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LITERATURE REVIEW ON AUDITOR INDEPENDENCE

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ABSTRACT
This study aims to provide an overview of the development of auditor independence research. Data were taken from articles published in Scopus-indexed international journals from American Accounting Association publishers, Emerald, Wiley, Elsevier, Routledge, Academic Press Inc, and Taylor and Francis Ltd. Samples were taken from 2002 to 2022 as many as 27 auditor independence articles. The method of analysis is through classifying articles based on the research method used, the name of the journal, the year of publication, and the country of origin of the first author. In general, the results of the study found that research on auditor independence has increased from year to year and is still an interesting research topic to study.

INTRODUCTION

Audit effectiveness is very important to maintain public trust in the capital market to remain efficient (Callaghan et al., 2009; Kanagaretnam et al., 2010). A necessary condition for an effective audit is auditor independence (Callaghan et al., 2009). Auditor independence is the foundation of the audit profession which is an important element in the company's reporting process (Ye et al., 2006). An audit has little value if the audit does not involve definite independence because independence is one of the core qualities that auditors must maintain in providing effective assurance services (Chi et al., 2012).

The Institute of Internal Auditors (IIA) defines independence as freedom from threats to objectivity. This suggests that independence is synonymous with auditor objectivity and the ability to resist pressure from clients to approve substandard reporting (DeFond et al., 2002).

After Enron's bankruptcy (DeFond et al., 2002), auditor independence became the subject of long debate (Gul et al., 2007). Researchers, regulators, and the public are concerned about auditor independence because of severe audit failures. This concern prompted congress to enact legislation that prohibited most of the non-audit services provided by auditors. Regulators' concerns about non-audit services are based on the assumption that auditors are willing to sacrifice their independence in exchange for retaining clients who pay higher non-audit fees (DeFond et al., 2002).

The provision of non-audit services can harm auditor independence because client companies pay more for non-audit services so public accounting firms have economic dependence on clients (Ashbaugh et al., 2003).

Auditor independence is a critical issue for the auditing profession as shown in many studies, for example Darts (2011); Srinidhi and Gul (2006); Gul, Jaggi, and Krishnan (2007); Kanagaretnam, Krishnan, and Lobo (2010); and Sharma, Sharma, and Ananthanarayanan (2011). However, there are studies that fail to provide consistent evidence of threats to independence, for example DeFond, Raghunandan, and Subramanyam (2002); Ashbaugh, LaFond, and Mayhew (2003); Ghosh, Kallapur, and Moon (2009); Hay, Knechel, and Li (2009); Ruddock, Taylor, and Taylor (2010); Callaghan, Parkash, & Singhal (2009); Robinson (2008); Ye, Carson, & Simnett (2006); Craswell, Stokes, and Laughton (2002); Li (2009); Chi, Douthett, & Lisic (2012); Hwang et al. (2008); Quick & Warming-Rasmussen (2005); Umar and Anandarajan (2004); and Blay (2005).

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The purpose of this study is to analyze and synthesize the development of empirical research on auditor independence using a systematic literature review. In this study, the manuscripts reviewed were those published from 2002 to 2022. In addition, searches were limited to reputable international journals. This research contributes theoretically to developing knowledge about ethics and professionalism. This research also contributes to academics by developing research on auditor independence by closing gaps in previous research.

METHODS

The methodology in this study used a systematic literature review (SLR). SLR is a systematic, evidence-based approach to conducting a literature review. This article follows the following 5 steps of a systematic literature review: 1) formulation of research questions, 2) identification of studies; 3) selection, 4) analysis 5) presentation of results. The question in this research is, "How is the trend of publication of empirical research related to auditor independence".

Article search is done using the Google search engine. The keywords used in the search are auditor independence, auditor independence, and auditor independence. The search for articles was carried out over a period of 21 years, from 2002 to 2022. It is hoped that this long period of time will provide a comprehensive picture of auditor independence.

