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THE EFFECT OF TERM RELATIONSHIP BETWEEN THE AUDITOR AND CLIENTS ON AUDITOR INDEPENDENCE

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Abstract: *The issues of quality auditing are interesting for scientific research to discover. The auditors must maintain their independence of the client for keeping the quality. Some researches suggest that in the long term, the relationship between the auditor and the client can decrease independence. The research reveals the effect of a period of the relationship between auditors and clients towards independence. This study uses a sample of go public companies in Indonesia Stock Exchange in 2002-2011. Based on logistic regression analysis, it shows that the term of the relationship between auditor and client negatively affects the independence of the auditor when the relationship has been more than five years. These findings support the rules on the limitation of period of the relationship between auditor (partner) to the client.*

Keywords: *Auditor, quality, independence, tenure.*

INTRODUCTION

This study re-discuss the issue of auditor independence as one measurement of the auditor quality. Independence is a person's attitude which is characterized by integrity and objectivity on his professional duties. According to the American Institute of Certified Public Accountants (AICPA), independence is an ability to act based on the integrity and objectivity. Auditor's independence consists of independence in performance and fact. The independence that is tested in this study is independence in performance, as shown by the phenomenon of quasi-auditor rotation. Before the issuing of Law No. 5 of 2011 on Public Accounting, and Government Regulation No. 20, 2015 regarding regulation of public accounting firm rotation, there was an obligation for both auditor and partner rotation. Therefore, in order to keep auditor's relationship with the client, and at the same time they do not break the rules, then this pseudo–rotationphenomenon occurs. Pseudo- rotation of auditors indicate a condition that conceptually, there has been

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a change of auditors that makes the relationship between the auditor and the client is disconnected, whereas substantively auditor's relationship with the client still occurs (Junaidi *et. al.*, 2012). The phenomenon of this Pseudo-rotation conceptually can interfere the independence of auditor's performance.

This paper re-discusses the tenure influence on the quality of auditors. The issuing of Law No. 5, 2011 on Public Accountant and Government Regulation No. 20, 2015 related to the rules of public accounting rotation, should be a concern because based on research whether or not the rotation of auditors is needed is still being debated. The debate particularly relates to research findings regarding the length of time the auditor's relationship (partner) to clients on audit quality. Article 11 of Government Regulation No. 20, 2015 states that the restricted tenure is between public accountant with clients and is not between the auditor and the client. It is expected that by the existence of these regulations,the auditor (partner) can maintain the quality in implementing his profession. This Government Regulation explains that Public Accountants (partner) provides assurance services including audit of historical financial information, review services on historical financial information, and other assurance services to an entity is restricted for maximum 5 years consecutively. Until now, the Indonesian Institute of Certified Public Accountants does not provide empirical evidence why the deadline for public accountant relationship with clients is 5 years. Therefore limitation period of 5 years is important to be empirically revealed.

This study developesthe research of Junaidi *et. al.* (2012) which showed that tenure had negative effect on audit quality. This means that the longer tenurethe audit quality is getting decline. Indonesian Institute of Certified Public Accountanthas stipulated that the maximum auditor tenureis five years. However, the Indonesian Institute of Certified Public Accountants has not provided an empirical basis that the five-year tenure as the time limit engagement between the auditor and client. Therefore this research is expected to provide additional empirical evidence about the tenureinfluence on audit quality, so tenure still need to be regulated.

Auditor/partner rotation regulations to clients becomes a concern for researchers and regulators. Regulation of mandatory auditor rotation is done to maintain the quality of auditor (independence). In the US, the Sarbanes Oxley Act of 2002 does not regulate the company to change auditors if they had been in contact for 5 consecutive years. SOX requires that the audit firm shall rotate partner, if one partner has audited 1 client for 5 years.

In Indonesia the regulation of audit firm rotation and partner experienced some changes. The Indonesian government issued a Ministry of Finance Decree No. 423/KMK.06/2002, as amended by Decree of the Minister of Finance No. 359/

KMK.06/2003 that requires companies to limit the auditor assignment period of 5 years and a public accountant for 3 years. The decision was revised by the Finance Minister Regulation No. 17/PMK.01/2008 on public accounting services that limits the assignment period of an auditor for 6 years and a public accountant for 3 years. On 6 April 2015, the government has issued Government Regulation No. 20, 2015 about the practice of public accountant which is a further arrangement of Law No. 5 of 2011 regarding public accountant.

