

AUDITOR ROTATION IMPACT ON AUDITOR INDEPENDENCE AND ITS IMPLICATION ON AUDITOR PERFORMANCE

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ABSTRACT

This research seeks to examine both the impact of auditor rotation on Auditor Independence and its consequences on Auditor Performance. The study employs descriptive and verification methodologies, utilizing path analysis and processing data through the SPSS program. Findings reveal that consistent auditor rotation positively influences Auditor Independence, leading to enhanced Auditor Performance. The study emphasizes the critical role of independence as the foundation of the auditing profession. Auditor rotation is deemed crucial in various countries, including Jordan and Libya. Auditor Performance serves as a metric, emphasizing the cultivation of unbiased attitudes, notably achieved through auditor rotation. This practice is essential to prevent the development of a special relationship between management and auditors stemming from prolonged engagements. The growing trust in public accounting services underscores the significance of maintaining independence in the auditing process.

Keywords: audit; auditor; rotation; independence; performance

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INTRODUCTION

The role of accounting in a company can be viewed as a source for the improvement of company performance accounting (Nain et al., 2022). Auditors conduct their work under criteria that are determined jointly between them and company management based on their abilities and the commitments and responsibilities given to them. Auditor Performance results from the evaluation of their work (Rai, 2010). It can be used to compare the implementation of the responsibilities auditors were assigned by a group of organizations over time, and can be used to measure work or

organization performance (Amandani and Wirakusuma, 2017).

The performance of auditors begins with instilling a highly independent mental attitude, where independence means being free from the influence or control of other parties and not depending on others when considering the facts and information being examined (Mulyadi, 2017). Because auditor assignments between public accounting firms and their clients can last a long time, auditor rotation is needed to prevent the occurrence of any special relationships between the auditors and management or the possibility of fraudulent actions (Darmaningtyas,

2018). How financial statements are prepared can also be influenced when there is a lack of independence (Febrianto et al., 2017). In Indonesia, to ensure public confidence in auditor independence, auditor rotation is carried out as regulated by the Financial Services Authority in the Financial Services Authority Regulation or, abbreviated as POJK. This Regulation concerning the power to use audit services is more precisely stated in Chapter 4, Number 13/POJK.03/2017, Article 16, which reads as follows: Parties Carrying Out Financial Services Activities are obliged to limit the use of audit services to annual historical financial information from the same auditors for a maximum of 3 (three) consecutive reporting financial years (OJK, 2017).

In reality, however, there are still auditors at public accounting firms who do not comply with the regulations regarding auditor rotation. For example, the public accounting firm H&R audited the same company for five consecutive years from 2015 to 2019. And even though a new engagement team started in 2018 to make it seem as if a rotation occurred, the team that conducted the audit was the old engagement team. This kind of behavior is commonly referred to as pseudo-auditor rotation. Previous research by Qawqzah (2018), Kelly (2021), and Albaqali and Kukreja (2017) described how auditor rotation has an effect on auditor independence but noted that it must be carried out consistently. Dordevic and Dukic (2017) and Nidhi Anil (2016) found the same relationship between rotation and independence, but for internal audits, not public accounting firms.

Auditor rotation is essential because, according to Qawqzeh et al. (2018), Mayse (2018), and Singh (2019), long term relationships between the client and auditor can encourage auditors to prioritize economic interests over independence, and therefore has implications for Auditor Performance. As Dada (2018) noted, auditor rotation is mandatory to ensure credible financial statements in addition to other reasons. Also as described by Warlina et al. (2023), Kurniati et al. (2023), Permana et al. (2023), and Wiguna et al. (2023), the loss of independence can hide poor financial conditions and mislead decision-making. Audit quality also is substantially influenced by integrity (Kabir et al., 2022), which can be enhanced by auditor rotation. This study, then, is important because it aims to determine how much auditor rotation

affects Auditor Independence and also its implications for Auditor Performance.

LITERATURE REVIEW

Auditor rotation affects Auditor Independence.

Auditor rotation is a rule that regulates the changing of public accountants in a public accounting firm when continuously working with the same client (Ramdani, 2016). Auditor rotation can occur due to binding government regulations or be done voluntarily by management. Voluntary rotation allows auditors to maintain their independence when conducting audits (Monica, 2019).

