can be maintained.

H In this office, we are very strict in selecting clients and kind of engagements. If we accept audit engagement, we will refuse other services like financial advisory, but we can still accept taxation. This is an internal policy to maintain our independence. Because once we accept those services at the same time, we would not be independent, because we have conflict of interests. So in this audit firm, we are selective in accepting engagements.

I In this audit firm, we have some different divisions. So, audit and non audit services will be handled by different person, audit person will only involve with audit matters. This is done to avoid conflict of interest and any other bad

- No effect

Reasons:
- Follow rules and standards in doing audit

- No effect

Reasons:
- NAS has no significant role
- Different staff for different services

- No effect

Reasons:
- Have different staff and divisions

- No effect

Reasons:
- Selective in offering NAS

- No effect

Reasons:
- Have different staff and divisions
image from external view. I think by doing this we can protect ourselves from unnecessary things and I believe that by doing this our independence can be properly maintained.

J
I have experienced to provide audit and non audit services to the same clients. Other staff provided non audit services and my self did audit service. When I audited it, I think there was an influence from providing non-audit services, but this was not significant. In my experience, this feeling existed in my mind, but I think this is not material, so I decided that the effect of providing non-audit service still tolerable.

K
I have no any clients who accept my audit and non-audit services at the same time. So far I can divide and maintain my clients like that. Because I don’t want have any conflict of interest. So in this issue I have no problem with my independence.

L
Well, this matter has guidance in audit standards. If you are an auditor you are not allowed to be clients' financial advisor, because those works have conflict of interest. But if you provide non-audit services like tax, management consulting, accounting compilation, it’s no problem at all. Auditors will have conflict of interest when they act as decision-maker at their clients or they have significant roles at their clients. But so far, in my case I have no problems with my independence as an auditor as long as we are strict to avoid something that could lead us into conflict of interest.

M
We rarely provide both services to the same clients, but if this happen we can still be independent, because we assign our different assistants when we do audit and non audit services. By sending our different assistants, we feel secure about our independence. I don’t have any
Responsibility to defend my client interest even they are my non-audit clients.

N I don’t think my independence is impaired by providing both audit and non-audit services to the same clients. Because those services are conducted by different staff from different divisions. So I have no conflict of interests in doing audit, because I also care about in fact independence.

O Well in our audit firm, we have some different divisions like audit division, financial advisory services and so on. Based on the division we have, we can work more professional because there wouldn’t be responsibility overlap. By separating our services, responsibility overlap will be minimized, so through this way independence in appearance will not be impaired because public know that we have separate work division and responsibility. This also support to maintain our independence in fact automatically, because by separating division it can minimize our conflict of interests. So, in my opinion providing both services to the same client would no result in impairing independence.

P I more concentrate in audit services, but I still accept some non-audit service. I have no problems with my independence in this issue, because I have integrity and personality, this is again depended on auditor mental attitude. However, I also sent different staff in doing different services.

Q You must now that in this audit firm, we have audit and non-audit division. They have different partner manager and staff. So, person who are in charged as an auditor will not involve in providing non-audit services. So, we can be independent because we have no conflict of interests.

R Well, in our audit firm, we have several
divisions, we have audit division, and also non audit divisions like management consulting, tax and others, so it is impossible to engage in one client with audit and non-audit services. Therefore, our independence here, even we provide non audit services to our audit client, it will not affect our independence. Even, for instance I have to provide both audit and non audit services to the same client, my independence will not be impaired by this. But as I stated that in this audit firm we have different division and different persons in providing different services.

S In this audit firm, we have some different divisions to handle various of services. So, audit staff will only involve in audit assignments, and non audit services will be conducted by other staff. By doing this, it can be avoided the conflict of interest caused by providing both audit and non-audit services, because those services handled by different staff. In my opinion, this issue can not impair our independence, because we treat this by dividing works and responsibilities.

T In my opinion, providing both audit and non-audit services if conducted by the same persons could impair auditor independence both in fact and in appearance. If those services conducted by different persons from different divisions, this case is depend on the auditors' integrity. If they have strong integrity they wouldn't be affected, but if they have weak integrity, they would be affected. So, it is depend on how good audit firms manage their staff and divisions, and how strong integrity of their auditors.

U We have some different divisions to handle different works. We offer audit and non-audit to the same clients but those services conducted by different person from different divisions. I think because we have such procedures, we have no problems with our independence even we

- No effect

Reasons:
- Have different staff and divisions

- No effect

Reasons:
- Send different staff for different services

- Impair

Reasons:
- Depend on auditors' integrity

- No effect

Reasons:
- Have different staff and divisions
provide both services.

V I have no clients that accept both of our services. If they are audit clients, I don’t offer them non-audit services. If I offer them non-audit services, I don’t want to be as their auditor. Also I don’t offer tax service in my business, because in my opinion taxation is more negotiable. So I have no experience in providing both services to the same clients. Consequently, my independence has nothing to do with that issue.

W I think we can’t provide both services for one clients, I never do that. If there is a request for that, I give that assignment to other partners. In my opinion doing both services to the same clients will have conflict of interests. So I refuse to do that because it could impair my independence.

X Independence in appearance probably could be affected by this situation, because financial statement users will look at us that we do both services to our clients. However, they have to know that in my case, providing both audit and non-audit services to the same client will have no effects to my in fact independence, because different services done by different staff and division and certainly different partner. So to me, providing both services to the same clients would have no effect to my independence.

Y I think my independence could be affected by this issue. However, I try to minimize this by sending my different staffs to the same clients to do different services. I have also some different divisions, so my independence in doing audit is not much affected.

Z If we want to provide those services we then have to establish another consulting firm which is separately managed. So I never accept both audit and non-audit services for the same clients, because it

Never offer both services to the same clients

Reasons:
- Avoid conflict of interests

Never offer both services to the same clients

Reasons:
- Avoid conflict of interests

Never offer both services to the same clients

Reasons:
- Could impair independence in appearance, but
- No effect on independence in fact

Reasons:
- Public view
- Have different staff and divisions

Never offer both service to the same clients

Reasons:
- Could impair
- Have different staff and divisions
will generate conflict of interest and impair independence in appearance. However, if I face this situation (providing both service) I am still be independent because I’ve locked my self from any intervention.

AA I haven’t provided both services for the same clients. But, for example I face this situation I will be independent, because in my opinion independence is depended on the person, I mean auditor mental attitude. An auditor who has strong mental attitude and integrity as an independent auditor, he would not be affected by any situation he is facing.

BB I don’t think it can impair independence, because actually there other services that can enhance auditor independence such tax consulting and tax diagnostic review. If one we do offer these services together with audit services, I think independence will not be impaired. Some other services may be can impair independence.

CC In my audit firm, all those services conducted by different staff from different divisions. So, in my opinion, I think accepting both services wouldn’t be problems. Because we have all that tools to maintain our independence.

Summary of the Effect of Providing Non-Audit Services (to audit clients) to Auditor Independence

- 5 Auditors never offer NAS to audit clients
- 24 Auditors offer NAS to audit clients

Providing NAS has no Effect on Auditor Independence (20 Auditors)
Reasons:
- Big firms have different divisions, small firms send different staff for different services (15 auditors)
- Selective in offering NAS (3 auditors)
- NAS offered have no significant roles in clients' decision making process (2 auditors)
• Strong auditor integrity (1 auditor)
• Follow audit rules and standards (1 auditor)

Providing NAS Affects Auditor Independence (impairment for 3 auditors; small amount of impairment for 1 auditor)
Reasons:
• Auditors have conflict of interests
Appendix 3

The effects of clients’ background/reputations on auditor independence.

A My experience when I did audit a company owned by National Company, they have some auditors and interact with many auditors, I have to be more careful because there are many smart people. It is different from small and the new client that start to grow. However, the only difference is treatment what we do to them in auditing works, I mean we should suit our treatment with clients’ conditions and situations. But in term of independence it’s not different.

Effect on independence:
• No effect

Other effects:
• Different treatment to suit clients’ situations

B In conducting audit, my early perception is affected by their backgrounds. However, its effect is not significant, I mean it does not affect my independence because everything must be investigated by audit program and procedures.

Effect on independence:
• No effect

Other effects:

C I don’t care about clients’ background in term of my independence, because I audit them with the same standards. But in term of scope of works and audit requirements caused by clients size and listed or non-listed clients for examples, they seem to be different, it’s normal.

Effect on independence:
• No effect

Other Effects:
• Scope of works
• Audit requirements

D Our perception is only perception, but everything depends on the audit works. I mean we can perceive a client is a good client, but if we find that they need to be corrected, we will make a correction. Our independence is not affected by such background. What will make different is only scope of works and audit requirement caused by different clients’ size, listed and non-listed clients and so on.

Effect on independence:
• No effect to independence

Other effects:
• Build early perception
• Scope of works
E  I never differentiate my client by such background, because we have to do all audit program and procedure same to all clients. What will make different for them are such as company's size, complexities and listed or non-listed companies. These differences will make different in term of audit time, scope and audit requirements, but not in the perceptions whether they are better or worse than the others. So in my opinion companies' background that you asked me has nothing to do with my audit independence.

F  Well, to me clients who have good backgrounds will have good points in audit works. So, I am not in doubt to accept that engagements, because I hope that client will have clean opinion, or clients have good reports that can be audited. However, all of those will depend on audit process. This view just like a feeling, not final judge.

G  I never relate about clients' background and their financial statements. In my experience, the perception is built after doing audit works, not before. The things can make difference for example is their background like they are listed or non-listed companies, this is in relationship with audit standards requirements. But other things, I think it will be same.

H  In my audit experience, I am not affected by those backgrounds. But if we observe companies at share market, there are many listed companies with clean opinion collapsed recently, we know who are their auditors. From this phenomenon, it might has relation between backgrounds and opinion for the others. But in my case, I am not affected by clients' backgrounds.

I  I treat all my clients with the same treatments : scepticism, don't trust them without proper investigation. So, in my opinion clients' backgrounds have nothing to do to my audit works. The only thing
will happen is different companies will have different scope of works.

J In my audit experience, I treated all clients with the same treatments. I never differentiate them based on their backgrounds, I never think to over or less appreciate to clients because of their backgrounds. My duty is to audit their financial reports, so my duties are the same to all clients. That’s it.

K My perceptions about clients’ financial statements are not affected by their background you have said. In my experience, we do all audit programs and procedures and then after that we would issue audit opinion. I will issue an audit report when I have completed all those works. My independence is not affected by who is my clients.

L As I said, I don’t care whether my client is big or small, listed or non-listed, and whatever. As a professional auditor, I have to do my works equally to all my clients. The things that can be different is about working hours, it depends on the client’s size big or small, and listed company may need more works than non-listed because of different requirements.

M To me all my clients will have the same treatments. I don’t care about their background or reputation, I never promise them about audit opinion. I will not believe clients just from their appearance or background as you asked, but audit process and testing must be executed. This is the rule. So, my independence can work properly.

N In term of independence I never differentiate my clients based on their backgrounds. What make them different are size of firms will generate different scope of works, listed or non listed companies will generate different audit

- Scope of works

Effect on independence:
- No effect

Other Effects:

- Scope of works
requirement and so on. All audit process and procedures must be taken properly for all clients.

O In conducting audit, I am not affected by those information or reputation. All my clients must be audited at the same practices and audit standards, no matter who they are. I have no pre-judge before audit works are conducted.

Effect on independence:
- No effect

Other Effects:

P In doing audit, I never committed my emotion, like prejudgment and so on. I more rely on audit works. In my experience, whoever become my clients will be audited as normal and not depended on their management or owners reputation. Audit process must be done before audit report is produced.

Effect on independence:
- No effect

Other Effects:

Q In normal situation, I do audit evenly to all my clients, I mean I never do special treatment to them, I do my audit works as set by standards. However, when I audit the company in which the owners have committed with the Court, I have to be more careful in doing audit. For example I have to disclose something more than other clients, to avoid audit misconducts.

Effect on independence:
- No effect

Other Effects:
- More careful with clients committed “court”

R I do not differentiate our clients because of their background. However, listed companies for instances, they have more requirements, but it has no relevancy with our independence, We are independent whoever our clients, no matter they are listed or non-listed companies.

Effect on independence:
- No effect

Other effects:
- Scope of works

S In my opinion, all clients must be treated equally. I audit my clients with same rules and standards, nothing special. Clients' background should not be considered as factors in doing audit works, because our job is based on audit standards. What can make they're different in scope of works are like large or small companies, listed or non-listed companies.