After the article is found, a reliability test is carried out to examine the literature used in the study. The found articles were carefully examined to determine their relevance to the research question. The criteria used for selecting articles are: (1) research published in a reputable journal (Scopus); (2) articles must be published in a journal with an SJR impact index to ensure that the article selection process complies with a set of standards that guarantee the quality of primary research (Martinelli & Tunisini, 2019); (3) articles that are not in accordance with the research topic, namely auditor independence and cannot be accessed free of charge, were excluded from this analysis. Each selected article is read in detail. At this stage, the results of research articles that are not relevant to auditor independence are issued in the SLR. Thus, the articles that are synthesized and discussed are those that focus on auditor independence. The result of the process is shown in Figure 1.

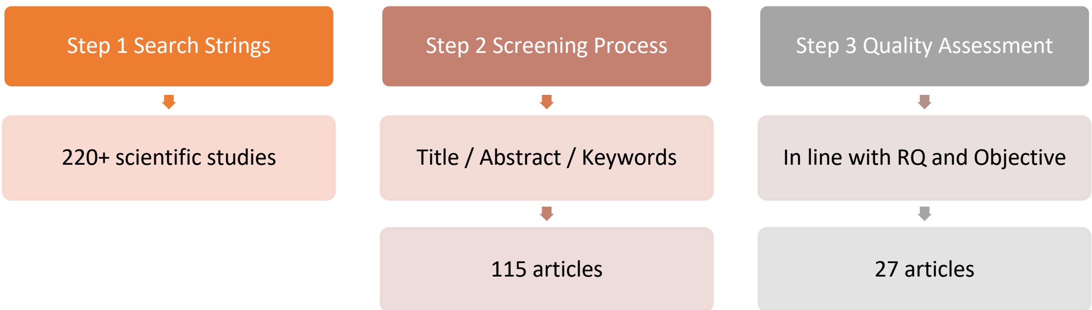

Figure. 1 Search and selection process

A total of twenty-seven articles have been selected to be analyzed and reviewed more specifically in this study. As for the articles, four came from the Q1 journal, and one from the Q2 journal. These articles have been published in the 2002–2022 period and will be discussed in the Results and Discussion section.

RESULTS

To answer the question, articles are classified based on the research method used, year of publication, and name of the journal. The research method used in each article is dominated by research with a quantitative approach compared to qualitative and experimental. Therefore, further research on auditor independence can be carried out using a qualitative or experimental approach. Figure 4 below shows an analysis related to the research method used in each of the articles that have been reviewed.

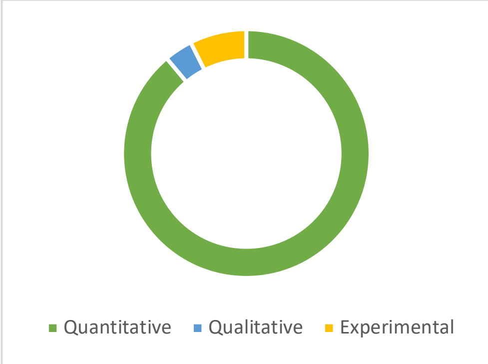

Figure. 2 Research Methods

Article publications experience fluctuating trends. The highest number of publications was in 2009 with 5 publications. The fewest publications occurred in 2004 and 2007 with 1 publication each. The publication of this research has again decreased from 2013 to 2022. The decrease in the number of publications is because research issues related to auditor independence have begun to become saturated, so the research focus is directed to other audit topics. The results of the development of research trends on auditor independence are presented in Figure 3.

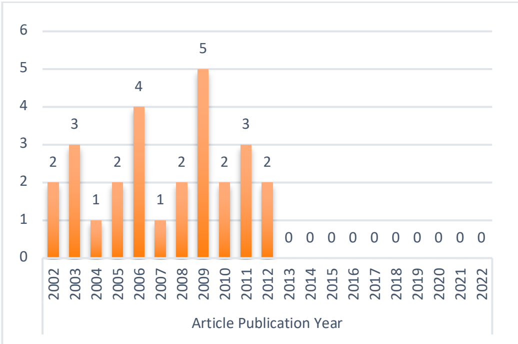

Figure. 3 Auditor Independence Publication Trends

The distribution of publications from empirical research on auditor independence is shown in Table 1. The journal that most often publishes topics related to auditor independence is Current Issues in Auditing with 29.63%, then The Accounting Review with 14.81%, followed by Contemporary Accounting Research, Journal of Accounting and Public Policy, and Managerial Auditing Journal each with 11.11%. Other journals such as the Accounting Forum, British Accounting Review, European Accounting Review, Journal of Accounting and Economics, and Journal of Business Finance and Accounting where each of these journals only contributed 3.70%.