Because a long relationship between auditors and clients can affect auditors' independence, auditor rotation is a way independence can be maintained (Hartono, 2016; Georgiou, 2018; Esraa and Ahmed, 2021; Hamuda, 2018). Auditor rotation, therefore, improves the perception of auditor independence. As a result, public accounting firms that have long used the same auditors for many years should consider rotation policies (Daniel, 2011). Msizi Gwala, Bomi Cyril Nomlala (2021) found that mandatory rotation will increase auditors' independence in mind and appearance, while Abeer Fayez et al. (2015) noted that independence will only be recovered if the auditor and the client develop a personal relationship. Another benefit of auditor rotation is that financial statements become reliable when audit independence is enhanced by auditor rotation (Mayse, 2018; Odia J.O., 2015).

Auditor Independence Implicates Auditor Performance

An auditor who does not have an attitude of independence will not be able to produce satisfactory performance, so public trust will be lost (Al, 2018); the higher the independence, the better the auditor's performance (Aprilmulki E, 2017; Tengku, 2019; Siti Rodziah, 2019). Auditor Independence is an essential factor influencing Auditor Performance (Rateb Mohammad, 2018), as auditors with high independence will produce high-quality audits (Eviana W, 2019). There is, therefore, a relationship between the auditor's performance and independence; if the independence is high, the auditor will not be easily controlled by other parties in considering the facts encountered during the audit, and when giving an opinion means that the performance is

good (Hernanik and Putri, 2018). The loss of independence can hide the actual financial condition, meaning the audit can lead to misleading decision-making (Melida et al., 2020). Maintaining Auditor Independence thus serves as the foundation of the auditing profession, enhancing the overall quality of Auditor Performance (Amjed, 2019). Performance is what the auditor does and does not do, just as the auditor's independence will result in the auditor's performance (Haryati and Harlyn, 2018). Based on this frame of thought, the research paradigm for this study is obtained as shown in Figure 1.

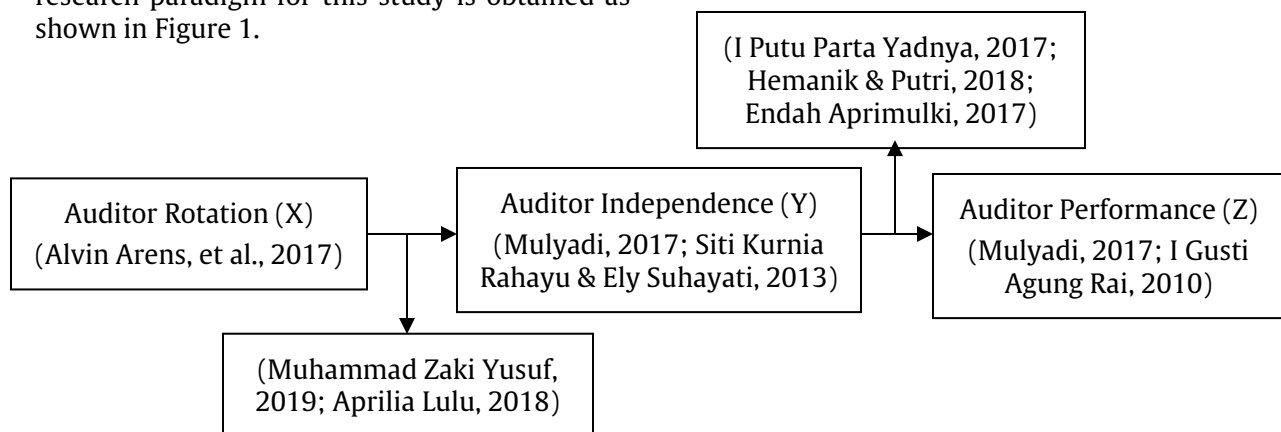


Figure 1: Paradigms of Thought

Hypothesis

The hypotheses in this study are as follows:

- H₁: Auditor rotation has an impact on Auditor Independence
- H₂: Auditor Independence has implications for Auditor Performance

METHODOLOGY

This research employs a descriptive verification approach utilizing path analysis. Path analysis serves to examine the relationships among variables, revealing the extent of direct or indirect effects. It is a form of multivariate analysis applied to explore both the direct and indirect impacts of hypothesized causal variables on various other variables. The impact variable also will be considered (Sugiyono, 2019). The data collected will undergo processing through the SPSS software.