In regard to the public accountant firm rotation rules, it is regulated in Article 11 of Government Regulation No. 20 of 2015, which in Article 11 paragraph (1) it is explained that: the provision of audit services on the historical financial information as referred to Article 10 paragraph (1) letter a to an entity by a Public Accountant is limited to five (5) consecutive book years. Therefore, according to the latest regulations of public accountant, the one which shall be limited in relation to the client for the attestation services is a public accountant (partner) not the audit firm.

Measuring the audit quality is not easy. Various methods and proxies are used to measure the quality of auditing in empirical research. There are several studies that use income as a proxy for audit quality (Becker *et. al.* 1998; DeFond and Subramanyam 1998; Francis, Maydew, and Sparks 1999; and Francis and Krishnan 1999; Ghosh and Moon 2005; and Myers *et. al.*, 2003. In addition there are some researches use the size of the audit firm as a proxy for audit quality (DeAngelo, 1981; Mutchler *et. al.* (1997; DeFond *et. al.* 2002; Geiger and Rama, 2006; Law 2008). While, Carey and Simnett (2006); Knechel and Vanstraelen (2007); and Junaidi *et. al.* (2012) measure the quality of auditors with a tendency to give a going concern opinion.

The development of mandatory auditor rotation regulations or partner in Indonesia has changed for several times. Empirical evidence on the duration of the auditor-client relationship shown mixed results. Manyhave empirically examined the effect of a period of auditor-client relationship to audit quality, however, there is no empirical evidence that shows why the deadline is 5 years for the audit firm. The government set the period of auditor or partner relationship towards the clients as simply quoting the regulation of other countries. Therefore, it is important to do empirical studies on the duration of auditor relationship to the client. Junaidi *et. al.* (2012) revealed that despite existing regulations on mandatory rotation of auditors and partners, practically, these rules can still be circumvented by the auditor, where the auditor does a pseudo-rotation. The existence of pseudo-rotation phenomenon and the above results show that it is very relevant for the tenurerestriction

The Difference from Previous Research

This study continues the findings of Junaidi *et. al.* (2012) which showed that tenurehad negative influence on independence. This study extends the research of Junaidi *et. al.* (2012) that is to test how long the tenure period which will impacton the reduce of auditor's independence and to expand the sample. Therefore, it is expected to provide empirical evidence about tenureperiod which can reduce independence.

TEORITICAL FRAMEWORK AND HYPOTHESIS

Developments Rules Provision Public Accountant Services

In line with the Government's objectives in order to support a healthy and efficient economic, it is required professional and reliable public accountant and audit firm through effective and sustainable regulation, supervision, and monitoring. Therefore, the government issued a decree of the Minister of Finance of the Republic of Indonesia Number: 423/KMK.06/2002 on Public Accountant Services.

> 'Chapter 6 Article 4 explains that the provision of services of general audit on the financial statements of an entity can be performed by audit firm for the longest period of 5 consecutive years and by a public accountant for the longest period of 3 consecutive years'.

Further more, the Government issued a Decree of the Minister of Finance of the Republic of Indonesia Number: 359/KMK.06/2003 regarding the Amendment to the Decree of the Minister of Finance number 423/KMK.06/2002 on Public Accountant Services. In chapter 1 of this Regulation it is mentioned that: some of the provisions in the Decree of the Minister of Finance Number: 423/KMK.06/2002 on Public Accountant Services, is amended as follows: Add three (3) new paragraphs in Article 6 those are paragraph (5), paragraph (6) and (7) which read as follows.

> 'Article 6 paragraph (5) In the case of an audit firm that has organized a general audit on financial statements of an entity to change the composition of its public accountant, then toward the audit firm it is remain applied the provisions of paragraph (4)'.

> 'Article 6 paragraph (6) In the case of an audit firm makes changes in public accountant composition that causes 50 percents or more of the number of public accountants coming from the audit firm which has organized a general audit on financial statements of an entity, thentoward the audit firm it is treated as a continuation of the origin audit firm of the relevant public accountant and is still imposed restrictions on the implementation of a general audit on financial statements as referred to paragraph (4) '.

> 'Article 6 paragraph (7) In terms of establishment or change of name of the audit firm which 50 percent or more of the public accountants composition coming from the audit

firm which has organized a general audit on financial statements of an entity, then toward the audit firm it is applied and remain applied restrictions on the implementation of general audit on financial statements as referred to paragraph (4) '.

