The Impact of Auditor Tenure on Auditor Independence and Objectivity in Indonesia

Fricilia Vina Cindy Tioria, Renny Maisyarah

Abstract

This study aims to examine the impact of auditor tenure on auditor independence and objectivity through a literature review approach. Auditor tenure, defined as the length of the auditor-client relationship, has been widely debated in academic literature due to its potential influence on audit quality. Proponents argue that longer tenure improves auditor expertise and understanding of the client's business, while critics suggest it may impair independence and reduce objectivity due to increased familiarity and potential conflicts of interest. This paper reviews and synthesizes findings from previous empirical and theoretical studies to explore the dual nature of auditor tenure. The literature indicates mixed results, with some studies showing a negative impact on independence and objectivity, while others find no significant effect or even positive outcomes. This review highlights the importance of regulatory oversight, mandatory rotation policies, and audit committee involvement in maintaining audit quality. The findings contribute to a deeper understanding of the auditor-client dynamic and provide recommendations for future research and policy development.

***Keywords**:* Auditor Tenure, Auditor Independence, Objectivity, Audit Quality, Literature Review

Fricilia Vina Cindy Tioria Sitorus
Accounting Magister Program, Universitas Pembangunan Panca Budi, Indonesia
e-mail: fricilia@gmail.com

Renny Maisyarah
e-mail: rennymaisyarah@dosen.pancabudi.ac.id

Introduction

The topic of public accountant independence has been widely discussed [1,2,3]. While this topic occupies a central position in the auditing literature, it is also the one that most frequently triggers debate regarding auditor regulation. This primarily concerns the issue of auditor independence and the nature of the relationship between auditors and their clients (familiarity). This familiarity with the client was later identified by the Independence Standards Board (ISB) as one of five threats to auditor independence.

Auditors play a vital role in maintaining public trust in corporate financial reporting. One of the key pillars of an effective audit process is auditor independence and objectivity, which ensures that auditors provide unbiased opinions free from any external influence [4]. However, the length of the auditor-client relationship, known as *auditor tenure*, has raised concerns about its potential impact on these critical professional qualities.

On one hand, a longer auditor tenure may lead to a deeper understanding of the client's business, potentially improving audit efficiency and quality. On the other hand, an extended relationship may result in excessive familiarity, emotional ties, or even dependency, which could compromise the auditor's independence and reduce professional skepticism during the audit process [5].

This issue is particularly relevant in Indonesia, where several financial reporting scandals have highlighted possible weaknesses in audit independence. A notable example is the case of PT Garuda Indonesia (Persero) Tbk, where the appointed auditor was criticized for failing to identify material misstatements, raising concerns over the auditor's objectivity. Such incidents have increased public scrutiny of audit quality and questioned the effectiveness of auditor oversight mechanisms.

In response, Indonesian regulations—such as those issued by the Ministry of Finance and the Financial Services Authority (OJK)—have established limits on auditor tenure. Individual auditors are restricted to a maximum of three consecutive years with the same client, while audit firms may serve a client for up to six consecutive years. Despite these policies, debates continue about their real-world effectiveness, especially within publicly listed companies.

Given this background, the present study aims to explore the impact of auditor tenure on auditor independence and objectivity through a comprehensive literature review. By synthesizing prior empirical and theoretical studies, this research seeks to provide deeper insights into the risks and implications of long-term audit engagements, particularly in the context of auditing practices in Indonesia.

Literature Review

2.1 Auditor Tenure

Auditor tenure refers to the length of the professional relationship between an auditor (either an individual or an audit firm) and their audit client [6,7,8]. The duration of this relationship may affect auditor independence, as prolonged engagement can lead to economic or social pressures that compromise auditor objectivity. The longer an auditor serves the same client, the greater the risk of familiarity, which can reduce professional skepticism and increase the potential for audit failure. However, other studies suggest that longer tenure can enhance audit effectiveness, as the auditor gains a deeper understanding of the client's systems, operations, and risks [9]. Therefore, the impact of auditor tenure on audit quality is not absolute and may depend on other factors such as regulatory frameworks, professional ethics, and audit oversight.