The objects in this study are Auditor Rotation (X) with indicators of leadership and audit partners rotating audit assignments after the specified time limit. Furthermore, client

companies are required to change auditors regularly to improve Auditor Independence (Y) with indicators that are not easily influenced, do not take sides with anyone, can maintain freedom of opinion, and are honest, and Auditor Performance (Z) with indicators of responsibility, ability, and commitment. The population in the study was 37 Public Accounting Firms active in West Java; due to Community Activities Restriction Enforcement (PPKM) during the COVID-19 pandemic, public accounting firms implemented work from home, so not all public accounting firms were willing to accept questionnaires. As a result, only 14 public accounting firms were sampled, with a total of 105 respondents. The results of this number of respondents are supported by (Sugiyono, 2019), suggesting that the appropriate sample size in the study is between 30 and 500.

DISCUSSION

To assess the impact of the independent variable on the dependent variable, the percentage representations of each variable are

described as follows:

Auditor Rotation on Auditor Independence

Based on Table 1, the partial determination coefficient value of the auditor's rotation variable

on Auditor Independence is as follows: $K_d = (0.506)^2 \times 100\% = 25.6\%$. It can be inferred that the significant influence of the auditor's rotation variable on Auditor Independence is equal to 25.6%. The study did not explore other factors that contribute to the remaining 74.4%.

Table 1: Determination Coefficient of Auditor Rotation on Auditor Independence

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.506 ^a	.256	.249	1.924

Hypothesis Testing

The area of acceptance or rejection is drawn according to the results of the t_{count} compared with the t_{table} with the following criteria (Sugiyono, 2019):

- If the t_{count} is greater than or equal to the t_{table} , H_0 falls into the rejection region, indicating the acceptance of H_a and the presence of an impact between the variables X and Y.
- If the t_{count} is less than the t_{table} , H_0 falls into the acceptance region, signifying the rejection of H_a and the absence of an impact between variables X and Y.

Hypothesis Testing of Auditor Rotation on Auditor Independence

Referring to Table 2 and Figure 2, it becomes evident that the t_{count} for the auditor rotation variable stands at 5.950. A comparison of this value with the t_{table} in the distribution reveals that, with $\alpha=0.05$ and $df=n-k-1=17$ ($21-3-1$), the t_{table} is ± 1.983 . Notably, the t_{count} for X1 is 5.950, exceeding the t_{table} value of 1.983. Consequently, H_1 is accepted and H_0 is rejected. The resulting Sig. value is 0.000, indicating significance as it is less than 0.05. This implies that a significant impact exists from auditor rotation to auditor independence.

Table 2: Hypothesis Testing Coefficients of Auditor Rotation on Auditor Independence

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.144	1.456		6.968	.000
	Rotasi_Audit	.493	.083	.506	5.950	.000

According to the information presented in Figure 2, graphs, t_{count} , and t_{table} illustrate the output results for examining the Auditor Rotation's influence on Auditor Independence. The results show a small coefficient of determination. Auditor rotation has not been implemented optimally; this is following the phenomenon that occurs where there are auditor rotation rules that are not implemented. The phenomenon can cause Auditor Independence to decrease with a correlation value of 0.4000, and the direction of

the positive relationship and the relationship is categorized as moderate because it falls into the interval between 0.400-0.599. If one variable increases, the other variables also increase and vice versa, and t_{count} is obtained at 5.950. These values are more significant than t_{table} 1.983. The significance value is smaller than 0.000, so the hypothesis testing results in rejecting H_0 , meaning that a significant positive effect exists from Auditor Rotation to Auditor Independence.

