

# AUDITOR TENURE, THE INDIVIDUAL CULTURAL AND AUDIT QUALITY

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## ABSTRACT

This research was motivated by the global crisis that occurred in 2008, which resulted in the leaders of the G20 countries (in *the London Summit 2008*) decided some of the policies to be taken in the reform of the economy. One of the important policies to increase transparency and accountability of financial reporting in capital markets, including improving the quality of audits of public accounting to ensure transparency and accuracy of corporate financial information.

The population on this research was the *Auditor's Office Public Accountant* IAI compartments registered public accountant on 2009 in Bandung, amounting to 27 KAP. The design used in this research was an explanation (explanatory research) with descriptive and verification method research approach, because it explained the causal relationship between variables by testing the hypothesis. Data analysis in this research used the multiple linear regression method.

The results was showed in this study that the Auditor tenure and cultural individuals together had no significant effect on the audit quality.

## KEYWORDS

*Financial Reporting, Transparency, Audit Quality, Public Accounting*

## INTRODUCTION

The financial statements are the responsibility of the company's management and need to be audited by external auditors who are independent. (Arrens, Elder, and Beasley, 2003). Professions that can provide confidence in the reliability of financial reporting are a profession of public accountant. Auditing is a professional service performed by the Office of the Public Accountant in nature as a service (Soekrisno Agoes, 2004:43). As a profession that provides services to the community should have a code of ethics which is a set of moral principles governing the professional conduct (Soekrisno Agoes, 2004:43). Public accountancy is a profession responsible for ensuring the accuracy and reliability of corporate financial statements, for the public to obtain reliable financial information as a basis for decision making.

Since ENRON, a giant company in the U.S. committed a horrendous scandal in which was the collusion with the Firm Arthur Andersen, the public outcry against the professional auditors with the swift flow. Citizens trust in the U.S. in particular and in the world communities at large to the profession in the field of public services deteriorated. With phenomenon that occurred in Indonesia, the Minister of Finance (Finance Minister) Sri Mulyani Indrawati suspended the licences of Public Accountant (AP) PMW of Public Accounting Firm (KAP) Drs. MW and Partners for two years, commencing from March 15, 2007. The freezing sanctions permission was granted for public accountants in violation to the Public Accountants Professional Standards (SPAP). The violation was related to the audit for the financial statements of PT Jaya Muzatek that ended in December 31, 2004 by P.

The big challenge for the future auditors was to restore the public confidence in the accounting profession, to work in accordance with professional ethics and standards set in the midst of increasingly fierce competition in this industrial services. In order to compete with the industrial services, quality control and quality audit were considered and carried out by each Public Accounting Firm (KAP); the criteria for measuring the quality of the audit of a public accountant were assessed by the timeliness of completion of work, the adequacy of the examination of evidence used to support the opinion auditors, and independent attitude towards to the client (Public Accountants Professional Standards).

Based on the results of the research conducted by Josoprijonggo, on Dwi (2010) on the audit result reported by the qualified auditor, the auditor should perform their work professionally. They must be independent from their clients, comply the auditing standards in auditing the financial statements, and obtain sufficient competent evidence to express an opinion on the financial statements to perform complete auditing process.

The independency took the central position in the auditing literature, but this topic often sparked debate about the regulation of auditors. The limited provision of services performed by the Public Accountants and the KAP can maintained the values of its independence. Proponents of mandatory rotation of auditors are generally concerned about the deterioration of auditor independence, and the effect on audit quality, resulted for the length of auditor tenure. In general, previous research also showed the results that the auditor tenure associated with the increased of the audit quality (Geiger and Raghunandan 2002; Johnson, Khurana, and Reynolds 2002; Myers, Myers, and Omer 2003; Mansi, Maxwell, and Miller 2004; Ghosh and Moon 2005; Chen, Lin, and Lin 2008) in Chee Yeow Lim (2009). However, recent research has shown some conflicting results. There was an evidence that an extended tenure was associated with positive and negative effects on audit quality (Davis, Soo, and Trompeter 2008) in Chee Yeow Lim (2009).