In 2008 the government republished the regulations to revise the Decree of the Minister of Finance Number: 359/KMK.06/2003, with Regulation of Minister of Finance No. 17/PMK.01/2008 on Public Accountant Services.Article 3, paragraph (1) of the regulation mentions that the provision of services of general audit on financial statements of an entity as referred to Article 3 paragraph (1) letter a, is done by an audit firm for the longest time of 6 consecutive fiscal year and by a certified public accountant for the longest time of 3 consecutive fiscal year.

In 2011 the Government along with the Parliament issued Law No. 5 of 2011 on Public Accountant, followed by Government Regulation No. 20 of 2015 on Public Accountant Practice. Article 4 states that:

1. The provision of audit services by public accountant and / or audit firm on historical financial information of a client for consecutive fiscal year can be limited within a certain period.
2. The stipulation concerning restrictions on the provision of audit services on historical financial information is stipulated in Government Regulation.

Article 10 paragraph (1) of Government Regulation No. 20, 2015 states that public accountant provides assurance services, which include:

(a) audit on historical financial information;

(b) review service on historical financial information; and

(c) other assurance services.

Furthermore, Article 11 states that the provision of audit services on historical financial information as referred to Article 10 paragraph (1) letter (a) against an entity by a public accountant is restricted to a maximum time of 5 consecutive fiscal year. Therefore in accordance with the latest regulation *i.e.* Government Regulation No. 20, 2015 that the one who is restricted in providing assurance services to an entity (the client) is the public accountants instead of the audit firm thatis in the period of 5 consecutive years.

Relations of Audit Quality, Rotation and Tenure

Auditing according to the American Accounting Association Committee on Basic Auditing Conceptsis 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. Audit quality as the combined probability of market assessment that the auditors found violations in the client's accounting system, and report the violations (DeAngelo, 1981). DeAngelo (1981) stated that audit quality consists of two elements, namely competence and independence of the auditors. Competence means that audit should be conducted by someone who has expertise and sufficient technical training. Independence in audit means taking unbias viewpoints in testing the audit, evaluate the results, and make audit reports.

It is not easy to measure the audit quality. Previous research used multiple proxies to measure the audit quality. Jenkins and Valury (2007), Chen *et. al.* (2008), Davis *et. al.* (2009), and Al-Thuneibat *et. al.* (2011) measure the audit quality with accrual deskresioner. Other studies used other proxies to measure the audit quality, namely the tendency of giving going concern opinions (Geiger and Raghunandan 2002; Knechel and Vanstraelen 2007; and Junaidi *et. al.* 2012). Mansi *et. al.* (2004) and Boone *et. al.* (2008) measure the audit quality by looking at the perception of investors (market size premium).

The use of different proxy for measuring the audits quality, may lead to a different conclusion of the study. Therefore, several studies provide different recommendations on whether or not restrictions on the relationship between auditor and client. Therefore, empirically, whether or not mandatory rotation of auditor has also become a debate.

Opponents of mandatory rotation of auditor generally argue that the rotation will increase costs that should be considered by the auditor that is , start-up costs, and time that must be allocated to align with the client. It means that the loss of audit efficiency also increases costs. Arrunada and Paz-Ares (1997) states that the auditor will not be able to transfer knowledge to their clients properly due to the rotation.

Proponents of the mandatory rotation rooted themselves in the concept proposed by Mautz and Sharaf (1961) which states that longer auditor tenureis very likely to be associated with reduced alertness of the auditor through the overfamiliarity with clients. The statement was supported by a statement Hoyle (1978). Long auditor tenure can create an economic boost for the auditor to be less independent, in this case the auditor may approve the demands of the client in order to continue to secure the future of audit fee (Hoyle 1978).Auditor mandatory rotation based on 2 assumptions:

1. long-term relationship between the auditor with the client will interfere the auditors independence, and affect the ability to be objective and neutral, and
2. auditor mandatory rotation would solve the problem (if any) associated with the long-term relationship between the auditor with the client (Jones 2012).

Tenureis a period of time of relationship between the auditor with the client. Studies on tenure continue since conceptually and empirically it can affect audit quality. There are two different views on the tenureinfluence on audit quality. There is a statement that explains that tenure would reduce independence because in the long run there will be a very close relationship between the auditor and the client. Conversely the longertenure, the more increase quality auditor due to better understandingof client's condition.