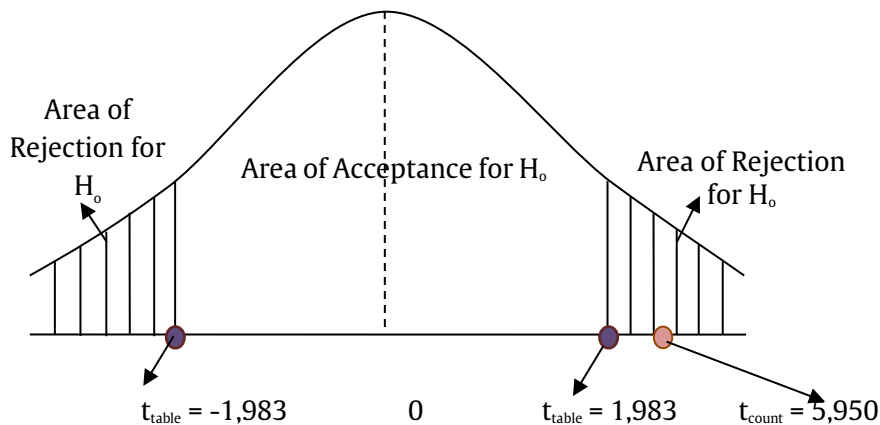


Figure 2: Graph of Hypothesis Testing Auditor Rotation on Auditor Independence

The results of the research supported the theory stated by Arens et al. (2017) that when it takes longer for public accountants to persist in processing an audit of the client, the public accounting firm has good performance. If it lasts too long, however, an emotional relationship can develop between the auditors and the client, which decreases the level of Auditor Independence.

The findings of this research align with prior studies carried out by Yusuf (2019), which showed that auditor rotation has a positive and significant effect on Auditor Independence; if auditor rotation is better, Auditor Independence will also be better. In addition, the results of research from Aprilia (2018) stated that auditor rotation has a significantly positive effect on Auditor Independence. Said and Khasharmmeh (2014) also found that auditor rotation affects Auditor Independence. Coyle (2010) also

concluded that proper rotation is done so that auditors can be independent. According to Christy et al. (2021), auditor rotation aims to restrict prolonged associations between clients and auditors, as excessively lengthy relationships may compromise the independence of the auditor.

Auditor Independence Implications for Auditor Performance

Based on Table 3 below, the coefficient value of partial determination of the Auditor Independence variable has implications for Auditor Performance as follows: $K_d = (0.529)^2 \times 100\% = 27.9\%$. This implies that the impact of the Auditor Independence factor on Auditor Performance is 72.1%, with the remaining 27.9% attributed to other unexplored factors in the research.

Table 3: Determination Coefficient of Auditor Independence Implications for Auditor Performance

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.529 ^a	.279	.273	1.725

Referring to the information presented in Table 4 and Figure 3 below, it is evident that the t_{count} for the Integrity variable is 6.321. This numerical value was compared with the corresponding t_{table} entry in the distribution table. With $\alpha=0,05$, $df=n-k-1=21-3-1=17$, the $t_{table} \pm 1,983$. The t_{count} for X1 is 6.321, surpassing the t_{table} value of 1.983.

Consequently, H_0 is rejected in favor of accepting H_1 . Additionally, the obtained Sig value is 0.000, indicating that the significance is below 0.05. Thus, Auditor Independence has implications for Auditor Performance.

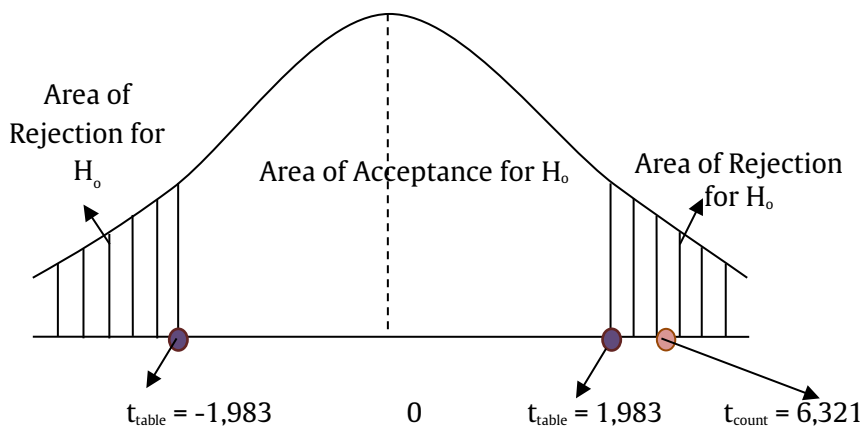
Table 4: Coefficient of Auditor Rotation Hypothesis Testing on Auditor Independence