Effect on independence:
- No effect

Other effects:
- Scope of works

T I can not refuse that my image about clients is affected by their backgrounds.

Effect on independence:
- No effect
However, we have to do audit process and procedures same for all clients whatever their backgrounds. I mean my early perception is only perception, but everything is depend on our audit findings. So, in doing audit works, this perception about clients backgrounds do not affect my independence.

U In doing audit works, I always avoid personal sense. I mean my subjectivity must be taken away. What we can do in audit is we do audit program and procedures based on audit rules and standards whoever our clients are. In this regard, clients’ backgrounds must not affect audit works, because everything must be investigated based on audit standards.

V I never think that good persons must produce a good financial statement. Good financial statement means that financial statement is prepared as set by accounting standards. I always do audit as already set by audit program and procedures, all stages must be done.

W Basically in doing audit I am not affected by such backgrounds. However, the scope and rules for listed clients (subsidiary of listed) I think different from non-listed clients. Therefore, listed (or subsidiary listed) clients have some more rules to be met, however it doesn’t affect my independence.

X There is no effect on my independence whoever my clients is. Those information I got, will not lead me to loosen my independence. However, some requirements from the Institute and Government will more apply to listed companies, but there is no impairment of my independence.

Y Yes, I think I have a feeling that a good person should have a good report. However, this perception will not affect
audit findings. If I found something that needs to be adjusted or corrected I have to tell them to change it. Anyway, so far my feeling or perception is affected by client’s backgrounds.

Z
In my view all clients are the same. We have to treat them with the same rules and audit standards, there is no exception for them. So, whoever they are, they will be treated evenly. Clients backgrounds have no effects to my independence.

AA
In doing audit works, I am not affected by such background and information. I can be independent from those, however the scope of works and risks of them are different, but in term of independence I treat them evenly.

BB
In a normal audit situation we should do survey before audit. By doing survey we will get enough information such as how big the risks we will face. However, the clients' backgrounds what you mentioned will not affect our audit opinion or audit tasks. We do audit process same to all clients, and we always do audit based on standards not feeling.

CC
In general clients’ backgrounds do not have any effect to my audit works. But in term of complexity and regulation, listed and non-listed clients for example have different requirements. So, when I audit listed clients I will be more careful compared to those non-listed clients. Those things make different works, but not in term of independence.

Other effects:
Build an early perception

Effect on independence:
• No effect

Other effects:
• Scope of works

Effect on independence:
• No effect

Other effects:
• Scope of works

Effect on independence:
• No effect

Other effects:
• Scope of works

Summary of the effects of Clients’ Backgrounds/Reputations on Auditor Independence

All auditors stated that Clients’ Backgrounds/Reputations had no Effect on Auditor Independence:
Reasons:
Auditors apply same audit rules and standards to all clients, and apply same
audit program and procedure.

Eighteen Auditors stated that Clients' Backgrounds/Reputations had Other
Effect on Their Perceptions:
Scope of work (mentioned by 12 auditors)
Different audit requirements (mentioned by 4 auditors)
Build early perceptions (mentioned by 3 auditors)
Consideration in accepting audit engagement (mentioned by an auditor)
Appendix 4

The roles of corporate audit committee and its effect on auditor independence.

A  I have an experience with the company which has audit committee, I used the audit committee to cooperate with me because that committee know much about the company and they do audit not on the spot like me but they audit as a continuous form. By cooperating with them and I do audit as set by standards, it is the advantage for me to make me “easier” to audit the client. For me as long as I stick to the standards, I feel that audit committee is very important. It has positive or negative effect to the independence, because some times they also will steer us, it is dangerous to the independence. The committee also has good effect when they provide data or information that I need, it will also can affect me not to be independent if I always trust them. But for me, the important thing is not run out from the standards. I do audit process and procedures as stated by standards, and I don't really care with what they do.

B  No, I have no experience to audit clients who have audit committee.

C  Yes, I have audited those clients. Their rules normally assist us in providing data and information. We discuss with them about our findings. That committee is useful in doing our audit tasks. I think, this committee has no bad effect to our independence, because we view this committee as corporate audit committee, so we have to be aware about them.

D  Yes I have audited such clients. The roles of that committee is normally as our partner, they provide information that we need, they become our partner

Roles:
- Cooperative
- Make easier for audit works

Effect on independence:
- Has positive effects if auditors still investigate information provide by audit committee
- Has negative effects if auditors just rely on them

Roles:
- Cooperative
- Discussion about findings

Effect on independence:
- No bad effect as long as beware of them

Roles:
- As a partner
- Discuss about finding
discussion, and we discuss about audit findings. That committee I think is useful to our audit works. We have no problems with our independence because we take them as our counterpart.

E We have audited some clients with such committee. In here, clients who have audit committee are normally banks and large companies. The role of this committee to our audit work is very useful. I prefer to audit companies, who have audit committee, however it won't affect my independence, because I believe that committee works for them not for us, so we have to be careful, but as I said that it is very helpful to audit works.

F No, I have not.

G We have some clients with audit committee, and they role normally support our works, but we do not rely on them. We see this committee as our partner to support us, but we do not treat them as our reference. The role of this committee has no effect to my independence.

H Yes, I have some clients with audit committees. Their roles normally provide some information for us in relation to our audit work processes. For example we discuss about audit findings, we discuss about their progress. We view audit committees as our counter parts. The existence of these committees are very useful for us in doing audit works. It has no relation to our independence.

I They normally assist us when we need some information, but we don't really rely on them, because they are corporate audit committee anyway. However, In my experience the existence of that committee is helpful for our audit tasks. In doing that, I think audit committee has no effects to my independence.

J Yes I have audited such clients. In my
experience when I audit this client, I feel that I must be more careful because something wrong could happen with these clients, consequently I did audit with a feeling “more independent”.

K I have no clients who have audit committee, because all my clients are non-listed and small and medium companies.

L Yes I have audited some clients who have audit committee. Normally big companies and all banks have this committee. The role of this committee is to mediate between company and us (independent auditor). We don’t rely on audit committee, but they rely on our findings. We work “together” with that committee and also with internal auditor. The existence of this committee is useful for us.

M No I haven’t audited client who has such committee, because I think audit committee is a new thing in Indonesia. And it is also expensive to be established in a company.

N No I haven’t audited such clients.

O Until now, there is no requirement from the Government or the institute to establish audit committee. So, not many clients who have this committee, only banking companies and listed companies normally they have this committee. To me, the existence of audit committee is not affecting my independence, the things that can make difference from clients without this committee, is when I audit companies who have this committee, I can work together with the committee to discuss about findings or problems in audit works. That’s it.

P Yes, I have audited some clients who have audit committee. Their roles normally as representative of commissioners board, and audit

Roles:
- As a partner

Effect on independence:
- Enhance independence
committee also become our discussion partner to talk about audit findings and relevant things. In doing our audit works, the existence of audit committee is useful, however I work critically with that committee.

Q  No I haven’t.

R  Audit committee is a new thing in Indonesia. But I have met them in several clients, banking clients or big companies clients. Their role is to discuss our audit findings and the existence of audit committee is very helpful. However, there is no relevancy between audit committee with our independence. We do audit to all clients with “scepticism”, so we do not rely on them. We treat all clients with same treatments. In my experience, many clients complaint me by stating “why your audit staff are so suspect to us?” Do you know what does it mean? It means that in this audit firm all audit staff must be independent, not just rely on information given by clients, but we have to investigate them.

S  No I haven’t audited such clients.

T  Yes, I audited some clients with audit committee. Their roles normally assist us in providing information and assist us when we need some discussion, they also discuss with us about audit findings. In my opinion, their existence is useful to our audit tasks, but if their members consist of management or directors, their independence should be questioned. But if their members consist of the owners or other independent elements, it would be independent, and we could more work together with them.

U  The roles of audit committee normally is to assist in audit process. They monitor the operation of company’s business. So the existence of audit committee is helpful for us. There is no effect in relation to

- Representing commissioner
- To discuss about findings
- Useful for audit works

Effect on independence:
- No effect, as long as work critically

Roles:
- To discuss about findings
- Useful for audit works

Effect on independence:
- No effect, because apply scepticism

-  

Roles:
- Assisting in providing information
- To discuss about findings
- Useful for audit works

Effect on independence:
- Depends on who are the members of committee, directors or shareholders?
auditor independence, because however that committee is work for clients, so we always be aware and careful in dealing with them.

V No, I haven’t audited clients who have audit committee.

W No I haven’t

X Well, many clients don’t have audit committee. Only some clients do and their role normally as source of information for us, like to make some discussions. After audit process we meet them to discuss our findings, they provide some information, however we don’t rely on them, such information we treat those as additional information that still need to be investigated. So, our independence is not affected by the existence of this committee in our clients.

Y All my clients are non-listed and they are small and medium companies. So, I have no clients who have audit committee. I have no experience about that.

Z No, I have no experience with clients who have audit committee.

AA No I haven’t.

BB Well I have audited some clients who have audit committee. Some committee can work properly, but some others don’t. If they work properly they will be helpful for us to assist and co-operate in doing audit. They can provide documents that we need or other things that we require. However, our independence is not affected by this relation.

CC No, I haven’t audited such clients.

- Assisting in audit process
- Helpful for auditors

Effect on independence:
- No effect, as long as be careful with them

Roles:
- Source of information
- To discuss about findings

Effect on independence:
- No bad effect, because treat them as additional information

- Helpful for audit works

Effect on independence:
- No bad effect
Summary of the roles of corporate audit committee and its effect on Auditor Independence:

Roles:
- Useful and cooperative to audit work
- Provides additional information
- To discuss findings
- To mediate between clients and auditors

13 Auditors had never audited clients with a corporate audit committee

16 Auditors who had audited clients with a corporate audit committee
- Corporate Audit Committee has no effect on auditor independence (13 Auditors)
  
  Reasons:
  - As long as they are beware of audit committee
  - View audit committee not as the only reference

- Corporate Audit Committee has Effect on Auditor Independence (3 Auditors)
  1 auditor said that this committee enhanced auditor independence, he is more careful in performing audit tasks.
  1 auditor stated that this committee could impair or enhance depending on how he interacted with them
  1 auditor said that the effect of this committee on auditor independence depended on who were the members.
Appendix 5

The effects of major clients (fee dependence) on auditor independence.

A I have a pressure because to be honest I am worried to lose my major clients. But I always maintain myself to work based on standards. That is my key point, because however maintaining independence is my business.

- Could impair
Reasons/Treatments:
  - Follow rules and standards

B Yes I have some, but not really extreme major clients. In my experience this position can put us into hard situation, I think it could lead into independence impairment.

- Could impair
Reasons/Treatments:
  - Hard situation

C Yes, we have some major clients. But in term of office’s income I think this office does not rely on some major clients, because this office has enough number of clients. What we do to “retain” those clients is through quality improvement, we do audit works as ruled by standards, so our audit report will be valuable.

- No effect
Reasons/Treatments:
  - Have many clients
  - Quality audit
  - Follow rules and standards

D Yes I have some major clients, but we have to remember that the bigger clients the riskier and more works need to do. So in my opinion, big or small clients are not significant, because they have proportional size in term of fee and risks or works to do.

- No effect
Reasons/Treatments:
  - The bigger clients, the riskier

E Yes we have major clients among several hundreds of our clients. When we audit those major clients, to be honest that there is a tendency to fear of losing them, the more extreme our major clients, the more fear of losing clients.

- Impair
Reasons/Treatment:
  - Fear of losing clients

F No, I have not major clients

No major Clients

G We have some major clients. But we don’t have to worry about that. Because

- No effect
the bigger clients the more risky they are. And such clients also need more staffs to do audit and also the time needed to do audit is longer than small clients, so in my opinion it has no effects to my independence.

H  Yes we have some major clients. But in my experience, I feel more comfortable when audit big companies compared to small companies because the big ones normally have a better management. Big clients will not easily change their auditors without clear reasons. So we feel, more convenient. We have no fear of loosing clients because we believe that we have quality and client will buy our quality.

I  I think my independence can be maintained even we are auditing major clients. Because we have self-confidence that our audit quality is well recognized, so our clients will need us.

J  Yes I have some major clients. I have an experience when I audited a big clients, in my opinion there was something to be corrected, but when I discussed with my partner, my partner allow clients' reports, no need to be corrected. I think one of the reasons because that client is a big client and that thing was still clearable and still in the “corridor”. I believed that even though we are auditing a big client, but when the mistake is significant, my partner will correct it.

K  We have some major clients, but we are not depended on them. We know that each client has its own rule in changing its auditor. We can not control them, so we have nothing to do about that. There is nothing to fear about major clients.