Davis *et. al.* (2002) concluded that audit quality decreases due to longer tenure (Ghosh and Moon, 2005). Al-Thuneibat *et. al.* (2011) showed that statistically auditor tenure negatively affect the audit quality, and firm size has no effect on the correlation between auditors tenure and audit quality. Junaidi *et. al.* (2012) found that tenure negativelyeffect on the audit quality which is measured by the tendency of giving going concern opinions. Further the research hypothesis is stated as follows.

Hypothesis 1:

Tenure > 5 years has significant negative effect on the independence of auditors.

RESEARCH METHOD

Research Data and Sample

This study uses data of audited financial statements of publicly traded companies listed on the Indonesian Stock Exchange period 2002-2011. The election of the period because theauditor mandatory rotation regulations began to be set in 2002. During that period, based on the assumptions used by researchers, manypseudo-auditor rotation occured. Furthermore, the rules of rotation refurbished in 2003, 2008 and 2011. In 2011 Law No. 5 of 2011 on Public Accountant was issued, followed by Government Regulation No. 20 of 2015. Before the Law No. 5 of 2011 was issued, it was assumedthat the phenomenon of auditor pseudo-rotation happened. The data used in this study include the type of industry, the name of the auditor, the audit firm, partner, tenure, the size of the company, the auditor's opinion, and the age of the company. Especially for tenurethe observation is with lag 2 and leads 1. Data obtained from the sampling is shown in table 1, as follows.

Research Model

This research model develops the researchof Junaidi *et. al.* (2012), which examines whether tenure degrades the quality of the audit with logit model, where GC = $a + b2$ tenure + $b2$ Reputation + $b3$ Size + Error. This study uses a logit model to test

Tabel 1
Sample selection process

Description	*Amount*
Companies published financial reports in 2002-2011	2989
Companies with incomplete data	1218
Companies published successive financial reports in 2002-2010 with complete data	1771
Companies dengan auditor rotation	1240
Companies diindikasikan terjadi rotasi semu	531
Total company samples	1771

the effect of time period of auditor and client relationships to the independence by considering multiple control variables namelytype of industry, reputation of auditors, age, and total assets .

$$Ln\left[\frac{INDEP}{1-INDEP}\right] = a + + b2\ \text{TEN} + b1\ \text{IND} + b2\ \text{AR} + b3\ \text{EA} + b4\ \text{SIZE} + e$$

Keterangan

INDEP = Independence

TEN = auditortenure

IND = industrial type

AR = auditor reputation

EA = Entity Age

SIZE = Company Size

Operational Definition of Variables

The independence

Empirically it is not easy to measure independence. The independence measurement of this study refers to Junaidi (2014) where the dependent variable is a dichotomy variable that 1 shows the independent auditor, and 0 means the auditor is not independent. Independence variable can be demonstrated with a 2 × 3 matrix in Table 2 as follows (Junaidi, 2014). The matrix shows the relationship between company's financial condition with opinion given by the auditor on the financial statements to measure the independence of the audit firm.

Notasi

Distress: The companyis experiencing financial difficulties

Table 2
Matrix of the relationship between financial condition with auditor's opinion

	Auditor's Opinion	
Financial Condition	*GCO (going concern opinion)*	*NGCO (non going concern opinion)*
Distress	I (independent)	NI (not independent)
Grey Area	I	I
Non Distress	NI (not independent)	I

Grey Area: Can not be determined whether the company is healthy or is experiencing financial difficulties

Non Distress: The company is not experiencing financial difficulties based on the method of Altman (2000).

GCO: *Going concern*opinion given by the auditor

NGCO: *Non going concern*opinion given by the auditor

NI: Shows that the auditor is not independent

I: Shows that the auditor is independent

The probability of a company experiencing financial difficulties, as measured by the revised Z-Score Altman model (2000), *i.e.* Z = 0.717 WCTA + 0,847RETA + 3,107EBIT + 0.420 BVED + 0,998SATA. The financial condition of the company is calculated based on the model of the Revised Altman Z Score. If the value of Z score < 1.21 the company is predicted to experience bankruptcy (distress), then it is rated 1. If the Z Score value is between 1.21 to 2.90, then the company is predicted not to experience a certainty to remain healthy in finances (grey area), then it is rated 2. If Z score values more than 2.90 it is predicted that the company does not experience bankrupt (non-distress), then it is rated 3. The financial condition of the company paired with the opinion given by the auditor. Opinion given the auditor is divided into two, namely going concern and non going concern opinions.