Looking at the case above the abilities of a professional were understand and be sensitive to the ethical problems in his profession, hence was strongly influenced by his cultural environment or society where the profession was in; the environmental profession and organization where he worked as well as his personal experiences. Hunt & Vitell (1986) in Indriantoro Khomsiyah and Nur (1998)

## THEORY AND HYPOTHESIS

### *Auditor Tenure*

Johnson et. al (2002) defines audit tenure as follows: "This is the number of consecutive years that the audit firm (auditor) has audited the client". According to Sinason et. al (2001) states that audit tenure is "The duration of the auditor's relationship with a client." By definition, it could mean that the audit tenure is the number of consecutive years that the KAP (auditors) has audited the client. Furthermore, the length of an auditor's work and relate to the client (auditor tenure), namely the length of time an auditor working in the contract.

According to Duton et al (1994) states that "the longer a person is in an organization or company then he will increasingly become part of the company or organization for personal categorization". The same's also disclosed by Chee-Yeow Lim et al. (2009) that the auditor tenure is associated with the relationship of two forms, namely: the auditor expertise (skills audit) and economic incentives (economic incentive), the first "auditor tenure is associated with acquired expertise in the Greater That with extended auditor tenure, the auditor can gain a better understanding of the client's business processes, and risks "(Bell et al. 1997). Longer auditor tenure may be associated with reduced vigilance through over-familiarity with the client (Mautz and Sharaf 1961), an effect that may be remedied by the Greater auditor expertise (Smith and Kida 1990; Libby and Luft 1993; Solomon, Shields, and Whittington 1999). Second, extended auditor tenure (without the prospect of mandatory rotation) may create economic incentives for Auditors to be less independent in That Auditors may acquiesce to the client's demands in order to continue to secure a stream of future audit fees (Hoyle 1978; Conference Board 2005). Auditor tenure is associated with increased expertise as auditor tenure is extended; the auditor can gain a better understanding of client business processes, and risk. Longer auditor tenure is associated with reduced alertness because of excessive closeness with clients; their impact should be improved through increased expertise better auditors. Auditor tenure is extended to create economic incentives for auditors who are less independent auditor approved the request because the client in order to continue the obtain of audit fees in the future.

### *Time Budget*

Auditors determine the allocation of very tight audit time, but the result has harmful the public, which led a behavior that threatens the quality of audits, including decreased levels of detection and investigation of qualitative aspects of misstatements, failed to examine the accounting principles, reviewing documents superficially, to receive client's explanation is weak and reducing employment in one of the audits under the acceptable level of Kelley and Margheim in Cohn (2001).

Under the pressures of time, the attention will be focused on the dominant task as the task of gathering evidence related to the frequency and number of misstatements and the expense of attention given to the task for providing such additional duties on the qualitative aspects of misstatements indicate potential fraudulent financial reporting.

## ***Individual Culture***

The culture defined by Hofstede (1991: 4) as a mental program that is patterned mind (thinking), feeling and action or so called "software of the mind". (Chairuman Armia, 2002)

Based on the classification of cultural beings, we can group the culture into two, namely: Cultural abstract and concrete cultural nature. Various titles are often used to indicate individual cultures, among others, culture, organizational culture that is the corporate culture. According to Stephen P. Robbins Pujaatmaka Hadyana translation (2003:595), the notion of organizational culture is: "Organizational culture refers to a system of shared meaning held by members that distinguishes the organization from other organizations. This system of shared meaning is, on closer examination, a set of key characteristics that the organization values.

Hofstede down the concept of culture as distinguished from mental programs at three levels (Hofstede 1980: 15), namely: 1) the universal level, ie mental programs that are owned by the whole humans. At this level of mental programs entirely inherent in human beings, 2) the collective level, ie mental programs that are owned by some, not all men. At this level of mental programs specific to the group or category and can be studied. 3) the individual level, which is a unique mental program which is owned by only one, two people will not have a mental program yangpersis same. At this level a small program attached to the mental part of human self, and others can be learned from community organizations or other groups. (Chairuman Armia, 2002)

Based on factor analysis, Hofstede (1980) in (Chairuman Armia, 2002) empirically found there are four dimensions of mental programs, namely:

1. Power distance,
2. Uncertainty avoidance,
3. Individuality vs. Collectivity

**Manusia Indonesia Kini ala Mochtar Lubis**, "written by Amarilldo and quoted by Wahyuancol in November, 2009 mentions that the human character Indonesia, namely:

1. Hypocrite
2. Reluctant responsible
3. Feudal spirit
4. Superstitious
5. Weak character

If we talk about the culture of the auditor, then it cannot be separated from the conduct and professional ethics, it is done considering the importance of the role of auditors. Moreover, auditors can be regarded as the people's confidence (investors) to ensure reliable information. So it's fair if people helped oversee the work of auditors. Besides the last few years, especially since the collapse of several giant companies of the world, many public accounting profession under the spotlight and criticism from the public. The public accountant to be the one candidate that cause for the collapse of the company.

## ***Audit Quality***

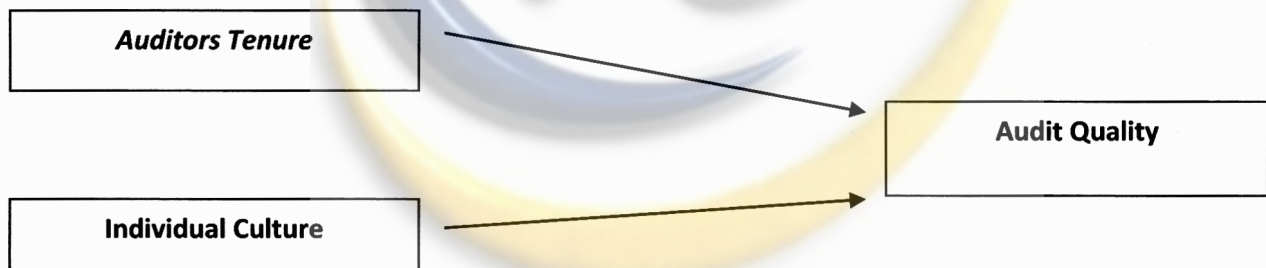
De Angelo in Coram (2004) defines the audit quality as: "Probability of where in the audit process, an auditor can discover and report on the existence of a violation for his client's accounting system. The possibility that the auditor will find misstatements auditors depends on the quality of understanding (competence), while the report misstated the action depends on auditor independence. Research results show that a large KAP will attempt to present greater audit quality as compared with a small KAP. "

As disclosed by Sawyer's (2006:195) in his book *Internal Audit*. Improving the quality of an audit by the auditors can be measured by the following:

1. Generate useful findings and good recommendations.
2. The achievement of goals and objectives of the audit.
3. The increasing number of requests for audit work.

## **THEORITICAL FRAMEWORK**

Based on literature review, both theoretically and empirically, researchers describe the thought patterns of the relationship between: auditor tenure, individual culture, and audit quality with a diagram as follows:



## **Framework figure for Auditor Tenure, Individual Culture and Audit Quality**

## **HYPOTHESIS**

The Auditor Tenure and the Individuals Culture have the influence on the Audit Quality simultaneously

## RESEARCH METHOD

The population on this research were all the Auditors Office Public Accountant IAI compartments registered public accountant on 2009 in Bandung , amounting to 27 KAP. The researcher design used of this paper was descriptive research. It explained with descriptive and verification method research approach, because it explained the causal relationship between variables by testing the hypothesis. Data analysis in this research used multiple linear regression method.

## ANALYSIS

### CLASSICAL ASSUMPTION TESTING

Testing the hypothesis by using multiple linear regression analysis tool (multiple regression).

