

The Moderating Effect of Competition Intensity of Public Accounting Firms (PAF) Towards the Influences of Professional Commitment on the Auditors' Independence in Indonesia

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DOI: 10.31364/SCIRJ/v11.i12.2023.P1223974

<http://dx.doi.org/10.31364/SCIRJ/v11.i12.2023.P1223974>

Abstract: This study aimed to examine the Moderating Effect of Competition Intensity of Public Accounting Firms (hereafter PAF) towards the influences of Professional Commitment to the Auditors' Independence in Indonesia. The research samples were 107 public accountants throughout Indonesia. The samples were chosen randomly. In addition, data were collected through survey method. The test results suggested that the intensity of competition for public accounting firms was proved to have weakened the relationship of professional commitment to the independence of auditors in Indonesia.

Keywords: *Professional Commitment, Auditors' Independence, and Competition Intensity of Public Accounting Firms.*

INTRODUCTION

The issue of the auditors' independence has in fact become one of the essential foundations amongst regulators, practitioners, and researchers. The auditors' independence happens since the auditors have been playing an important role in proving the credibility of the company's financial statements. In performing this role, it is very significant that an independent auditor of the company's management (Ahmad, 2012) must play a role. Nevertheless, the independence of the auditors is often disturbed by various parties having an interest in the results of the auditors' works. In addition, the auditors must also meet their personal ambitions in order to develop their careers. Various interests are faced by the auditor so the auditors are often put in a difficult situation (Kaplan, 2004).

In addition to protecting the public interest by being independent, the duty of the auditors must also protect the reputation of their profession. Moore, Tetlock, Tanlu, Bazerman (2006) argued that the independence is the only reason for the existence of accounting firms, that provide external audits. If it were not for the claim of independence, there was no reason to bring up external auditors because their functions would be redundant with the presence of company's internal auditors.

The auditors, in addition, are required to act independently in conducting audits. Thus, the results of the audits carried out can be used for decision making by various parties. Gowthorpe (2005) stated that when serving various interests, auditors often face conflicts, namely conflicts between the individual accountant's own interests, the interests of the client, and the interests of society. Furthermore, Moore, Tetlock, Tanlu, and Bazerman (2006) stated that the conflict of interest inherently in the auditor-client relationship will cause the auditor to support the client's wishes. As the result, auditors often ignore the two most important factors, namely independence and objectivity (Kung and Li Huang, 2013), such as the accounting manipulation case that plagued Enron and WorldCom in the United States. Chen, Elder, and Liu (2005), moreover, stated that the two scandals have eroded public confidence in the independence of the accounting profession and the quality of audit services.

One of the primary causes of the auditors' inability to maintain their independence is the concern that the PAF will lose its client or provide an audit opinion as desired by the clients. This situation is due to a strong pressure from company management on the auditors, which can trigger a dilemma for the auditors in generating a decision (Dillard and Yuthas, 2002). The condition of the auditor's dilemma has an impact on the possibility of the auditors not being able to act independently on their work (Kaplan, 2004). Sucher and Kosmala-MacLulich (2004) stated that without auditors' independence, audit opinion only has a small value. Furthermore, Fearnley and Beattie (2004) suggested that competence and independence can prevent audit failure.

This study thus referred to, and will use the logic of research that has been carried out by Azis, Subroto, Rosidi, and Subekti et al. (2016), namely the individual-situation interaction model in the form of the interaction of personal factors and situational factors. The interaction model developed in this study was the effect of situational factors in the form of intensity of competition between public accounting firms (PAF) in the relationship of professional commitment to auditors' independence.

Literature Review

The Auditors' Independence

Every accountant must maintain his integrity and objectivity in his professional duties. Additionally, every auditor must be independent of any conflicting interests or improper influence. An objective attitude may allow auditors to carry out audits seriously and confidently, having big trust on their work and the results of their work (Tugiman, 2006., p. 26). Azis et al., (2016) said that the auditors' independence is a mental attitude that does not take sides with anyone, in any conditions and situations. Yet, it should be underlined that it happens in both factual independence and appearance independence.

In the code of ethics for public accountants, it is stated that the independence is the attitude expected from a public accountant not to have a personal interest in carrying out his duties, which is in contrast to the principles of integrity and objectivity. The Indonesian Institute of Certified Public Accountants (2011) and the second general standard of SPAP require that auditors must be independent. This means that they are not easily influenced in carrying out their work for the public interest. Thus, they are not justified in taking sides with anyone's interests, because no matter how perfect their technical skills are, they will lose their impartiality, which is very important in maintaining their freedom of making an opinion.