Tenure

Tenure indicatesthe time period of auditor relationship with a client that is measured in years. Tenure will be tested in the research model ranging from 1 year tenureup to 6 yeartenure.

Company Size, Entity age, Auditor Reputation, Industrial Type

There are several control variables which are entered in this research namely Industrial Type, Auditor Reputation, Entity age and Company Size (Carey and Simnett 2006; Junaidi *et. al.*, 2012)

Size = Shows company size measured with log total asset.

Entity Age (EA) = Company age measured in years

Auditor Reputation (AR) = Auditor reputation measured by dividing auditors in two type, namely auditor affiliates with foreign audit firm (value 1), and auditor who does not affiliate with foreign audit firm (value 0)

Industry = Industrial variable *I* a *dummi* variable with the value of 1 to 11, those are

1. agriculture industry;
2. animal feed;
3. mining;
4. construction;
5. manufacture;
6. transportation;
7. telecomunication;
8. whole sale *and* retail;
9. bank, credit agency, securities,insurance, real estate;
10. hotel *and* travel service; and
11. others.

Statistical Description

Based on the sampling criteria it is obtained statistical description in Table 3 below.

Table 3
Statistical Description

Variabel	*N*	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Ten	1771	1	13	3.75	2.613
AR	1771	0	1		.498
EA	1771	5	67	27.69	11.630
Size	1771	5	16	10.57	1.892
IND	1771	0	11		.456

Table 2 shows that the minimum tenureis 1 year and the maximum is 11 years, with an average engagement period is of 3.75 years. The minimum entity age is 5 years and based on the observation the maximum is 67 years, the average entity age is 27,69. The minimum company size (LTASET) is 5 and the maximum is 16. Furthermore, the minimum company age is 5 years and maximum company age is 67 years.

Multicollinearity Testing

Based on multicolinearity testing in Table 4 shows that VIF value is under 10, therefore it can be said that multicolinearity does not happen.

Table 4
Testing Results Multicollinearity

	Un-standardized Coefficients				*Collinearity Statistics*	
	B	*Std. Error*	*t*	*Sig.*	*Tolerance*	*VIF*
(Constant)	.999	.081	12.365	.000		
Ten	–.016	.004	–3.789	.000	.921	1.086
AR	–.003	.023	–.118	.906	.875	1.143
EA	.000	.001	–1.005	.315	.955	1.047
Size	.004	.006	.679	.497	.942	1.062
Ind	–.037	.005	–8.073	.000	.950	1.053

a. *Dependent Variable:* Independensi (Ind)

Model Classification Power

Regression model analysis shows that Negelker R Square value of 0.06 means that 6 percent of dependent variable variation can be explained by the independent variables in the model.

Hypothesis testing

Statisticallyhypothesis testing is done to analyze empirically whether tenure effects on independence. Logistic regression analysis shows that tenurenegatively effect the independence as shown in the table 5 as follows:

Table 5
Tenure Influence on Independence

	B	*S.E.*	*df*	*Sig.*
EA	–.004	.005	1	.338
AR	–.025	.115	1	.827
Size	.016	.029	1	.593
Ind	–.185	.024	1	.000
Ten	–.080	.021	1	.000
Constant	2.419	.415	1	.000

The results support the research of Junaidi *et. al.* (2012) which explains that tenuredecreases independence. This means that the longer tenure period,the less independent the auditors tend to be. This is consistent with the statement Mautz and Sharaf (1961) that the longer tenure, the much more closer the relationship between auditor and client will be, so that it can undermine the independence of the auditor.Control variables such as age, reputable audit firm, total assets are not significant, while industry variables show significant value to influence independence.

Further, an analysis will be done to find out at which tenurethe negative influence on independence will happen. The analysis is performed by testing the effect of tenureon independence starting from 1 year (TEN 1) to 6 year (TEN 6) tenure.

Testing of Tenure Effect Sensitivity on Independence

Earlier test showed that tenure negatively influenced independence. However, we do not know yet at what tenure the negative impact on independence will occur. Next tenure influence on the independence of each year will be tested as follows.

Tenure influence on independence at the period of 1 year can be seen in Table 6 as follows.