#### 1. Multicollinearity Test

By using SPSS 10.0 for windows, obtained the following results:

Table 1

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	7.499	2.249		3.335	.002		
	JML.X1	.183	.138	.263	1.328	.193	.693	1.444
	JML.X2	3.937E-02	.083	.094	.476	.637	.693	1.444

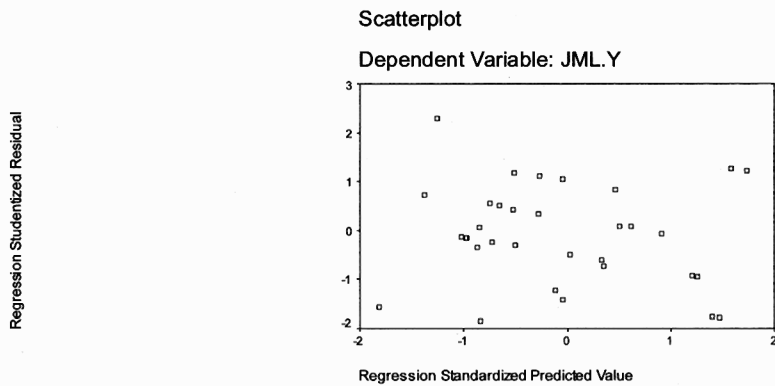
a. Dependent Variable: JML Y

From the table above can be seen that the value of VIF for the  $X_1$  and  $X_2$  variables, has a value below 10. It can be concluded that the regression model used in this study contains no multicollinearity.

#### 2. Heteroscedasticity Test

By using SPSS 10.0 for windows, then obtained the following graph plots

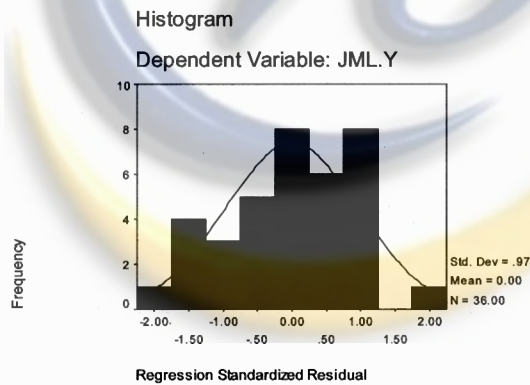
**Picture 4.2 Plot between ZPRED dan SRESID**



In the plot at the top of the visible dots spread randomly and do not form a clear pattern. This shows that there is no symptom heteroscedasticity in regression models, so that proper regression model used for prediction of the dependent variable based on the independent variable input.

### 3. Normality Test

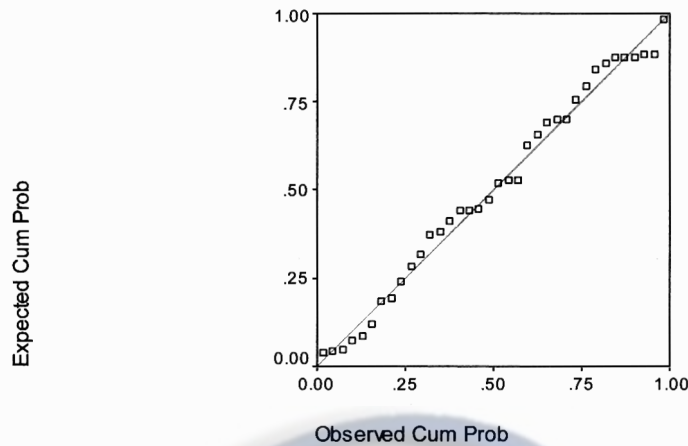
By using SPSS 10.0 for windows, then the obtained histograms and normal probability plot as follows:



**Picture 4.3 Histogram and Normal Probability plot residual**

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: JML.Y



In the graph above shows the points spread around the diagonal line, and its spread following the diagonal direction. Then it can be concluded that near-normal data distribution, so that normality assumptions are met.

A result of testing the classical assumptions above indicates that the analysis using multiple linear regression models and hypothesis testing research can proceed.

**DISCUSSION**

The data analysis used in this study was multiple linear regression method, with SPSS 10.0 for Windows software. The results are seen in the following table:

Table 2

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	7.499	2.249		3.335	.002		
	JML.X1	.183	.138	.263	1.328	.193	.693	1.444
	JML.X2	3.937E-02	.083	.094	.476	.637	.693	1.444

a. Dependent Variable: JML.Y

The Equations obtained from the analysis process is as follows:  
Equations Model



$$Y = 7,499 + 0,183 X_1 + 0,003937 X_2 + \varepsilon$$

$$\varepsilon = \text{errorvar} = 0,895 \quad R^2 = 0,105$$

The interpretation of the above regression equation is as follows:

1.  $X_1$  regression coefficient is 0.183, indicating that any increase in auditor tenure variable for one unit of value will increase by 0.183 units of Audit Quality value or 18.3% assuming other variables are constant.
2.  $X_2$  Regression coefficient is 0.0039 this shows that any increase in variable by one unit of Individual Cultural values will raise the quality of audits by the unit value of 0.0039 or 0.39%, assuming other variables are constant.