L  We have more than two thousand clients, we are not depend on some major clients. All clients are big and medium companies, and there is no client who constitutes a major contribution to our

Reasons/Treatments:
- The bigger clients, the riskier
- The bigger clients, the more staff needed
- No effect

Reasons/Treatments:
- Big clients will not easily change their auditors
- Rely on quality audit
- No effect

Reasons/Treatments:
- Rely on quality audit
- No effect

Reasons/Treatments:
- No fear of loosing clients
- No effect
total fees, normally they are similar in term of fee size. So, we have no problem with major clients.

M  My clients are relatively same in term of fee, so I have no really major clients. However, I never fear of losing clients. Because I believe, that the wealth will be given by the God, we don’t need to worry about this. What we do, is do our best as set by the rules and standards, that’s it. My independence is not affected by such situation.

N  Yes we have some major clients. But in doing audit works, we have self confidence. Even some clients said that they will change their auditors, but they normally come back to us, it might because our quality. We never depend on some clients.

O  We have to remember that the larger fee we can receive the bigger clients they are. So, we should be careful in accepting big clients. Even though their accounting system generally is better than the small companies', but they also could have a bigger potential risks. And also, the bigger clients the more jobs we should do. Those are become our consideration in accepting them as our clients. Accordingly, in my opinion major clients would not impair our independence.

P  Yes I have some major clients. But in doing audit, some clients come and go, I have no problems with this. I am not fear to lose clients, because by doing independent people will tell the other clients and they will rely on me in the next time. To be honest if we can be independent we will be happy and nothing to worry.

Q  All our clients is average in size. We have no major clients for now. But we have some major clients last time, but it was not a problem. I can be independent because I don’t want to be dictated by

- Have many big clients
- No clients constitute a major income
- No effect

Reasons/Treatments:
- No clients constitute a major income
- Religious approach
- Follow rules and standards
- No effect

Reasons/Treatments:
- Rely on quality audit
- No effect

Reasons/Treatments:
- The bigger clients the more works to do
- The bigger clients, the riskier
- No effect

Reasons/Treatments:
- Building good image through being independent
- No effect

Reasons/Treatments:
- Want to be free
R  You can't think that our independence is affected by major clients. We have more than a thousand clients, we won't be worry if some clients leave us. We are not depended on individual client. Every year about one hundred become our new clients and about thirty clients leave us. Even though we have some major clients but it is no problems with them to our independence. We maintain our independence as tight as possible, this is our commitment.

• No effect

Reasons/Treatments:
• Have many clients
• No fear of loosing clients
• Maintaining independence

S  Yes, we have some major clients. In relationship with clients we don't perceive clients as employers but rather as partnership relation. So, in doing audit works we works for public interests to tell the true as facts we found. Not to work for clients as employers. We have integrity and professionalism as an independent auditor.

• No effect

Reasons/Treatments:
• Serve public interest
• Perceive clients as partner not as employers

T  Yes we have some major clients. But we should be aware that the larger audit fee the bigger risks we will face and the more works we have to do, conversely the smaller audit fee we receive, the less risks we will face and the less works we have to do. All things have consequences, I don't see that we are depend on some clients because we also consider their risks and scope of works.

• No effect

Reasons/Treatments:
• The bigger clients, the more works to do
• The bigger clients, the riskier

U  Yes I have some major clients. But I think when I perform audit works, I never follow what they want. But rather to refer to audit standards. As long as we can resist our professionalism, major clients have no effect to our independence.

• No effect

Reasons/Treatments:
• Follow rules and standards

V  There are some major clients from seven clients that we have. Even though this audit firm has some major clients, it doesn't mean that our independence can be compromised with them. I realize that some clients have rules that every three years they have to change their auditor,

• No effect

Reasons/Treatments:
• No fear of loosing clients
• Nothing to do with auditor change
we can’t do anything with this rule. There some clients come and go I am not worried about this.

W: Some times there are effects from this situation. However, I have some restrictions in doing this, I can suggest and compromise about our audit works but those are still in the audit standards. I can be flexible but still in order not to violate our standards.

- Could impair
  Reasons/Treatments:
  • Try not to violate rules and standards

X: Yes we do have some major clients. As I have said that we are not worried about loosing clients, so in conducting audit we are confident with our performances and therefore we don’t really care whether clients will be coming back or leaving us. It doesn’t affect my independence.

- No effect
  Reasons/Treatments:
  • No fear of loosing clients
  • Rely on quality audit

Y: All my clients are small and medium companies, so in general all my clients generate an average number of fees. I have no major clients, so my independence is not affected by this.

- No major clients

Z: We have no major clients. All our clients are average in fee sizes. So we don’t rely our income on the certain clients. In this regard, we have no problems with our independence because all clients contribute fees to our income almost evenly.

- No major clients

AA: Yes I have some major clients. I can be independent because I try to distribute my income from all my clients and not to fear to lose clients because we do our best service, we believe that public will rely on us.

- No effect
  Reasons/Treatments:
  • Rely on quality audit

BB: I have some major clients. But we have to remember that the bigger fees the larger risks and scope of works. So we are not depend on our clients even big clients.

- No effect
  Reasons/Treatments:
  • The bigger clients, the more works to do
  • The bigger clients, the riskier

CC: Yes we have some major clients. But our audit firm has many other clients, so it is
Summary of the effects of Major Clients on Auditor Independence

- 3 Auditors have no major clients
- 26 Auditors have major clients

Major Clients have no effect on auditor independence (22 auditors)
Reasons:
- Auditors rely on quality audit
- The bigger clients, the more work and risks auditors face
- No fear of loosing clients
- Follow audit rules and standards
- Apply religious values

Major Clients Impair Auditor Independence (4 auditors)
Reasons:
- Auditors tend to retain such clients, because they have economic dependence.
Appendix 6

The effects of tight competition among audit firms on auditor independence.

A  This depends on the auditors themselves. I am not worried about this reality, because my core business is not audit but management consulting. However, in my opinion if we perform good quality of work, client also will satisfy with our job, it does not mean that we always agree with what our clients do. I also don’t like a client who looks for a low fee. If I meet such client, I even ask him to look for other audit firms.

B  I think it has negative effect to audit fee competition among audit firms. Consequently, auditor independence could be affected by this situation. However, in this audit firm we never offer a low fee, we always compare between fee and audit risk or business risks.

C  To be honest, as a staff in this office, I can feel that the effect of competition among audit firm can little bit impair our independence. But, this effect is not significant, it’s still tolerable I guess.

D  I try to build this firm as a good audit firm. So in doing audit, I do it carefully not only doing business but also concern with our audit quality. Once we do audit wantonly and compromise our independence, bad label will be attached to us forever. So in getting and retaining clients, I more rely on our “good name”.

E  Other partners and I feel confident that our services offered to clients are highly respected by clients and public. I know that competition among audit firms is getting tighter from time to time, but as I said that we are not worry about this
issue, even though we offer our service with a high rate, but we sell our quality and clients and public know that.

F I think a tight competition has led audit firm to reduce or cut their audit fee. In my opinion, with a low audit fee, it would relate to risks, because auditors would not do audit properly. Matter of independence would depend on auditors' mental attitudes.

• Uncertain

Reasons/Treatments:
• Depends on auditors’ mental attitude

G In this audit firm we believe that our products and quality are highly respected, so in competing with other audit firms we never reduce or cut our fee, because we also have to pay staff at a high rate salary. In this audit firm also we have an unwritten agreement to accept clients who only will generate a minimum certain number of fee, except for the member of group companies we can accept them. So in this audit firm, issued about tight competition in attracting and retaining clients have no effect to our independence.

• No effect

Reasons/Treatments:
• Rely on good quality and staff
• Selective in accepting clients

H I know that our competitors some time cut their audit fee into a low rate when proposing audit fee. This is possibly caused by a tight competition among audit firms, but in this firm we never cut audit fee into an irrational rate. Because we believe that by maintaining a rational and reasonable fee, we can do audit works properly with a high quality. Otherwise, junk opinion and poor quality audit will be produced.

• No effect

Reasons/Treatments:
• Offer a reasonable fee
• Rely on good quality

I Our philosophy here is to get business and maintain our quality. Those two things must be run harmoniously. We will not accept an engagement or do audit works if they will put us into troubles even though they will generate good income. So, in this regard we will never drop our audit fees below our standards, because it will cause improper audit works.

• No effect

Reasons/Treatments:
• Run business and quality harmoniously
• Avoid ‘risky’ engagement

J I am not a partner, in doing my job I
never involved to find clients. In my opinion, I think competition could affect us to tend to follow clients’ wants and expectations, however these things are done if they are still meet the rules and standards, I mean if those things still tolerable and reasonable to be done, we can do that. But when clients’ wants do not meet audit standards we will refuse them. In my opinion, there is an influence of competition but it’s not dangerous.

K We don’t establish this firm to rely on our life. So we run this firm not so hard like others. In proposing our fee, we determine our fee from men hour we will use. So we never propose for an irrational fee. We also never sell our independence just to get clients.

L No..no..no..we don’t do like that. We never reduce the fee just only to get client until we meet difficulty for paying our staff that is impossible. If we offer a low audit fee to our clients, and then we pay our staff at a low rate salary, we can imagine how bad the audit quality. In this firm, we hire qualified auditors, we pay them at a high rate and consequently we offer a high rate also to our clients, so we can maintain our audit quality. If there are clients who look for a low audit fee, they can find other audit firms. We never reduce audit fee because it can reduce audit quality and we don’t want to breach audit standards.

M I think you’re right that competition among audit firms is getting harder as we can see, but Alhamdulillah (Thanks God), until now our audit firm can survive without impairing our integrity. We compete with other firms, with our confidence that we serve better public interests, so all parties will know that our office has a high reputation. We never offer a very low fee to clients, but offer “reasonable” fee with a high audit quality, this is what we sell to our clients. So, issue about a tight competition among audit firms does not
affect our independence.

I think, that is depended on what kind of clients we have. If our clients have bad manners, they will try us to violate the rules and standards, but if our clients have good manners they will follow the rules and standards. Normally, I meet good manners who never ask us to compromise the rules and standards, and those who have bad manners they seek other auditors.

We offer a reasonable fee to all our clients do all audit programs and procedures. We never reduce the fee just only to get clients and we reduce some audit programs and procedures for example, we don’t do that. But we do audit works efficiently and effectively, so we can compete our rate and quality with other audit firms. We have no problem with competition among audit firms.

It is depended on auditor’s mental attitude. If an auditor has a weak mental attitude as an independent auditor, his/her independence will be impaired by that issue, because he/she will be worried not to has clients. However, as an auditor I feel confident to be independent in competing with other firms. In offering audit fee, I also offer a normal fee, it depend on how big work scope and man hours. Competition will only impair auditor independence those who have bad attitude.

We are female auditors so we don’t rely on our salary as major income for our family. Consequently, we don’t really seek clients as many as we can. We more maintain our quality than income. We are professional that must be independent, not to sell or impair our independence for money. So, competition among audit firms is not a problem for us, it won’t impair our independence.

In term of fee, our audit firm is well known

• No effect
Reasons/Treatments:
• Selective in accepting clients

• No effect
Reasons/Treatments:
• Offer reasonable fee
• Be effective and efficient
• Maintaining good quality

• Uncertain
Reasons/Treatments:
• Depends on auditors’ mental attitude
• Reasonable fee with quality audit

• No effect
Reasons/Treatments:
• Quality
• Objective of audit firm is not to seek money
as an expensive firm. This is to select our clients, the worse clients the more expensive fee will be offered to them. So the “worse” clients will turn to other audit firms as the clients prefer. We some times not to accept next audit engagement if we consider that this client have so many troubles. Even still in the audit work process, we can stop immediately if we are not happy with the clients’ response or clients tend to push us to do something “risky”. We ever refused audit engagement with billions Rupiah fees because we know that such companies have troubles, we don’t want to put ourselves into problems, we select our clients, not all clients bring us honey, but some clients also bring us poisons, we have to be careful.

S We propose an audit fee with a reasonable price. Because if we offer a very expensive fee we will not have clients, and if we offer a very low fee, we can not survive and finally we will generate a poor audit quality. By proposing this fee, we don’t need to worry not to have clients because we have certain clients and what we do is to do our best in audit works.

T Competition is a business issue that could lead auditors to impair independence. However, strong auditors could separate and differentiate between business decision and independence, competition shouldn’t impair their independence. I myself can be independent while a tight competition take place.