Table 6
1-year tenureInfluence on independence

	B	*S.E.*	*df*	*Sig.*
EA	–.005	.005	1	.315
AR	–.078	.112	1	.489
Size	.018	.029	1	.538
Ind	–.181	.024	1	.000
Ten1	.494	.137	1	.000
Constant	1.990	.406	1	.000

Tenure influence on independence at the period of 2 years can be seen in Table 7 as follows.

Table 7
2-year tenure Influence on independence

	B	*S.E.*	*df*	*Sig.*
EA	–.005	.005	1	.256
AR	–.113	.112	1	.311
Size	.018	.029	1	.539
Ind	–.180	.023	1	.000
TEN2	.118	.070	1	.092
Constant	2.075	.405	1	.000

Tenure influence on independence at the period of 3 years can be seen in Table 8 as follows.

Table 8
3-year tenure Influence on independence

	B	*S.E.*	*df*	*Sig.*
EA	–.005	.005	1	.248
AR	–.130	.111	1	.244
Size	.018	.029	1	.535
Ind	–.179	.023	1	.000
TEN3	–.008	.049	1	.869
Constant	2.123	.404	1	.000

Tenure influence on independence at the period of 4 year can be seen in Table 9 as follows.

Table 9
4-year tenureInfluence on independence

	B	*S.E.*	*df*	*Sig.*
EA	–.005	.005	1	.253
AR	–.123	.111	1	.268
Size	.018	.029	1	.534
Ind	–.179	.023	1	.000
TEN4	–.065	.041	1	.112
Constant	2.149	.404	1	.000

Tenure influence on independence at the period of 5 year can be seen in Table 10 as follows.

Table 10
5-year tenure Influence on independence

	B	*S.E.*	*df*	*Sig.*
EA	–.005	.005	1	.248
AR	–.128	.111	1	.250
Size	.018	.029	1	.533
Ind	–.179	.023	1	.000
TEN5	–.006	.037	1	.875
Constant	2.121	.403	1	.000

Tenure influence on independence at the period of 6 year can be seen in Table 11 as follows.

Sensitivity testing shows the influence of 1 year to 6 years tenure on independence. 1-year tenureshowed that the value of tenure variable coefficient is still positive and significantly influence on independence. At the 2-yeartenurethe coefficient is positive but is not significant. At 3-year, 4-year and 5-yeartenures the

Table 11
6-year tenureInfluence on independence

	B	*S.E.*	*df*	*Sig.*
EA	–.006	.005	1	.223
AR	–.102	.112	1	.361
Size	.019	.029	1	.504
Ind	–.181	.024	1	.000
TEN6	–.147	.032	1	.000
Constant	2.188	.407	1	.000

tenurecoefficient is negative and insignificant. At 6-yeartenurethe tenurecoefficient is negative and significant on independence. It shows that when tenureis more than 5 years, then the effect on independence will be negative. This suggests that the relationship between auditor (partner) and client must be remain limited. This finding is in accordance with government regulations which regulates the maximum tenurelimit is 5 years.

Conceptually this study is in line with the statement of Mautz and Sharaf (1961) which states that longer auditor tenurevery likely to be associated with the alertness decrease of the auditor through overfamiliarity with clients (Mautz and Sharaf 1961). Long auditor tenurecan create an economic boost to the auditor to be less independent, in this case the auditor may agree to the demands of the client in order to continue to secure the future audit fee (Hoyle 1978).

CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATIONS

Several empirical studies indicate that tenure influence on audit quality is not conclusive, so there are pros and cons onthe regulations of auditor mandatory rotation. In other words empirically tenure influence on audit quality is still being debated. However, in Indonesia the engagement period of auditor and client has been stipulated in government regulations. Tenure showsthe period of relationship between auditor and client. Based on the Minister of Finance Decree No. 423/ KMK.06/2002, as amended by Decree of the Minister of Finance 359/KMK.06/ 2003 tenureperiod was 5 years. The decision was revised by the Finance Minister Regulation No. 17/PMK.01/2008, which states that tenurebecame 6 years.

On 6 April 2015, the government has issued Government Regulation No. 20, 2015 stating that the maximum tenure is of 5 years. The results of the study show that during the period of less than 5-year tenure, tenure influence on independence is not negative and significant. However, after 5 years,tenure influence on independence is negative and significant. The results support the government regulations on the restrictions of auditor tenure(partner) and the client for 5 years.

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