Table. 1 Distribution of Published Articles in Reputable International Journals

Journal Name	Researcher	Article Distribution
Accounting Forum	Quick & Warming-Rasmussen (2005)	1
British Accounting Review	Dart (2011)	1
Contemporary Accounting Research	Blay (2005); Li (2009); Ruddock, & Taylor (2010)	3
Current Issues in Auditing	Callaghan, Parkash, & Singhal (2009); Daugherty et al. (2012); Ruiz-Barbadillo, Gómez-Aguilar, & Carrera (2009); Srinidhi and Gul (2006); Gul, Sami, & Zhou (2007): Robinson (2008); Sharma, Sharma, & Ananthanarayanan (2011); Ye, Carson, & Simnett (2006).	8
European Accounting Review	Richard (2006)	1

Journal Name	Researcher	Article Distribution
Journal of Accounting and Economics	Craswell, Stokes, & Laughton (2002)	1
Journal of Accounting and Public Policy	Chi, Douthett, & Lisic (2012); Ghosh, Kallapur, & Moon (2009); Kaplan & Mauldin (2008)	3
Journal of Accounting Research	DeFond, Raghunandan, & Subramanyam (2002); Dopuch, King, & Schwartz (2001)	1
Journal of Business Finance and Accounting	Hay, Knechel, & Li (2006)	1
Managerial Auditing Journal	Alleyne, Devonish, & Alleyne (2006); Hwang et al. (2008); Umar & Anandarajan (2004)	3
The Accounting Review	Chung & Kallapur, (2003); Hope & Langli (2010); Kanagaretnam, Krishnan, & Lobo (2010)	4
Number of articles		27

DISCUSSION

Dart (2011) in England found that economic dependence has a negative effect on investors' perceptions of auditor independence. This finding is consistent with the results of research by Alleyne, Devonish, & Alleyne (2006). Alleyne, Devonish, & Alleyne (2006) investigated perceptions of auditor independence (PAI) between auditors and users in Barbados. The findings of this study indicate that the auditor's economic dependence on the client negatively affects PAI.

Conflicts of interest created due to economic dependence are exacerbated when auditors provide non-audit services (non-assurance services - NAS) to clients (Dart, 2011). The provision of NAS has been the subject of the great debate because it places an economic tie between the auditor and the auditee, resulting in financial dependence on the client (Alvin Alleyne et al., 2006). Regulators are concerned about two effects of NAS. One is the fear that NAS fees make auditors financially dependent on clients because they are based on intuitive cost-benefit tradeoffs. This makes the auditor less able to resist management pressure for fear of losing the business. Regulators fear that auditors will sacrifice audit independence because auditors perceive the benefits of retaining clients who pay large NAS service fees as greater than the expected fees (DeFond et al., 2002). Another concern is that the consulting nature of many NAS places the auditor in a managerial role that potentially threatens the auditor's objectivity for the transactions being audited (2002). Dart (2011) in England found that economic dependence has a negative effect on investors' perceptions of auditor independence.

Conflicts of interest created due to economic dependence are exacerbated when auditors provide non-audit services (non-assurance services - NAS) to clients (Dart, 2011). This makes the auditor less able to resist management pressure for fear of losing the business. Regulators fear that auditors will sacrifice audit independence because auditors perceive the benefits of retaining clients who pay large NAS service fees greater than the expected fees (DeFond et al., 2002). Another concern is that the consulting nature of many NAS places the auditor in a managerial role that potentially threatens the auditor's objectivity for the transactions being audited (DeFond et al., 2002).