U In this audit firm, when we propose audit fee, we always consider man hour, how many staff, level of staff, scope of works, risks and so on. We always propose a reasonable fee, we never drop our fee under the costs. By doing this we can maintain our audit quality.

V In this firm our fee proposal is based on
We never propose a fee without those considerations. So we never offer fee at a very low rate, because we need to cover our costs. We offer audit fee proposal at a normal rate. I have no problems with my independence in this regard.

I think there will be impairment caused by tight competition, however it still can be managed, I mean this effect is not so serious. Because auditors also will not go too far only for getting clients, they also will consider about risks.

I think this situation would no impair my independence, because when we charge audit fee we have calculated how long one assignment can be finished and who will do that job, so we can calculate how much the fee can be offered to our client. We will not offer audit fee under our operational cost, we are not worried to lose our clients, they know who we are.

“I think competition among audit firms can impair auditor independence. In my experience, about fifty percents of my clients are continuous clients. I even have clients who have been audited for more than seven years. The taxation office has no problems with this audit tenure. But, for the banks' purpose some times they ask clients to change their auditors. Anyway, I think competition issue can lead auditor independence to impairment”

That might be true for some other audit firms. But, if you see in this audit firm we have several level or position from the bottom to the top. It will allow us to do audit works more professional, based on our profession and expertise. In this firm we also have a philosophy that wealth come from the God, it is not only based on our efforts. This philosophy will lead us to do the best but not to be greedy. So the tight competition has no effects to our audit performance especially our
independence.

In offering our audit fee, we consider some factors like work scope, risks, who will be in charged and other things, and so far we never offer audit fee under the expected costs. So even though we are facing a tight competition we never impair our independence by reducing huge expenses.

I don’t know for the other audit firms. But for me and this audit firm, a tight competition will not impair our independence.

I think my audit firm never cut audit fee into a very low rate, but rather to offer a normal fee. So the selection of audit firms would depend on clients’ choice. Our independence is not affected by this competition.

Summary of the effect of competition among audit firms on auditor independence

Competition has no effect on auditor independence (21 auditors)
Reasons:
- Auditors offer normal fee with quality audit
- Selective in accepting audit engagement, to avoid risks
- Considers man hours, long and scope of works in determining fee
- Maintaining auditor integrity

Competition impairs auditor independence (2 auditors)
Reasons:
- Auditors have pressure to lose clients at any time

Competition slightly impairs auditor independence (3 auditors)
Reasons:
- There is a little impairment, but not serious

Not certain whether competition impairs auditor independence or not (3 auditors)
Reasons:
- Depends on auditors themselves
Appendix 7

The effects of directors’ roles to auditor independence.

A  It depends on auditor integrity. Even most of my clients are by managements, but I try to maintain my independence because I have to.

   • No effect
   Reason
   • Must be independent

B  Even though my clients are shareholders, some times our relationship with management could lead to independence impairment. Because auditor and management are interdependence.

   • Impair
   Reasons/Treatments:
   • Auditors and clients are interdependent

C  I think that situation could lead to a little bit independence impairment, but that is not significant. Because we do audit works still in the rules and standards. If we face a material risks, we will refuse to do that, but if still tolerable, we could do that.

   • Slightly impair
   Reasons/Treatments:
   • Refuse risky clients
   • Try to follow rules and standards

D  The relation between clients and us is professional relation, no one is more superior than other. So in doing audit works I think we do not compromise our independence but rather to enhance our service quality to our clients. For example we complete our works as have been scheduled. If they are satisfied with our works quality, they will appoint us for the next engagement.

   • No effect
   Reasons/Treatments:
   • Professional relationship, no one is more superior

E  Well, the shareholders annual general meeting normally delegate to the management to arrange about their auditor. So we will involve with management in dealing about audit appointment and remuneration. Even though this procedure could lead both auditor and management to “mutual advantage” but as I said that in doing audit works I try to be always independent, and not to retain our clients by compromising our independence.

   • No effect
   Reasons/Treatments:
   • Stick to the rules and standards
   • Avoid wrong doings
Because in my opinion, once I did mistakes by compromising my independence, for example, public will not rely on me or this audit firm. Because client who has made deal with me will tell others that I can be bribed.

F Even though we are a small firm, we have integrity to be independent. We never compromise our independence just to grab and retain clients.

G I think in the listed company, normally their management change every year. So management has no role in this regard. In the shareholders Annual General Meeting, they appoint audit firm and then management deals with us about fee. In this negotiation we have a bargain position to negotiate audit fee. Normally audit fee increase every year, it is depended how big the scope of work of clients. We have bargain in this thing and we are not dictated by clients.

H This office is very strict in maintaining independence both in appearance and in facts of their staffs. This office has confidence that we sell quality, we do business but we don’t want to sell junk products. We never negotiate or compromise our independence to get or retain clients.

I I don’t think we practice those things. Because in my experience, we try to stick to the rules and standards. However, in some situation I can “help” them but still in the legal corridor. I can adjust audit works as clients propose without any violating standards. That is the only thing what I do for my clients.

J I think there will be influence from this situation. Because, however we are human being, clients have proposed us to be selected as the next auditor, and we have to do something for them. But we do audit still in the audit rules and standards.

- No effect
  Reason
  - Auditor integrity

- No effect
  Reasons/Treatments:
  Management/directors change every year
  - Auditors have a bargain position, not to be dictated

- No effect
  Reasons/Treatments:
  - Rely on quality services

- No effect
  Reasons/Treatments:
  - Stick to the rules and standards, do not violate them

- There is a (bad) influence
  Reasons:
  - Take and give relation
  - However, try not to go too
We can not go further to violate those rules and standards.

K I never build a social relationship with my clients. My relation is limited to business matters, I never expect more than that. Even though I can close to them, I never compromise my audit works. My relationship with clients has no effect to my independence.

L It backs to auditor himself. If he has a good mental attitude he will have no problem whether he will be appointed for the next engagement or not. He will tell everything as facts he found. Also from the client’s management, a good management (client) will ask auditor to show all "bad" things that can be found and finally those things will be adjusted as set by rules and standards. In my experience, I have no problem with this situation in relation to my independence.

M I know that the board of directors propose audit firms in the annual meeting and also the board has authority to negotiate audit fee and remuneration with client. But you have to know that our staff try not too close with our clients, even though for example we have a close relationship with our clients, our relation is limited to professional relation. And we are still able to maintain our objectivity. I don’t really worry whether I will be selected as the next auditor or not, I don’t expect our client assign us for the next audit engagement by negotiate our professionalism.

N I don’t think we do that thing. What we do to serve our clients is to increase our quality for example we do our audit work as we have planned, we do it on time. We tell them about their limitation and we advise them to make them better. We never make a deal to compromise our profession like that.

I think we have to build our good
O relationship with clients. But we have to be aware to differentiate between professional and non-professional relation to avoid ourselves into trouble. We should have good relation and be able to work together with clients in order to improve our works quality, not to violate profession and auditor code of ethics. In this regard, I don't think my independence could be affected.

I think our independence is not affected by directors’ roles, because we have commitment to be independent auditor, otherwise we breach the rules.

P

I don’t see any impairment with this kind of relation. Even though we have direct deal with them, we can maintain our independence. We never bargain or compromise our independence to retain our clients.

Q

I think auditor independence is not impaired because we don't want to be dictated, we follow audit rules and standards not clients' wants.

R

In my experience, I have no problem with my independence when I am doing audit. Because dealing audit appointment is not my responsibility, that is my partner job, so my duty is to do audit works. As far as I know there is no force from management to do their order, and there is no intention from us to serve clients with “special service” to retain them for the next engagement.

S

I don't think this situation could lead us to compromise our independence. Because we normally deal with financial manager, not with financial director so our relation can be still maintained, not too close with client’s decision maker. From my point of view, our fee proposal is also challenge

T

Reasons/Treatments:
- Avoidance of wrong doing
- Offer quality services

Reason
- Auditor integrity

Reasons/Treatments:
- Never compromise independence

Reason
- Follow audit rules and standards

Reasons/Treatments:
- No force from management
- No ‘special service’ for clients

Reasons/treatments:
- No effect
- Never deal with decision maker
- Propose normal fee with
by audit quality and other fee proposed by other audit firms. So in my opinion, this situation wouldn’t make us to compromise our independence.

U In my experience I didn’t follow what clients propose if they are not meet standards. So, I will argue with clients and refuse them, when they us to do something which could violate rules and standards. I don’t need to be feared to lose clients because when we maintain our audit quality, people will know us, and in the future they will recognize us.

V Our relation is professional relation. We never build a social relation, because we are worried it could impair our independence.

W Yes, my independence some times can be compromised because of force from the directors. In my case it is hard to avoid it because, the directors are also the owners of the company who appoint us to do audit. What I can do is to maintain that I do audit works still follow the rules and standards.

X My philosophy is do our best, do our audit work as ruled by standards. I believe that if we maintain our quality clients and public will know what we have done. So I don’t care whether are proposing us or not. I won’t “negotiate” our independence to be selected as the next auditor for them.

Y I think auditor independence is not impaired by directors’ roles because we have integrity to be independent and not to be dictated by directors.

Z I have no any concern whether clients will appoint me for the next engagement or not. Because once I expect for the next appointment, I would more compromise in anything. It is dangerous for my independence. What I do is do audit works as best as I can by following audit quality services

Reasons/Treatments:
- No effect

Be professional

Reasons/Treatments:
- Impair
- Directors are owners of companies
- Try to minimize wrong doing

Reasons/Treatments:
- No effect

Reason
- Auditor integrity

Reasons/Treatments:
- No effect
- Do not expect to be selected for the next engagement
rules and standards, so I can be professional auditor.

AA I think this situation could lead auditor into impairment of his independence, especially in the case of mine. Because in here, our clients are the owner of the companies, so we deal with them in audit appointment, we have to choose whether we will solely be profession or also we would be a businessmen. If we will be professional, we will have no problem with independence, but if we will be both professional and businessmen, we might impair our independence. It’s a critical situation for me.

BB We have no problems with this situation, we are a big firm. We are not fear of loosing clients, because every year clients come and go. But the number of clients who come are much larger than who leave. We are very confident with our services offered to our clients, and we can do audit and other services effectively and efficiently, so we can compete with other audit firms. So we don’t need to compromise our independence to retain our clients, we do our audit as what standards ruled.

CC As I said that audit firm will consider between fee and risks. If the risks are higher than what benefits we will have, that engagement would be refused. In other world we will select our job after considering those factors.
Summary of the Effects of the real directors’ roles on auditor independence

The real directors’ roles have no effect on auditor independence (25 auditors)

Reasons:
- Auditors follow audit rules and standards
- Auditors rely on quality audit
- Auditors limit their relationship with clients
- Auditors do not expect to be selected for the next engagement

The Real directors’ roles affect auditor independence (impair for 3 auditors; slightly impair for 1 auditor)

Reasons:
- Auditors and clients are interdependent one with other
- Small audit firms have small clients (in which directors are the owners), more pressure
- Closeness with clients
Appendix 8

The effects of audit tenure (old clients) on auditor independence.

A I feel the longer I audit the client, the easier the audit process will be. For most clients the longer they interact with auditors, they turn to be better in term of financial statement they have. It makes me easier to do audit. It's hard to say whether my independence is affected or not, but the feeling I possess when I audit such clients is I do audit easier. I can't answer and say I am affected or not, because as long as I do audit and follow the standards whatever the feeling, it will be all right.

Effect on independence:
• Uncertain

Reasons/Treatment:
• Easier to do audit works
• Follow rules and standards

B I am not doubt that through this client auditor independence can be impaired, because there are some “mutual interests” between the two.

Effect on independence:
• Impair

Reasons/Treatment:
• There are some mutual interests

C I think the closeness with clients could lead us to be more flexible, I mean in this regard there is a little impairment. But once again that all things will be based on standards. If those things are very risky, we will not do that.

Effect on independence:
• Little impair

Reasons/Treatments:
• If it is too risky, it wouldn’t be done

D I think it could be a trap for auditors. To avoid bad effect from old clients, in this audit firm, we rotate our staff for a certain period.

Effect on independence:
• Could be a trap

Reasons/Treatment:
• Staff rotation

E In my case I have a close relationship with my clients, but is limited with profession relation only. In my opinion, by having close relationship with clients it will make our works easier. However, there will be also a bad view from public opinion. People have to know that even though we have audited a certain client for several years, our audit staff changes

Effect on independence:
• No effect

Reasons/Treatments:
• Staff rotation
• Clients’ staff change from time to time
from year to year and also clients' staff, they change from time to time. So there is no reason for fearing of "collusion" between the two.