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	9.579	1.437		6.666	.000
1 Independence	.482	.076	.529	6.321	.000

Source: Author's work

The graph in Figure 3 illustrates the output findings, and both the t_{count} and t_{table} in Auditor Independence testing carry consequences for Auditor Performance. The results show a small coefficient of determination; the implementation of independence has not entirely gone well or there are still problems that occur in independence that can be resolved, which affect Auditor Performance. This is in accordance with the many cases of auditors whom clients can influence because the auditor and the client interacted for too long, with a correlation value of 0.461. The direction of the

relationship is positive and categorized as moderate because it is included in the interval between 0.400-0.599; if one variable increases, the other variables also increase and vice versa. T_{count} is obtained at 6.321; this value is bigger than the t_{table} 1.983, and the significance value is less than 0.000, so it can be concluded that hypothesis testing results in rejecting H_0 and accepting H_1 , which means Auditor Independence has a significant positive effect on Auditor Performance, as shown in Figure 3.

**Figure 3:** Hypothesis Testing Graph for Auditor Independence on Auditor Performance

The findings of this investigation align with Agoes' theory (2017), which emphasizes the importance of auditors maintaining steadfast independence, honesty, and resilience in their examinations and the issuance of opinions that could impact auditor performance. This assertion is corroborated by Hernanik and Putri's (2018) research, which indicated a positive correlation between independence and Auditor Performance. Additionally, Yadnya's (2017) study demonstrated a significant influence of

independence on auditor performance, suggesting that auditors exhibiting a strong sense of independence tend to deliver commendable performance. This is consistent with the research of Hernanik and Putri (2018) and Aprilmulki (2017), as both studies highlighted the noteworthy impact of independence on Auditor Performance. This sentiment aligns with Putri and Saputra's (2013) findings, supporting the notion that independence contributes positively to Auditor

Performance. The study also underscores the pivotal role of independence in influencing Auditor Performance, emphasizing that auditors with heightened independence can contribute to a challenging auditing process that resists external influence or control, as evidenced by Yuliana and Latrini's (2016) research. Independence influences performance (Basri et al., 2019), and it affects the performance of the auditor, meaning that the greater the independence, the better the performance of the auditor (Angela and Budi, 2021; Suhayati, 2022). To prevent the loss of Auditor Independence, auditor switching should be implemented (Adli and Suryani, 2019).

In many developing countries, such as Libya, audit quality depends a lot on practical experience and how professionals behave (Hussein et al., 2020). When auditors are dedicated to good teamwork, it usually leads to better audit quality. Meanwhile, in Jordan auditor rotation, focusing on specific industries, and setting appropriate audit fees, are believed to be the most effective ways for Jordanian companies to improve the quality of their financial reports and avoid manipulation by management (Qawqzeh et al., 2020).

CONCLUSION AND RECOMMENDATION

Auditor Rotation impacts positively on Auditor Independence, which means that if Auditor Rotation increases, Auditor Independence also increases. The favorable computed outcomes regarding the two variables suggest a moderate correlation in the relationship category, demonstrating a one-way connection between Auditor Rotation and Auditor Independence. However, in this study the lowest value indicator is Auditor Rotation, which is in line with the phenomenon found, namely, where there are Auditor Rotation rules that are not implemented, Auditor Independence decreases.

Auditor Independence has implications for Auditor Performance, which means that if Auditor Independence increases, Auditor Performance will be even better. Positive calculation correlation results between the two variables indicate a moderate category correlation with a unidirectional relationship between Auditor Independence implications for Auditor Performance. In this study, however, the

lowest value indicator is the honesty indicator, which is in line with the phenomenon found, namely that there are auditors who are still easily influenced by clients because there has been a relationship between auditors and clients due to extensive interaction that has lasted longer than it should have.

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