The Errorvar value that is equal to 0.895 shows the degree of influence of other factors outside of Auditor Tenure and the Individual Culture on the Quality Audit that is equal to 89.5% while the value of the coefficient of determination  $R^2$  or a multiple of 0105 shows the magnitude of the influence of Auditor Tenure and Cultural Individuals overall against the Audit Quality by 10.5%.

### **The Effect of Auditor Tenure ( $X_1$ ), and Individual Culture ( $x_2$ ) on The Quality Audit ( $Y$ ) By Simultaneous**

After having the equation of this research model, next will be tested the influence of Auditor Tenure ( $X_1$ ) and Individual Culture ( $X_2$ ) on the Audit Quality ( $Y$ ) in KAP Bandung simultaneously. Form the hypothesis is as follows:

Ho: There is no influence of Auditor Tenure ( $X_1$ ) and Individual Cultural ( $X_2$ ) on the Audit Quality ( $Y$ ) on KAP in Bandung.

H1: There is an influence of Auditor Tenure ( $X_1$ ) and Individual Cultural ( $X_2$ ) on the Audit Quality ( $Y$ ) on KAP in Bandung.

From the test results ( $R$  - *Square* on the *Model Summary* table) obtained the value of the coefficient of determination ( $R^2$ ) regression equation that is equal to 0.105. This means that any changes in audit quality by 10.5% are affected by the change of variables Auditor Tenure and Individuals Culture. The 89.5% is affected by factors beyond the two variables.

**Table 4.3 Model Summary**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.325 <sup>a</sup>	.105	.051	2.1520	1.362

a. Predictors: (Constant), JML.X2, JML.X1

b. Dependent Variable: JML.Y

Source: Results of Treatment

To determine whether significant effect Tenure Auditor ( $X_1$ ) and Individuals Cultural ( $X_2$ ) on the Audit Quality ( $Y$ ) as a whole is to perform the F test with the two parties in the real level 5% (0.05).

**Table 4.4**

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.000	2	9.000	1.943	.159 <sup>a</sup>
	Residual	152.832	33	4.631		
	Total	170.832	35			

a. Predictors: (Constant), JML.X2, JML.X1

b. Dependent Variable: JML.Y

Source: Results of Treatment

**Table 4.5**

**The conclusion of overall testing (Simultaneous)**

F value	F table value	Conclusion
1,943	3,32	Tidak Signifikan

Sources: Processed data

From the table 4.4 obtained F value of 1.943. To find out the value of F obtained is significant or not, it should be compared with the  $F_{table}$  value.  $F_{table}$  value for  $n = 36$  and  $k = 2$  on the real level of 5% is equal to 3.32. So it can be seen that  $F_{value} < F_{table}$ . This means Receive  $H_0$  and reject  $H_1$ , it mean that the Auditor Tenure and Individual Cultural together had no significant effect on the Audit Quality.

From Table 4.5 above shows that the  $F_{value}$  is smaller than the  $F_{table}$  so that the test results obtained are not significant. Or in other words there is little effect that occurs on the entire population of the Senior and Junior Auditor at KAP in Bandung.

## CONCLUSION

In this research the results from testing the hypothesis was an influence of Auditor Tenure and the Individual Cultural on the Audit Quality but simultaneously the result was not significant because the changes in the Auditor Tenure and Individual Cultural affected the Audit Quality but with very small effect on KAP in Bandung. Simultaneously, the two independent variables tested the Auditor Tenure (X1) and Individual Cultural (X2), had a significant influence but not to the Audit Quality (Y), by 10.5%, it because there many other factors besides Auditor Tenure and Individual Cultural that affected the quality of the audit that equal to 89.5%.

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