F In my experience, this situation can be managed not to impair my independence. However, it depends on the auditors themselves.

G There are some differences for old clients, for example we can more open in discussing our problems encountered during audit engagements compared to our new clients. In our discussion we always refer to audit standards as guidelines, we never went out of those standards. So we can still be independent in doing audit even though we are facing our old clients and have "good" communication, because our work are based on audit standards.

H We have good relationship with such clients. But this means that we can communicate good with them because we already audited them for several times. However, we never this relation does not affect our independence, because we do audit works based on audit rules and standards. Our office also has risk assessment, if the engagement then will impair our independence we will refuse that engagement.

I We have staff rotation as an internal policy to avoid improper relation. Besides that, from our mental attitude also we have a tight discipline how to be a professional auditor. So by practicing these ways, we can maintain our independence.

J I don't think this situation can make me less independent, because I have an experience with my old client. At that time

Effect on independence: • No effect

Reasons/Treatments: • Can be managed • Depends on auditors themselves

Effect on independence: • No effect

Reasons/Treatments: • Easier to do audit works • Follow rules and standards

Effect on independence: • No effect

Reasons/Treatments: • Follow rules and standards

Effect on independence: • No effect

Reasons/Treatments: • Staff rotation • Staff discipline
my old clients asked me not to change their financial reports, but I argue to change or correct it, because it was material number to be corrected. The clients didn’t want to change it and I wanted to correct it, so we have no choice except I stop to audit them, and then that client looked for other audit firm.

K I have some clients who have been audited for several years. But I have no special relationship with them. I keep my relation as business relation, no more than that. Their directors and staffs changed from year to year, so we will not have special relation. Every year we meet new directors and staffs, even though for example there are some old directors, I can manage my distance with my clients. It wouldn’t be problem with my independence.

L I have a good relationship with clients, but it will back to us as an auditor. If we have a strong mental attitude and commit to professional ethics, we will not differentiate whether our client is big or small, old or new client. We will do audit clients as ruled by standards. I have no problem with this situation.

M In doing audit I always send my manager and my staff to our clients. And I also rotate our manager and staff, in my case the rotation takes place about every four years, so our relationship with clients is not too close. By rotating our manager and staff we can maintain our professionalism, and besides that after several years there is possibility that the board of directors has changed. So according to my experience, audit tenure has no effect to our independence.

N With old clients, normally we know their mistakes, and usually they make mistakes similar with the last reports. We have a good relation but it is limited to professional relation only, we are also sent by office in a rotation mode. My

Reasons/Treatments:
- Avoid violating rules and standards
- No fear of loosing clients

Effect on independence:
- No effect

Reason/Treatments:
- Limited relation
- Most clients' directors (staff) change every year

Effect on independence:
- No effect

Reason/Treatments:
- Never differentiate between new and old clients

Effect on independence:
- No effect

Reason/Treatments:
- Staff rotation
- Clients' directors change

Effect on independence:
- No effect

Reason/Treatments:
- Keep distance with clients
independence is not affected by those old clients.

**To me, old or new clients are not different. They have to be treated as professional as possible. Even though I am more familiar about my old clients compared to the new, in my opinion there is no reasons to loosen my independence. Because I have to follow the rules and standards.**

**Effect on independence:**
- No effect

**Reasons/Treatments:**
- Easier to do audit works
- Follow rules and standards

**Due to this situation we have a policy to rotate our audit staff. By doing this, it is expected that improper relation between auditors and clients can be minimized.**

**Effect on independence:**
- No effect

**Reasons/Treatments:**
- Have strong integrity and personality
- No fear of losing clients

**No..no.. my independence is not affected by such relation. In my case, if I have a friend who wants me to audit his company, I will ask other partner to audit it.**

**Effect on independence:**
- No effect

**Reasons/Treatments:**
- Avoid conflict of interests

**Yes we have a good relationship with clients but is limited to professional relation. We normally feel easier in audit process because we have known already their financial statement and problems, but it doesn't mean that we easy to approve or agree with them. We do audit processes and procedures same as set by audit rules and standards.**

**Effect on independence:**
- No effect

**Reasons/Treatments:**
- Easier to do audit
- Follow rules and standards
T The relationship with old clients, in my experience, it would make easier in accessing data when we are auditing them. They are more open and honest in discussing anything. So, what we do is to serve them better, we serve them what they need and what they want, of course, all things will be based on rules and standards. There is no independence impairment, but more relax in doing audit.

Effect on independence:
• No effect

Reasons/Treatments:
• Easier to do audit works
• More relax and open

U We have a policy to rotate our audit staff for a certain time. And we also have strong self-discipline to be independent. So, through these things, the relationship with old clients would have no problems with our independence.

Effect on independence:
• No effect

Reasons/Treatments:
• Staff rotation
• Selves discipline

V We have some old clients for about four years. I don’t think this relation could impair our independence, because we send different staff and they directors and staffs also changed from time to time. So it has no impact to my independence.

Effect on independence:
• No effect

Reasons/Treatments:
• Staff rotation
• Clients’ directors change

W It’s hard to say whether my independence is impaired or not. Because in practice I follow standards but I still be flexible, but again I still follow the rules and standards. If my clients ask me to go “further” I will refuse their assignments, because it is too risky to violate rules and standards.

Effect on independence:
• Uncertain

Reasons/Treatments:
• Follow the rules and standards, but still “be flexible”
• Try not to go too far

X We should be careful, what kind of relation we are maintaining with clients. We have close relationship with clients not to be impaired our independence, but to know more what they want to do, what they want to develop from their business. This is part of our services, we maintain this relation in order to know such needs. If we don’t have a good relation clients will look for other “better” audit firm. As far as we are able to be independent this close relation will be no problems.

Effect on independence:
• No effect

Reasons/Treatments:
• Know clients’ needs more
• Serve clients better
Y  Yes this relation sometimes could impair my independence, because I know much about them so when they ask me something sometimes it’s hard to refuse them. However, I try not to go too far with clients’ “expectation”. If I think that what I do will put me into trouble, I rather to refuse them.

Effect on independence:  
• Impair

Reasons/Treatments:  
• Try not to go too far

Z  This relation doesn’t affect my independence. Because I rotate my staff, I only left one old staff for the next audit works. By doing staff rotation, I expect that my staff can maintain professional relationship with clients in audit works, and I left one old staff to avoid unnecessary questions which can bother our clients. I don’t care whether new or old clients, if I find something needs to be changed or corrected I will tell my clients to do that.

Effect on independence:  
• No effect

Reasons/Treatments:  
• Staff rotation
• Stick to the rules

AA  In my opinion, it is obviously can affect my independence, because we have maintained our relation for several years. I am as an auditor must be independent, but I am a human being, it’s hard to separate my position as an auditor and my relationship with old clients.

Effect on independence:  
• Impair

Reasons/Treatments:  
• Hard to separate position as an auditor and “old client” (conflict of interest)

BB  We have good relationship with our clients especially with “old client”, but remember this relation is only professional relation as auditor and client, no more. Because while we audit our client we also teach and guide them to be able to prepare financial statements as guided by accounting standards. If we have not good relationship with our clients we will face difficulties in doing audit and education process. But once again that this relation is only professional relation, so it has nothing to do with our independence. Even though we have a good relation, if we find some thing wrong we will tell them to solve it, we won’t let it.

Effect on independence:  
• No effect

Reasons/Treatments:  
• Easier to do audit works
• Tell the truth

CC  Yes we have a good relationship with clients, but only professional relation no more. I don’t think this relationship with

Effect on independence:  
• No effect
clients could impair my independence because we concern to maintain Reasons/Treatments: perceived and in fact independence as independent auditors. Be independent in fact and in appearance

Summary of the Effects of the length of audit engagement (audit tenure) on auditor independence

Audit tenure has no effect on auditor independence (21 auditors)
Reasons:
• Audit firms rotate their staff
• Clients’ managements also change from time to time
• Auditors maintain professional relationship only
• Auditors follow audit rules and standards

Audit tenure impair auditor independence (4 auditors)
Reasons:
• Mutual interests between auditors and clients
• Hard to separate as auditor and relationship with old clients
• Hard to refuse clients’ order because have more pressure

Audit Tenure slightly impaired auditor independence (2 auditors)
Reasons:
• Long engagement creates improper relation
• Long engagement makes auditors more “flexible” in doing audit tasks

Not sure whether audit tenure has effect or not on auditor independence (2 auditors)
Reasons:
• The longer the engagement the easier it was to do audit tasks, but still followed audit rules and standards
Appendix 9

The effect of sanctions (punishments) to auditor independence.

A  That’s good. Many auditors do audit independently or based on standards because of the fearing of punishment. Otherwise auditor will do everything they want, because some auditors wherever they go, they bring their stamps. People or clients meet them anywhere, and ask them to stamp their financial statements, audit process have finished, very instant audit.

- Enhance independence
  Reasons:
  - Fear of sanctions
  Suggestion to IAI:

B  To improve auditor independence I agree that government and professional body must actively monitor its member. Now, their roles still need to be improved. If their roles are getting better, I believe that auditor independence of its member should improve.

- Enhance independent
  Reasons:
  Suggestion to IAI:
  - IAI’s law enforcement need to be improved

C  I agree with law enforcement to punish those who produce a poor audit quality, because it will force auditors to be more independent. But accounting body must be fair in treating its members, they also have to monitor actively its members not only to wait some complaints.

- Enhance independence
  Reasons:
  - Auditors are forced to be independent
  Suggestion to IAI:
  - Fair in treating its members
  - More actively monitor

D  I agree with law enforcement, especially sanctions for those who have poor audit quality. because, by applying sanctions equally to all auditors it will improve auditor performance, especially auditors independence. The role of accounting professional body I think still need to be improved.

- Enhance independence
  Reasons:
  - Improve auditors’ performance
  Suggestion to IAI:
  - Applying sanctions equally

E  I agree that the Accounting Professional Body set up the rules and audit standards include the punishment or sanctions for auditors who breach the rules and

- Enhance independence
  Reasons:
standards especially independence matter. But it is not easy to trace who perform a poor quality audit, unless there is a person or body who report to the Institute about that. However, if sanctions or punishment properly applied to them, it will lead auditors to do audit better or more independent.

**F** I think punishment or law enforcement can improve auditors' independence. Whatever the reasons, being independent is a must for auditors. So, I agree with that. But I see that Indonesian Institute of accountants' role in this regard still need to be improved.

**G** I agree that the professional body should monitor its member in order to enhance our professionalism. About sanctions or punishments given by the professional body to those who produce a poor quality audit, I think this will support auditors to be more careful and independent, not to violate rules and standards.

**H** I agree with the law enforcement to improve audit quality of auditors. By applying sanctions and punishments I believe that auditors will be more independent in accepting and doing their works. However, I hope that the Institute can apply this rule evenly to their members.

**I** I think those who perform bad attitude and poor quality are deserved to be punished. Because without punishments or sanctions, auditors will work wantonly. In this regard, I think punishments can enhance audit quality especially auditor independence.

**J** I agree with the punishments or sanctions given to the auditors who produced poor audit quality. Because through this way, I

**Suggestions to IAI:**
- Auditors are forced to be independent

**Reasons:**
- Enhance independence

**Suggestions to IAI:**
- Properly apply punishments

**Reasons:**
- Independence is a must

**Suggestions to IAI:**
- IAI' roles need to be improved

**Reasons:**
- Auditors become more careful

**Suggestions to IAI:**
- Apply its rules evenly to all members

**Reasons:**
- Avoid working wantonly

**Suggestions to IAI:**
- Enhance independence
believe that auditors will be more independent and careful in doing their profession. However, I view that the roles of the Institute of Indonesian Accountants still need to be enhanced, in order to improve its member quality.

K The sanctions given to auditors who perform poor quality audit would make auditors become more careful. Consequently auditor independence would be positively affected by the sanctions or punishment application.

L In this audit firm all staffs from all level are evaluated for every certain period. So, all staffs have to do their work as good as possible. Otherwise, if they fail to meet our evaluation standards they will get into trouble. In Indonesia as we know, that the audit license is issued by Ministry of Finance, however the license holder must register as member of the Indonesian Institute of Accountants. Therefore, if there is an auditor who does improper deeds, and he found guilty, the Institute can cancel his membership and automatically his audit license will be cancelled. So, the role of punishment from the Institute, I think could support its member to be more independent in doing their audit profession.