Professional Commitment

Every individual in the organization should have a professional commitment to his profession. Such highly professional commitment of accountants has an impact on their sensitivity to ethical issues and ethical behavior (Lui, Ngo, and Wing-Ngar, 2001). Furthermore, Gendron, Suddaby, and Lam (2006) stated that individual auditors have a level of trust to the extent to which a code of ethics standard is a key attribute of a profession, and it becomes the domain of public accounting. This trust must be strictly binding. Following that, Ahmad, Anantharaman, and Ismail (2012) stated that professional commitment determines not only professional loyalty to the profession, but also adherence to a professional code of ethics. The main purpose of the code of ethics is to improve auditors' performances and audit quality by understanding the moral issues of the environment in which they interact (Pflugrath., Martinov-Bennie, and Chen, 2007), because they always face ethical dilemmas when carrying out their professional responsibilities (Herron and Gilbertson, 2004).).

In carrying out their duties, the auditors must have a professional commitment and prioritize the public interest. Azis et al (2016) stated that auditors who have professional commitment will always adhere to the principles of the accounting profession's code of ethics as the basis for interacting or dealing with their clients, the community, fellow accountants and other interested parties. In particular, codes of ethics provide guidelines and norms of professional practice (e.g., principles of virtue and threats to independence) to assist accountants in identifying, evaluating, and resolving ethical dilemmas that constantly haunt them (Herron and Gilbertson, 2004). Modarres and Rafiee (2011), furthermore, stated that accountants who are guided by a code of ethics will always uphold professionalism for ethical decision making, which in turn can help accountants maintain the right attitude and act independently when making decisions.

The Intensity of PAF Competition

PAF is a service-oriented business area that must pay attention to customer satisfaction and demands commitment from every party within the organization. Increasing competition in PAF will spur the fulfillment of human resources quality and better audit quality. This also means that the PAF will increasingly maintain its independence so that the assessment of the PAF as a professional PAF and has a high ranking is maintained. However, the competition between PAFs can cause the professional solidarity of auditors to decrease. As a result, to get or keep clients from moving to other PAFs, auditors tend to bow to clients pressure. Shleifer (2004) stated that a market full of competition can have an impact on unethical behavior. Furthermore Kreuze et al. (2001) considered that in the intensity of intense market competition can be found in several parties that may violate the rules or standards in order to gain their own advantage. Furthermore, Alleyne, Devonish, and Alleyne (2006) contended that PAFs operating in highly competitive environments have difficulty remaining independence. This happened because clients could easily obtain services from other PAFs by determining lower audit fees. Also, the high level of PAF competition has led to reduced auditor independence.

In Indonesia, the audit market has been dominated by only a few PAFs, which also reflects the competition amongst PAFs. The dispute between PAFs, namely between PAF Eddy Pinto (Grant Thornton) and PAF Haryanto Sahari and Partners (PriceWaterHouse) regarding the audit of PT Telkom's 2002 financial statements, showed the intense competition for audit services in Indonesia (Commission for the Supervision of Business Competition (KPPU), 2003). The results of research conducted by Michelson and Wootton (2001) also showed an evidence of a competitive market in the audit industry, which has an impact on decreasing earnings in PAFs (Banker, Chang, and Cunningham, 2003).

HYPOTHESES

The Intensity of PAF Competition and Auditors' Independence

An individual's ethical or unethical behavior can be influenced by the surrounding situation. Shleifer (2004) stated that unethical behavior often emerged as a result of a market full of competition. Furthermore, Law (2008) stated that high competition can have a negative influence on the perception of auditors' independence. The high competition of PAFs can cause auditors to receive such client

pressure. This pressure can lead to a fear of losing clients, so it encourages auditors to be more tolerant with clients which have caused impaired auditor independence (Newton, Wang, and Wilkins, 2013).

The results of Budisusetyo's (2014) research showed that the intensity of PAF competition is a moderating variable that weakens the influence of moral character on the ethical behavior of auditors. Tahinakis and Nicolaou (2004) also found that PAF competition weakens auditor independence. Furthermore, research conducted by Lin and Fraser (2008) indicated that auditors operating in a highly competitive environment are more likely to resolve conflicts in favor of clients. Al-Ajmi and Saudagaran (2011); Alleyne et al. (2006); Ashbaugh, LaFondand , and Mayhew (2003) also figured out that PAF competition weakens auditor independence.

Based on the description above and several previous research results, the hypothesis is formulated, namely "The intensity of PAF competition weakens the effect of professional commitment on auditor independence".