Several studies examining the effect of NAS on auditor independence show inconsistent results. DeFond, Raghunandan, and Subramanyam (2002). tried to investigate the cost of NAS which undermines auditor independence. This study did not find a significant relationship between NAS costs and impaired auditor independence, where auditor independence is measured by the auditor's tendency to issue a going concern audit opinion (DeFond et al., 2002). Ashbaugh, LaFond, and Mayhew (2003) find no systematic evidence to support their claim that auditors violate independence as a result of clients purchasing relatively more NAS. This condition is consistent with the results of previous research, namely research by Ghosh, Kallapur, and Moon (2009) which found that the NAS fee ratio was not considered to interfere with auditor independence, even for years before SOX when the ratio was much higher (Ghosh et al., 2009). Meanwhile, Hay, Knechel, and Li (2006) failed to provide evidence that NAS fees can interfere with auditor independence. The research results of Ruddock, Taylor, and Taylor (2010) are inconsistent with the claim that a relatively larger number of NAS can result in reduced auditor independence. Instead, the research findings are consistent with the view that market forces such as litigation risk, loss of reputation more commonly, and alternative governance mechanisms serve to discipline auditors not to reduce audit independence in order to earn increased NAS fees.

Chung and Kallapur (2003) also found no consistent evidence regarding a decrease in auditor independence as a function of different client fee ratios (audit and non-audit).

Callaghan, Parkash, and Singhal (2009) examined the problem of auditor independence in the context of bankruptcy in the US. This study analyzes the relationship between the tendency of auditors to provide going concern (GC) opinions and NAS fees with a sample of 92 companies that filed for bankruptcy within 1 year of receiving an audit opinion. Contrary to the Australian experience, the study found no significant association between the propensity to issue a GC opinion and NAS fees, fee ratios, audit fees, or total auditor fees.

The results of this study support the view that the provision of non-audit services does not result in a decrease in auditor independence (Callaghan et al., 2009). Robinson (2008) tests whether auditor independence is impaired through the provision of tax services by focusing on issuing going concern opinions among a sample of companies filing for bankruptcy.

The results of the study show that the auditor is more likely to issue a going concern opinion correctly before filing bankruptcy if there is tax service for the client. Non-tax NAS service fees significantly influence going-concern opinion. These results indicate that audit quality is enhanced through information from tax services provided by auditors.

The results of this study contribute to the current debate about auditor independence and NAS by providing evidence that tax service charge levels do not appear to systematically impair auditor independence in companies filing for bankruptcy.

Srinidhi and Gul (2006) found that non-audit fees can interfere with auditor independence when the auditor's tenure is shorter. Auditors with short tenure tend to be unfamiliar with the client's accounting and control systems, which will make it easier for the client to manage reported income. This means that the positive relationship between discretionary accruals and higher NAS costs to clients may not reflect reduced auditor independence (Srinidhi & Gul, 2006). The results of this study are consistent with the research of Hay, Knechel, and Li (2006).

CONCLUSION

This research systematically presents the development of empirical research on the factors that influence auditor independence. To answer the research objectives, a systematic literature review method was used. The results of this study provide some evidence. First, the publication of empirical articles experiences a fluctuating trend. The highest number of publications was in 2009 with 5 publications. The fewest publications occurred in 2001, 2004, and 2007. Second, research on auditor independence was dominated by authors from America, Australia, and England. Third, the most dominating research method is the quantitative method.

Therefore, further research on auditor independence can be carried out using a qualitative and experimental approach. Fourth, the distribution of the most publications is in the journal Auditing: A Journal of Practice & Theory. Fifth, the results of empirical research are still inconsistent. The results of the study show that the most dominant factor that can strengthen auditor independence is the audit committee.

Meanwhile, mandatory rotation has not provided evidence that can strengthen auditor independence. The most dominant factor that can weaken the auditor's independence is the client's economic interests or business relationships. Meanwhile, non-audit services which are feared to damage auditor independence have not been consistently proven to be able to influence auditor independence. Therefore, it is still possible to examine non-audit services using different indicators to measure auditor independence. Meanwhile, another theme that is still little researched in relation to auditor independence is litigation risk and Management Advisory Services (MAS).

This systematic literature review has limitations because it limits the search for articles only in 2001-2021. This limitation causes the initial research relating to the factors that maintain or threaten the independence of the auditor was not explored. In presenting the research results, we have not synthesized in detail the size of auditor independence, suggestions, and contributions from previous research results.
Therefore, further research is recommended to include the first research related to factors that influence auditor independence, to carry out a detailed synthesis of research results, and to determine the research agenda in the future.

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