M The Institute has rules that have to be followed by its member. If there is a member who violate the rules the Institute can apply its punishments to its member, from warning to member cancellation, it is depend on how big the mistakes they did. If you asked me how the effect of the punishment to auditor independence, I think it is obvious that punishment can maintain and improve auditor independence.

N I think punishment and sanctions will force auditors to be more independent, otherwise they will get punishment from the professional body. The Institute of

Reasons:
- Auditors will be more careful

Suggestions to IAI:
- IAI's roles need to be improved
- Enhance independence
- Auditors become more careful

Suggestions to IAI:
- Enhance independence
- Auditors will avoid troubles

Suggestions to IAI:
- Enhance independence
- Fear of sanctions

Suggestions to IAI:
- Enhance independence
Accountants’ roles still need to be improved to actively monitor its member especially for those who generated poor audit quality.

O I think this law enforcement is very important, to attract a very good professional image. In my opinion, auditors who produce a low audit quality need to be warned by the Institute and then if they are still violate the standards and code of ethics, the Institute have to punish them. Of course, the role of punishment in maintaining auditor independence has positive effects.

P I think law enforcement in audit profession is very weak. Government and professional body do not actively monitor auditors' performance, but rather based on complaints of (potential) victims. In this regard as far as the law enforcement is properly applied by government and professional body, I believe that the role of sanctions or punishment will enhance auditors’ independence.

Q I think punishment or sanctions given by the accounting profession to those who produced poor audit quality will force auditors to be independent but until now I see that the roles of the accounting body is still weak, they have to more enforce the rules and laws.

R Yes, sanctions and punishment could force auditors to be independent otherwise they will get problems.

S I agree to punish those who produce poor audit quality, because by applying punishment auditors will think many times to violate rules and standards. It will improve auditor independence. I see the roles of the institute still need to be

Suggestions to IAI:
- IAI should more actively monitor its members
- Enhance independence

Reasons:
- Attract good professional image

Suggestions to IAI:
- Enhance independence

Reasons:
- Auditors performance are monitored

Suggestions to IAI:
- IAI needs to be more active
- Apply sanctions properly
- Enhance independence

Reasons:
- Auditors are forced to be independent

Suggestions to IAI:
- IAI needs to enforce its roles more
- Enhance independence

Reasons:
- Avoid problems

Suggestions to IAI:
- Enhance independence

Reasons:
- Auditors will not violate the
They have to apply rules to all members equally.

T I agree with that. I see some auditors who sell their stamps, they didn’t do audit works properly, so their audit quality will be poor. It is not good for other auditors, it will generate a bad image. I hope our accounting professional body can improve its members to be more professional. I see that accounting professional body’s roles need to be improved.

U I agree with punishments or sanctions given by audit profession, as long as the punishments is given fairly. Because through this way, I think auditors will be forced to be more professional, especially they must be more independent otherwise they will get punishments or sanctions.

V So far, the Institute doesn’t actively monitor its member who produces a poor quality audit. However, the Institute will do something if there is some body or institution report its members’ misconduct. I agree if the roles of the Institute can be more activated, auditors will be more aware about their profession which requires to be independent. However, I think there are some auditors who sell their stamp without audit works and process. We never do that, we never issue our opinion without working paper.

W I agree with the law enforcement, to punish auditors who produced a poor audit quality. However, so far I see that the Accounting Profession still need to improve their law enforcement. Because I see that there is injustice in giving sanctions, they some times treat differently for the same cases.

X Yes, punishment will lead auditors to rules and standards

Suggestion to IAI:
- Apply rules equally
- Enhance independence

Reasons:
- Avoid poor quality
- Enhance auditors professionalism

Suggestions to IAI:
- Its roles need to be improved
- Enhance independence

Reasons:
- Auditors are forced to be more professional

Suggestions to IAI:
- Sanctions must be applied fairly
- Enhance independence

Suggestions to IAI: IAI need to be more active

Reasons:
- Avoid poor quality

Suggestions to IAI: Sanctions must be applied evenly to its members
maintain their independence, otherwise they will be in trouble. In here, I see that the role of the Institute is very significant to force its members to follow the rules and standards. However, I view that the Institute still need to improve its performance by ruling something that has not been touched. For example, the Institute must think about how long auditors have to responsible with their works, ten, twenty years or how many years. There is still no rule about this, so we don’t offer audit fee at a low price.

Y I think the existence of the professional body is to protect and to regulate its member. If its member has problems, this professional body will try to help the member. However, in regulating its member the professional body also need to give sanctions to its member who violate rules and standards and this could lead to enhancement of auditor's performance. In relation to auditor independence, I think this will enhance it.

Z I think punishment or sanction will force auditors to do more professional in audit works. It will improve audit quality of auditors, and automatically their independence can be enforced. However, we should apply sanctions and punishments strictly, I see that accounting Professional Body is trying to do this, some levels of warning, membership cancellation are being applied to those who violate audit rules and standards.

AA I agree for those who produced poor audit quality, the institute or government give them sanctions or punishments. Because through that way, I believe that auditors will do audit works more carefully and they would be more independent accordingly. However, as far as I know, the law enforcement conducted by government and audit profession still need to be enhanced.
Sure, punishment will make auditors to be more careful and independent because if auditors did something wrong the Institute can take action by giving those punishment. The Institute can cancel member’s license.

**Enhance independence**

**Reasons:**
- Auditors become more careful

**Suggestions to IAI:**

**Regulation and punishment enforcement have significant role in maintaining and improving auditors independence.** Because however, auditors will be considering punishment they will get if they violate rules and standards. The problem need to be solved is how to enhance our professional body’s role in monitoring its member activities.

**Enhance independence**

**Reasons:**
- Sanctions will avoid violation

**Suggestions to IAI:**
- IAI needs to be more active in monitoring its members

**Summary the effect of sanctions on auditor independence:**

**29 auditors agreed that sanctions could enhance auditor independence**

**Reasons:**
- Sanctions make auditors more careful in accepting clients and performing audit tasks
- Through sanctions, auditors are forced to be independent
- Sanctions encourage auditors to be more honest.
Appendix 10

The effects of auditors’ religious values on auditor independence.

A Consciously or unconsciously it has effect to me. For example when I was asked to manipulate taxes calculation, I didn’t do that, this because I don’t want to be a liar. I am not sure, is that affected by my religious values or not, I don’t know. But I know that normally “naughty” auditors, should be not religious persons.

B In my life, I am a moderate person. I do the same things to anybody regardless their religion. When I do something or I have to decide anything in relation to my audit works, I never connect them to my religious values. So in my opinion, my religious has no effects to my independence.

C Well, I view this life is to worship God. Working as an auditor in order to seek money is also a part of worship. So in doing audit works, I always remember that responsibility is belong to public and also God. So, I have to be discipline to follow the rules and standards not to violate them. If I violate rules and standards that means I am no longer independent and I breach God’s order to do the right things.

D In this audit firm religious matter is one of our concern, because we are aware that religious values have positive effects to our independence. We believe that being independent is a must for this profession, otherwise we violate the rules and standards.

E In my experience, I never incorporate religious matter to my business life. As an auditor, I do my works based on rules and standards, so religious values doesn’t make any effects to my independence. Because I believe that religion teach us to be a good person in relationship with God
not with audit profession.

F In my experience, religious values could maintain and improve my independence. Because for example, I can not lie to myself or other people because I will have a guilty feeling if I to do some thing wrong. So, in this regard religious values have positive effects to my independence.

- Positive effect

Reasons:
- Religious obedience

G I think religious values can build my independence, for example I have a lot of private and confidential information that can be sold for money, but I don't do that. I also will refuse if some body try to bribe me, because I believe that bribery is something prohibited by religion.

- Positive effect

Reasons:
- Religious obedience

H In my experience, religious values have strongly affected my work attitude. Especially with my independence, religious values positively supported me. I think religion has general guidance for their follower regardless what religion is.

- Positive effect

Reasons:
- Religion as a guidance

I I don't see any involvement from religious values into my work attitude. Because as far as I know, some auditors who perform religious duties also sometime violate rules and standards. And I can be independent as long as I practice audit rules and standards.

- No effect

Reasons:
- No relevancy between profession and religion
- Can be independent by following rules and standards

J In building my characters, religious values have significant contribution. In my experience, in relation to auditor independence religious values have positively enhance my independence. Because religion teaches us to do the right things, otherwise we will get sins. This thought has led me to be always do the right things, and not to violate the rules.

- Positive effect

Reasons:
- Religious obedience

K I don’t think my religious values can affect my independence. In my opinion, religion and profession are something different.

- No effect

Reasons:
Whoever professional he/she can be as an independent auditor, regardless he/she is religious person or not.

L It's hard to say that religious values have any relation to independence. In my opinion, religion and independence are two different things, I can't see any relation. Whoever whether they embrace any religion or no, they can be independent as long as they are professional as an auditor and follow the rules and audit standards. In my opinion religion teach the good things, but not independence.

M Well, I think religious values among other things have contribution in building auditors' characters. Especially in auditor independence, religious values have positive effects to enhance a better performance and responsibility. Normally auditors who possess religious values have philosophy that they are responsible not only to persons but also to their God. Therefore, they have "internal" control in doing their works.

N In my experience, religious values could maintain and improve my independence, because through religious approach I can treat my self into self discipline. I don't need to be supervised by person, but myself is also being supervised by the God.

O Well, as person who embrace a religion, I believe that any improper deeds, like violating the rules or standards are not allowed. Then, I also believe that our responsibility is not only to person or profession but also we have to responsible to our God. Public might be tricked, but no with God. So, in my opinion the roles of religious values are significant in maintaining and building my independence.

P In my experience, religious values have significant contribution in maintaining and

- religion and profession are not related
- No effect

Reasons:
- Religion and independence are not related
- Religion teaches good things, but does not teach independence

- Positive effect

Reasons:
- Responsible both to public and God

- Positive effect

Reasons:
- Self supervised (by God)

- Positive effect

Reasons:
- Responsible both to public and God

- Positive effect

Reasons:
enhancing my independence as an auditor. According to my belief, auditor is not only responsible to public interests but also to the God, so we have to be careful in conducting audit works. In my opinion, the combination of professionalism as an auditor plus religious values will generate an independent auditor.

Q In my experience, religious values have contributed my attitude building in my life. In relation to my work, as an auditor I feel that religious values also positively affect my independence.

R I think in my opinion, religious values have positive contribution to build people’s character, also to build independent attitude. Of course, this is true if they perform their religious duties regardless what their religion embraced. Yeah.. I agree that religious values can have positive impact in building independence attitude of an auditor.

S In my experience, religious values can positively affect my works especially my independence. I see there is a positive relation between religious values possessed by auditors with their attitude.

T Yes, religious values can make me more independent, because by using this approach, I think our responsibility in audit works is not only to public as human being but also to God who knows every thing. So, in my opinion religious values positively affect my independence.

U In my experience, religious values have no strong effects into my audit works, especially my independence. What make me independent is my professional values as an independent auditor. However, religious values have only little bit contribution in building my independence.

V Religion rules about the relations between human and the God. While

Reasons:
- Responsible to both public and God
- Professionalism and religious values form independence

- Positive effect

Reasons:
- Religious values build mental attitude
- Positive effect

Reasons:
- Religion build people’s characters
- Positive effect

Reasons:
- Religious values have relation to auditors’ attitude
- Positive effect

Reasons:
- Responsible to both public and God
- Little effects

Reasons:
- Professionalism is the most important
Auditor independence is ruled by audit profession. So, in my opinion they have no relation between the two. Auditors, who are not independent their responsibility is to the profession not to the God. In other words they are not professional, we can’t call them as sinners. In my opinion, religion has certain place and not in work place.

W In my experience, religious values have significantly contributed to my daily life. This includes what I’ve been doing as an independent auditor. In other words, religious values positively affect my work especially my independence, because I believe that an auditor has responsibility to serve public interest and also to the God in doing the right things.

X In my opinion there is no relation between religion and independence. God teaches us to be a good man, but not to be independent. While independence is ruled by the standards and professional ethics, not by the religion. All religion talk about good things, even people who have no religion they can be independent as an auditor.

Y In my experience, I think my religious values have no effects to my independence. Because in doing audit works I follow clear rules and standards.

Z In my experience, religious values have positive effects into my works especially my audit works. Religious values make me become more careful because my responsibility not only to human being but also to the God who knows everything, so I have to be careful, no cheating no lying.