METHODOLOGY

Data Types and Sources

This study used primary data obtained through using a questionnaire containing the auditors' perceptions on professional commitment, their independence, and the intensity of competition in public accounting firms using a survey method.

Population and Research Sample

The population of this research were all members of the Indonesian Institute of Certified Public Accountants (IAPI) who are working in public accounting firms (PAF). The samples were chosen using a simple random sample, and obtained 107 public accountants that could be further processed.

Data analysis method

The analytical method used in this study was the Partial Least Square (PLS) analysis method. The PLS was use since it could provide an explanation of reflective and formative indicators that formed a construct. Ghozali (2011, p. 14) explained that PLS is a powerful analytical method, because it is not based on many assumptions, the data does not have to be normally distributed. The sample does not have to be large, and it is able to explain the relationship between latent variables.

HYPOTHESIS TESTING

The Hypothesis Testing on the Moderating Effect of PAF Competition Intensity towards the Effect of Professional Commitment on the Auditors' Independence

The results of previous study conducted by Azis, et al. (2016) found a positive relationship between professional commitment and auditors' independence (see Appendix). This indicated that the professional commitment variable had a positive effect on the auditors' independence.

Hypothesis testing in the research continued the results of research that had been previously carried out by Azis, et al. (2016), which aimed to prove the moderating effect of PAF competition intensity, which weakened the effect of professional commitment on the auditors' independence. In this test, a test of the influence of the level of PAF competition was used as a moderating variable on the relationship of the dependent variable of professional commitment to the auditors' independence.

Table
The Moderating Effect of PAF Competition Intensity

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
KP -> IA	0.789	0.774	0.077	0.077	10.229
KP * IP -> IA	-0.032	-0.032	0.018	0.018	1.734

Notes: KP= Professional commitment, IP= Competition intensity PAF, AI= Auditors' independence.

The results of hypothesis testing (see table above) indicated that the variable intensity of PAF competition is a moderating variable that has weakened the effect of professional commitment on the auditors' independence with a coefficient value of -0.032; the t-statistic value of 1.734 is greater than 1.645 (1.734>1.645). Therefore, the moderating variable of PAF competition intensity is concluded to have weakened the effect of professional commitment on the auditors' independence. This showed that the competition that occurred in the PAF organization has caused the auditor to override one of the main foundations of the accounting and auditing professions, namely auditor independence.

DISCUSSION

The Intensity of PAF Competition Weakens the Relationship of Professional Commitment to Auditor Independence

This study obtained some empirical evidence that the auditors' independence becomes weaker when there is competition between PAFs. This definitely showed that the higher the competition between PAFs, the weaker the relationship of professional commitment to auditor independence will be. The results of this study are therefore in line with the results of research conducted by Alleyne et al. (2006). The results of this study suggested that each PAF competed fiercely in order to maintain the audit market, which has triggered the emergence of very tight price competition among PAFs. The price competition between PAFs began with the finding that in auditing services, clients easily chosen the PAF they wanted. This showed that the clients as a party had the freedom to choose the auditor, causing the auditor's fear of losing the clients. One of the client's considerations in choosing an auditor, among others, is the amount of audit fees paid and the desired results of the audits. The nature of the client's freedom when choosing an auditor increased the auditor's compliance with the client's wishes. These results support and are in line with the findings of Alleyne et al. (2006), stating that accounting firms operating in a highly competitive environment have difficulty in maintaining their independence. This happens because clients can easily obtained other PAF services by setting lower audit prices and the high level of PAF competition caused the relationship of professional commitment to independence to be reduced. The results of this study found that competition between PAFs made auditors behaving unethically, namely by overriding the professional code of ethics so that auditor independence becomes weak.

CONCLUSION AND LIMITATIONS

This study aimed to examining the Moderating Effect of Competition Intensity of Public Accounting Firms in the Relationship of Professional Commitment to the Auditors' Independence in Indonesia. The results of this study suggested that there was a rather tight competition in the audit service industry in Indonesia and it was proven that PAF competition reduced the ethical behavior of auditors in interacting with their clients. Admittedly, competition between PAFs could weaken the relationship of professional commitment to the auditors' independence. This was due to a fact that the clients easily chosen the PAF, and the PAF's concerned about losing and/or not getting the clients. This has encouraged the auditors to follow or be tolerant of the client's, which later determined the price and audit results as they have expected.

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Appendix

Table
The Effect of Professional Commitment on the Auditors' Independence

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
PC -> AI	0.943	0.944	0.010	0.010	92.695

Description: PC: Professional Commitment, AI: Auditor Independence