AA I involve my religious values into my daily life. As an auditor I also attach my religious values into my work ethics. In my experience as an auditor, I have been affected by my religious values. For me, religious values have positive effects in

- No effect

Reasons:
- No relationship between religion and independence

- Positive effect

Reasons:
- Responsible to both public and God

- No effect

Reasons:
- No relevancy between religion and independence
- Can be independent without religion

- No effect

Reasons:
- To be independent just follow rules and standards

- Positive effect

Reasons:
- Become more careful
- Responsible to public and God

- Positive effect

Reasons:
performing audit works especially my independence.

BB In my experience, my work is affected by my religious values. In relationship with auditor independence, I think my independence is also affected by my religious values. I mean my religious values can maintain even improve my independence. However, I can still see other people who do not perform their religious duties or even people who have no religion they can still be independent as long as they work professionally.

CC In my opinion religious values could positively affect my independence. Because with this approach, we will be responsible both to public and God. I agree that religious values should be considered as factor that can maintain our independence.

Summary of the effect of religious values on auditor independence

Religious values have no effect on auditor independence (8 auditors)
Reasons:
- There is no relevancy between religious values and auditor independence
- Auditors can be independent without involving religious values

Religious Values enhance auditor independence (20 auditors)
Reasons:
- Auditors are responsible both to public and God.
- Being independent is a kind of obedience
- Religious values build people’s characters
- Professional and religious matters are essential elements of mental attitude
- They’re being supervised by God at any time.

Religious values slightly enhance auditor independence (1 auditor)
Reasons:
- Religious values have little contribution in maintaining independence
Appendix 11

Auditors’ Perceptions of Their Independence

A Auditors can be stated as independent when they are free to do audit works and freely to state their opinion. They also do not have conflict of interests. • Free in doing audit works • Free in stating opinion • Free of any interests

B Independence is meant as an attitude that must be possessed by independent auditor. He must be neutral not to tend to certain parties, but serve public interests. • Neutral, serve public interests

C In my opinion, independence is meant as an objective action. Auditors must not have conflict of interests, auditors must not interfered by any parties. Auditors must be free in stating opinion. • Objective action • Free of any interests • Not interfered with by others • Free in stating opinion

D In my opinion independence is similar to pillars which protect auditors from wrong doings. Auditors must be free in stating their opinion, and auditor must be free from any interests. • Protection from wrong doing • Free in stating opinion • Free of any interest

E In my opinion, there are many meanings of independence. It can be free from any interests, The important thing according to my opinion is to apply independence. • Free of any interests

F I view independence as what theory stated that is a mental attitude in which not easy to be interfered by other parties. Auditors must not depend on their clients. They must free to state their opinion. • Not interfered with by others • Not depend on clients • Free in stating opinion

G In my opinion, auditor can be stated as independent if auditor do their task as ruled by audit standards. Even though auditors are paid by their clients, auditors must serve public interests not to defend clients’ interests. • Follow rules and standards • Serve public interest

H In my opinion an auditor can be said as independent if he does audit works and meet audit rules and standards. • Follow rules and standards

I In my opinion, independence can be • Free from any forces and
perceived as a situation in which an auditor can face and solve any internal and external forces and threats, so he is still trusted by public.

J In my opinion independence means that when we do audit works, we have to stick to the rules and standard and we are not interfered by other parties.

K As we know that independence has two aspects, independence in appearance and in fact independence. Independence in appearance is independence as perceived by others. In fact independence is our independence in relation to our mental attitude. In this independent, only we can say we are independent or not. This could be normally affected by my vested interests.

L Well, as an auditor our duty is to do attest function. It means that we have to see everything as it is. We have to be independent, not to tend to certain parties' interests.

M In my opinion and understanding, independence means that in doing audit works we should stand in the middle not to tend to defend certain parties' interests, but rather to serve public interests. The important thing in here is we should maintain our integrity as independent auditor.

N In my opinion independence means that an auditor follow audit rules and standards when he is doing audit works. Auditors do not follow clients’ want and orders, and auditors are not interfered by other parties.

O Well, in my opinion independence means that auditor not to tend to a certain party, but auditor must be professional. In this audit firm every year all staff have to sign independence declaration, and also every assignment we sign the form.
In my understanding, independence means that an auditor can do audit freely from any interests, he can do audit based on standards, and he can issue opinion as facts he found.

I perceived independence as an attitude in which an auditor stand in the middle, he serve public interests, not certain interests.

In my opinion, independence means that an auditor must be independent, not interfered by other parties and not to tend to certain parties.

In my opinion, independence is meant as a right decision, not bias and auditor feel free to state his opinion.

I view independence same as what theory said, that is not easy to be interfered by other parties. Auditors must be objective and not to tend to defend certain parties' interest.

In my opinion, independence is meant that an auditor presents audited financial statements as they are, without taking any advantages. Independence means also that auditors can be fair to all parties.

In my understanding we can say as independent where we can be free from any interest. Also we are able to state anything as what facts found in the field.

I think I should follow what stated by standard, that is auditor should not easy to be interfered by other parties, auditors should not tend to certain parties.

In my opinion, independence is a situation that we are as auditors freely can express our findings and opinion, and independence also can be stated when there is no intervention from other parties to auditors.

In my opinion, independence means that
auditor must be neutral and not to defend a certain party, but has to serve public interests.

Z In my opinion, independence means that auditor is not affected by anything, in whatever situation. In my experience, if I found something wrong, I will tell them to be changed.

AA In my opinion independence is meant as a mental attitude in which an auditor can work and state his opinion freely as facts he found. He is not affected by other interests in doing audit works.

BB I think what I understand about independence is same with what the Institute stated, but I'd like to add some words so independence means not easy to be interfered by other parties with professional belief of the auditors.

CC In my opinion, independence is meant as an attitude in which auditor works based on audit rules and standards. If an auditor works with independent mental attitude and free of any interests, he can be stated as independent.

Summary of auditors’ perceptions on their independence:

- Neutral, to serve public interests (10 auditors)
- Not interfered with by other parties (9 auditors)
- Free of any interests (8 auditors)
- Objective (7 auditors)
- Follow audit rules and standards (7 auditors)
Appendix 12

Major factors that could impair auditors independence

A I think dependence of auditor to major client issue is the most dangerous factor in impairing independence. The second may be good relationship with clients can be barrier to be independent.

B I think the major factors that can impair auditor independence are first, close relationship with clients or management. With old clients normally we have good relation and it makes me hard to be independent. Second, audit fee from major clients that contribute a significant number of total incomes can also impair auditor independence.

C Weak integrity of auditors and lack of knowledge of auditors can become major factors in independence impairment.

D In my opinion, the relationship with old clients could be a major factor in impairing auditor independence.

E There is no major factor that can impair my independence because I always maintain my integrity and personality, however to be honest I some times help my clients by “creating” a better solution. My “solution” however still meet rules and standards set by the Institution, not to manipulate it. It’s common in audit work as long as not to breach rules and standards.

F I think close relationship with clients and dependence on clients are the most major factors in impairing auditors independence, because auditors will rely their firms’ life on their clients.

G I think major clients who generate significant fees could affect auditor independence, because auditors will try to retain such clients to run their
H. The major threat in impairing auditor independence comes from auditors’ integrity and personality. Those who have weak personality and integrity will be easily affected by any other force and temptation. Their attitude can change because they have weak integrity (Mr. H).

I. Those who are money hungry will be easily impair their independence.

J. I try to do audit works based on standards, but sometimes I have disagreement even with my partner. I said no, but my partner viewed that it still can be tolerated. So, I have to follow my partner.

K. Integrity and professional weaknesses of auditors seem to be major factors in impairing independence. However, in my case I try to maintain my integrity and professionalism as an auditor.

L. In my observation, I think conflict of interests such as having share in the audited company, the owner of audited company is family member or relative and major client are very dangerous in impairing independence. However, in my case all those conflicts of interests have been eliminated by refusing to accept audit engagement.

M. In my case, I don’t see any factors seriously impairing my independence. However, I could see that some auditors in other firms are depended on their major clients who generate a large amount of fees. Another thing that I can view is about the closeness between auditors with their clients, this will tend to more jeopardize auditor independence.

N. I think audit firms size can make auditors depended on their clients, so it become
the most dangerous in independence impairment.

In my opinion, everything is depended on the person (auditors). However, as an auditor I have some "bad" experiences. As an auditor I have a good relationship with my clients, and this relation leads me into a hard situation. Clients sometimes ask me to "help" them. As an independent auditor, I have to do my works as guided by standards, and therefore I "help" them as long as everything still on the right track as ruled by standards and code of ethics.

I perceive there are some factors that could affect auditors’ independence. However, I more look at the lack of confidence of auditors. For example if an auditor faces his clients are West Man, auditor will have no confident in front of his clients, and consequently, auditor will tend to follow his clients' order. But in my experience, I can solve this problem because as an auditor I have to be independent whoever our clients. Integrity and personality are key success to be confident.

The survival of the audit firm will be most danger for small audit firms, because they have to cover all costs, and they could loosen their consideration about risks in accepting and doing audit works.

Since the beginning if some one has decided to be auditor he has to be consistent to be independent, because audit profession requires to be independent. But If from the beginning he becomes auditor and he has ambiguous attitudes he won’t be independent. For example many students choose accounting major not to be a good auditor but to find job easily, to get much money, they some times forget what attitude they have to be possessed. To me building character to be independent is very important to be started from early stages,
from the university for example, students have to be try to be independent. Therefore, if this attitude has been possessed by auditors, they will be always independent no matter where they work, in big five audit firms or in small audit firms. No matter they audit big clients or small clients, once again, independent is individual matter that has to be owned by auditors.

<table>
<thead>
<tr>
<th>S</th>
<th>The fear of losing major clients seem to be threat for auditors who have no strong integrity.</th>
<th>Major clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
<td>In my observation I think relationship with old clients with the same management could be major factor in affecting auditor independence. For new audit firms, seeking clients in the early establishment of audit firms could be a critical phase in independence impairment.</td>
<td>Relationship with old clients, Early stage of audit firm establishment</td>
</tr>
<tr>
<td>U</td>
<td>I think fee dependence on clients will be a most threat for audit firms.</td>
<td>Fee dependence on clients</td>
</tr>
<tr>
<td>V</td>
<td>In my opinion the major factor that can impair auditor independence is vested interests, auditors’ mental attitude and loyalty to the profession. But in my experience to maintain my independence I try to avoid my vested interests, and I can maintain my integrity and loyalty.</td>
<td>Vested interest, Auditor’s mental attitude</td>
</tr>
<tr>
<td>W</td>
<td>In my opinion, providing audit and non-audit service without having non-audit services division will be the most major factor in impairing auditor independence. That's why I don’t provide both services to the same clients.</td>
<td>Providing non-audit services without separating divisions</td>
</tr>
<tr>
<td>X</td>
<td>No, but the most dangerous phase for auditors is when they are at the first time to operate their audit firm. At this stage, audit firm have to get clients from their relation or even families because it is not easy to get clients directly, obviously at this moment auditor independence in appearance will impair. However, after a number of years they can build public</td>
<td>Early stage of audit firm establishment</td>
</tr>
</tbody>
</table>
image to get more public trust.

Y Most of my clients need audit report normally for credit proposal to the bank not for public needs, so I have no problems as faced by a big audit firm. Therefore, it's hard to mention certain major factors, but I can feel that force from client or banker is the most major factor that could impair my independence.

Z I think the closeness with clients can be a major threat for auditors.

AA In my opinion, providing audit and non-audit service without having non-audit services division will be the most major factor in impairing auditor independence. That’s why I don’t provide both services to the same clients.

BB I don’t see any factor that can impair auditor independence. And also at this audit firm I haven’t observed other auditors’ independence affected by those factors. However in my point of view, high competition in audit market could lead auditor not to be independent, but this also depend on how auditors view this competition. I mean to auditor A may be competition is viewed as high, but according to auditor B competition is looked as normal.

CC I think it depends on auditors' mental attitude, I mean auditors who have weak mental attitude can be easily compromise their independence.

- Intervention from clients’ bankers
- Close relationship with clients
- Providing non-audit service without non-audit service divisions
- Competition among audit firms
- Weak mental attitude
Summary of major factors that could impair auditor independence

- Close (improper) relationship with clients (8 auditors)
- Major clients (6 auditors)
- Weak auditor integrity (5 auditors)

The following factors are only mentioned by one or two auditors:

- Auditors' lack of knowledge
- Fee dependence
- Superiority of partner
- Conflict of interests
- Audit firm size
- Auditors' Lack of confidence
- NAS
- Competition
- Intervention from clients' bankers
- Early stages of establishing audit firms.
Appendix 13

Major factors that could enhance auditor independence

A For me, my future is very important, if I am not independent my future will be destroyed. Yes, punishment or sanctions is the most factors ask me to be independent.

B As an auditor the things that can support my independence are, first, my profession itself as an auditor, requires me to always stick to the rules and standards. However the fear of sanctions from government or professional body also enhance our independence.

C I think auditor integrity and sanctions from accounting body can be major factors to maintain and improve auditor independence.

D In my opinion by improving knowledge and skill of auditors, it can become the most major factor in maintaining and improving auditor independence.

E I am an auditor, so I have to devote my life to the profession. To be professional, I must have a professional spirit, that is a spirit which always ask me to be independent and confident as an auditor, if I have no this spirit, I think I am not really an independent auditor.

F Punishment or sanctions enforcement could be the most effective in maintaining and improving auditors independence.

G In my experience religious values can support my independence, besides that the spirit of audit profession can maintain my independence.

H In my opinion law enforcement (punishments and sanctions) can
become best inducer for auditors to be independent.

I  I think auditors’ consistency and integrity can be major factors in maintaining their independence.

J  In my experience religious values and profession understanding can make me independent.

K  In my experience, my mission and vision of being an auditor can be a significant factor in supporting my independence. As my mission and vision to establish this firm is to accommodate my professional needs, so I have to work professionally. It means that I have to be real and true independent auditor.

L  Fearing of punishment from the audit firm and from the Institute.

M  In my opinion, to improve auditor independence means that we have to improve the ability of auditors. Auditors must improve their knowledge by reading current relevant books and journal articles and also auditors have to improve by following continuos educational program. So they have a high self-confidence in doing their works, therefore they will be more independent.

N  In my experience, sanction and punishments can make me more independent. Because, once we violate rules and standards, we will get punishment and we'll finish.

O  To me, auditor is a profession that must be done as good as possible. To be a good auditor, I have to be independent, not compromise my independence. The major reason why I am independent is about my future. Once I am trusted by public as a qualified auditor, it means that my career as an auditor in the future can be relied. Therefore, maintaining independence is an important thing in

Auditors’ consistency and integrity

Religious values

Professionalism

Mission and vision of auditors

Professionalism

Punishments or sanctions

Ability of auditors

Punishments or sanctions

Future (business)
conducting audit works, because it will affect my future's career as an auditor.

P In my opinion to enhance auditor independence can be achieved through continuous education program. However, the quality of education must be improved. For example program should more concern about auditor ability in analysis not only in technical works. Attending course and seminar also useful in order to broaden auditors' knowledge.

Q In my opinion, auditors' integrity will be the most major factor in determining how independent they are.

R To me building character to be independent is very important to be started from early stages, from the university for example, students have to be try to be independent. Therefore, if this attitude has been possessed by auditors, they will be always independent no matter where they work, in big five audit firms or in small audit firms. No matter they audit big clients or small clients, once again, independent is individual matter that has to be owned by auditors.

S Professionalism of auditors, I mean auditors can put their positions in a right way. Auditors treat their clients as clients, and auditors treat themselves as auditors. Do the right things.

T Idealism of an auditor and religious factor could become major factor in maintaining and improving auditor independence.

U Audit firm internal policy and personality of auditors can be major factors in maintaining independence.

V My vision and mission of the establishment of this firm is the major factor to support my independence. Because to me, this firm is not for money but for having fun to accommodate my

- Education of auditors
- Analytical skills
- Auditors' integrity
- Building character to be independent from early age
- Professionalism of auditors
- Idealism of auditors
- Religious values
- Audit firm internal policy
- Auditors' personality
- Mission and vision of auditors and audit firm
professional needs. So in doing business, I don't have to really compete to seek clients and money. I am not depended on this firm because I have other main job.

In my experience, the roles of religion has became the most major factor in maintaining my independence.

- Religious values

Inherently I can be independent because of my profession has ruled and set it. Audit profession has a lot of standards and code of ethics. The audited financial statements also used by public, so those things make me automatically independent. But, in my case, I always try to be independent because of my willingness to be a big and trusted auditor. These expectations won't become true if I am not independence that's it.

- Professionalism
- Willingness to be a big auditor

I think education has significant contribution in building auditor independence. However the fear of loosing audit license or other sanction from the profession are also some aspect of factors that could support my independence.

- Education
- Sanctions and punishments

I think auditors’ integrity and personality are the most important factors in maintaining and improving auditor independence.

- Auditors’ integrity and personality

In my experience, the roles of religion have become the most major factor in maintaining my independence.

- Religious values

It 's hard to pick one factor as the most important in maintaining independence. I think the combination between professional values of auditors and law enforcement from the institute are the most factors that can make auditors independent or always try to be independent.

- Professionalism
- Law enforcement

In my opinion, punishments or sanctions
can become the most major factor in maintaining auditors independence. Because auditors will be afraid to do wrong things when they know that certain punishments will be charged to them.

Summary of major factors that could enhance auditor independence:
- Auditor integrity (13 auditors)
- Sanctions (10 auditors)
- Religious values (5 auditors)
- Level of auditors’ education (3 auditors)

The following factors that could enhance auditor independence but only mentioned by one to two auditors:
- Audit firm’ internal policy
- Building independence from the early stage of auditor
- Auditors’ mission and visions
Appendix 14

Whether or not Auditors become totally independent.

A  I try to be independent as much as I can, but we are human beings, it’s hard to me to answer that question.

B  It’s hard to be totally independent, but as an independent auditor my duty is try as much as I can to be independent.

C  I try to be independent as much as I can.

D  As a human being, it’s hard to answer that question. What I do is try to be independent as much as I can, by following the rules and standards.

E  Yes, I can be totally independent because that is my commitment to be independent auditor.

F  As an auditor I have to try to be independent, but I can not claim that I can be totally independence, because we are human being.

G  I can be totally independent because my profession is independent auditor, I have enough salary, I work independently, there are no reasons for not independent.

H  Yes, I can be totally independent.

I  Yes, I can.

J  I try to be independent as far as I can, I always refer to audit rules and standards.

K  Yes I try to be independent as much as possible. In doing audit I try to stick to the rules. I have nothing to lose if some thing happen to me, because my objective is not money, but work satisfaction.
L I try to be independent by following audit rules and standards.

M Yes I can be totally independent. But we have to be aware that auditors are human and clients are human either. So even though we do our works based on standards but our approach to our clients are also important in maintaining our relation. I don’t perceive that being independent then we have to be like robots who only understand yes or no instructions. I am independent but I am still flexible, for instance if I meet clients have problems I advice them to solve those problems as long as still in the corridor of standards. To me, audit process is still like educate our clients to be able to provide financial statements.

N I try as independent as possible, because I am a human being I can’t say that I can do it perfectly.

O I try to be independent as much as I can by stick to the rules and standards in doing audit works.

P I think there is no one can be totally independent, because we are human being. However as an independent auditor I try to be always independent by following rules and standards not to violate them. I try to tell the truth.

Q As an auditor I have to be independent as set by audit standards and code of ethics. I never compromise my independence with clients, what I do is I do my best try to audit as stick as possible to the rules. I never violate the rules and standards.

R I can be totally independent, because it is a must for me otherwise I violate my profession.

S Yes I can.

T Yes I can.
Yes I can.

I try as much as I possible to be independent, but if other people have other perception about my works, it's up to them. In my life, I don't want to be dictated by other people to compromise my independence.

It's hard to tell this, but I try as much as I can become independent but I also still "compromise" something as far as not to violate accounting and audit standards.

I can be totally independent because without independence auditor is useless and mislead.

I am a human being, it is hard to say to be totally independent, because to be honest some times there is a feeling to 'help' clients as long as still in the rules and standards corridor.

Yes, I can be totally independent.

It's hard to tell this, but I try as much as I can become independent but I also still "compromise" something as far as not to violate accounting and audit standards.

Yes I can be totally independent as auditor.

Yes, I can be totally independent.

Summary of whether auditors can be totally independent or not:

- Try to be independent, as much as auditors can (15 auditors)
- Can be totally independent (14 auditors)
Appendix 15

Efforts taken by auditors to maintain independence.

A  Follow the standards, standards as work guidelines.

B  In my experience, I think integrity of auditor has very important role in maintaining and enhancing auditor independence. Also, considering any risks that we will face can make us more independent, don’t accept any works that will put us into trouble.

C  Beside my integrity and personality secret to be independence is to avoid as much as I can things that can build bad image, especially relationship with my clients.

D  I do worship to God, to maintain our faith. Because in my belief, independent auditor must be independent. To be independent we need ask God for that. At the same time we also have to develop our knowledge and skill in order to maintain and improve our independence.

E  Do my best, honest and maintain my integrity, not easy to be induced by things that can put me into trouble. I will refuse to accept audit engagement from any clients who have a bed tendency.

F  I think as an auditor, we must understand what is our duties. We have to be aware about how to serve our clients, how to do our job properly. We have to be able to accommodate our clients needs and wants and rules and standards.

G  I think auditors must be independent. To be independent they have to be paid at a high salary, with this pay, auditors would not seek other income from selling their independence. In my opinion independence impairment is caused by

- Standards as guide lines
- Strong integrity
- Selective in accepting engagements
- Avoid bad images
- Religious approach
- Improving knowledge and skills
- Strong integrity
- Selective in accepting engagements
- Understand about duties
- Accommodate between clients’ needs and rules and standards
- Pay auditor a high salary
To maintain my independence, I always try to be a good independent auditor. Good auditor means that auditor must follow audit rules and standards. He must have strong personality and integrity when facing any situation and conditions, so rules and standards can be done properly.

To be an independent auditor has required me always to follow audit rules and standards in doing any audit works.

I think moral and religious values can maintain my independence.

In doing audit I try to stick to the rules. I have nothing to lose if some thing happen to me, because my objective is not money, but work satisfaction.

I have to look for clients, I have to manage our staffs. If we fail to get clients and fail to manage our staff we won't be successful. We have to manage all risks to avoid uncertainty in the future. We have strategic planning, at least for next three years.

Ha ...ha..ha... I have no secret formulas. But if you asked me to answer it. I think the most important to me as an auditor is we have to be honest to ourselves. Another thing that also support my independence is my religious values, to me these values have very great contribution.

Try to follow the rules and standards.

To be always independent as an auditor we have to improve our knowledge in many things, we have to monitor new technology, new trade regulation, government regulation and so on. We have to follow them for examples by reading and attending seminar. Therefore, we can do and solve properly
if for example there is a problem relates to new things.

P In maintaining my independence, I do my religious approach. I maintain and improve my faith not to fall down because it will affect our mental attitude and professional skills. In my opinion, it is very important because without faith, auditors will be easily affected by bad impacts.

Q As an auditor, I have to maintain and improve my audit quality so I have a good image viewed by clients and public. By doing this, I have to be always independent otherwise public will view me as an incompetent auditor.

R Well... First we have to be committed to our profession. If we will accept our new staff or partners, first thing we have to observe is their commitment to this profession. If they have no strong commitment, they will fail to be independent auditor. To me the most important thing in doing audit is to maintain our independence, once we depend on some-one else we will easily not to be independent. We have to build our independence since early age.

S Stick to the rules and standards not drop our profession by compromising our audit works.

T From my self as an auditor, we must have strong integrity and from the office policies, office should rotate its staff for a certain period.

U I always avoid my self from vested interest in doing audit works.

V Vision and mission of auditors. Objective for being an auditor, money/business only or money and independent profession? We have to ask ourselves, what we are going to be,

W Try to stick to the rules and standards as
much as I can, and think that I responsible to both human and God.

X In my case, I always try to be independent because of my willingness to be a big and trusted auditor. These expectations won’t become true if I am not independence that’s it.

Y To be able to maintain my independence I always try to be stick to audit standards. However, in my experience the needs for audit is not for public need, but for company itself like for bank requirement and taxation purpose.

Z I always maintain my image as viewed by public that I am an independent and professional auditor.

AA Try to stick to the rules and standards as much as I can, and think that I responsible to both human and God.

BB My ways to maintain independence is we have to always remember that we must serve public interests, not interest of clients. We are paid by our clients but not working for their interests, but rather public interests.

CC Always follow the rules and standards.

Summary of Efforts Taken by Auditors to maintain Auditor Independence:

- Following audit rules and standards (13 auditors)
- Strengthening auditor integrity (10 auditors)
- Applying religious values (6 auditors)
• Selecting clients (2 auditors)
• Managing proper relationship with clients (2 auditors)
• Auditors’ ability (1 auditor)
• Auditor’s job satisfaction (1 auditor)
• Auditor’s missions and visions (1 auditor)