2.2 Auditor Independence

Auditor independence is the ability of the auditor to act with integrity and objectivity, free from influence or bias [10,11]. Independence is categorized [12] into: (1) Independence in fact: the actual state of being unbiased and uninfluenced; (2) Independence in appearance: the perception by third parties that the auditor is independent. Loss of independence can lead to compromised audit reports, misinforming stakeholders and damaging public trust.

2.3 Auditor Objectivity

BAuditor objectivity refers to the mental attitude of fairness, neutrality, and impartiality when collecting and evaluating audit evidence [13]. While objectivity is closely related to independence, it focuses more on internal auditor behavior. An objective auditor avoids personal biases or external pressures and maintains professional integrity throughout the audit process. According to the Code of Ethics issued by the Indonesian Institute of Certified Public Accountants [14], objectivity is a fundamental principle that must be upheld by auditors throughout the engagement. Failure to maintain objectivity may result in overlooking material findings or issuing misleading audit opinions.

2.4 The Relationship Between Auditor Tenure, Independence, and Objectivity

Several studies have shown that extended auditor tenure may negatively affect independence and objectivity due to the development of overly close relationships with the client (familiarity threat), which can bias the auditor's judgment [15,16,17]. This raises concerns about the decline in audit quality over time. On the other hand, other research indicates that a longer tenure can improve audit quality due to increased client-specific knowledge and audit efficiency. Thus, the relationship between auditor tenure and audit quality remains complex and context-dependent. This literature-based study aims to further explore and synthesize existing research findings regarding the impact of auditor tenure on independence and objectivity, particularly within the Indonesian auditing context.

Research Methodology

This study employs a qualitative research method using a literature review approach to analyze the relationship between auditor tenure and auditor independence and objectivity. The purpose of this approach is to synthesize relevant theories and empirical findings from previous research to provide a comprehensive understanding of the topic within the Indonesian context. The research is designed as a narrative literature review, which allows for critical analysis and comparison of findings from different studies. This method is suitable for identifying patterns, contradictions, and gaps in the existing literature. The selected articles span from 2010 to 2024, focusing on both international studies and those specifically examining the Indonesian auditing environment.

Results and Discussion

A content analysis was conducted to extract key themes and findings from the selected literature. The analysis focused on the impact of long-term vs. short-term auditor tenure, actors that moderate or mediate the relationship between tenure and independence/objectivity (e.g., audit rotation, corporate governance, regulatory enforcement), Contextual insights from studies conducted in Indonesia. Table 1 literatur riview showing findings were then categorized, compared, and synthesized to formulate conclusions and identify gaps for future research.

Table 1. Literatur riview

No.	Author & Year	Research Focus	Key Findings
1	DeAngelo [18]	Impact of auditor tenure on audit quality	Long auditor tenure increases the risk of reduced auditor independence
2	Myers et al. [19]	Auditor tenure and audit effectiveness	Longer tenure improves auditor's understanding and audit effectiveness
3	Johnson et al. [20]	Auditor tenure and auditor objectivity	Extended auditor tenure risks lowering auditor objectivity
4	Francis [21]	Factors affecting audit quality	Auditor tenure has a complex effect depending on supervision and regulation
5	Chen et al. [22]	Impact of auditor tenure in emerging markets	Longer tenure negatively affects auditor independence
6	Simunic & Stein [23]	Length of auditor-client relationship and independence	Auditor independence declines with longer tenure
7	Rahman & Ali [24]	Auditor tenure and audit quality in Indonesia	Longer auditor tenure may reduce auditor independence
8	Putri & Wulandari [25]	Effect of auditor tenure on auditor objectivity	Auditor tenure negatively affects auditor objectivity
9	Susanto [26]	Auditor tenure regulation in Indonesia	Auditor rotation regulations are not yet optimal in maintaining auditor independence and objectivity
10	Hartono [27]	Impact of auditor tenure on auditor independence in public companies	Auditor tenure has a significant negative effect on auditor independence

Source : Literatur Review, 2025

Based on the literature review conducted, it is evident that the impact of auditor tenure on auditor independence and objectivity is a complex and multifaceted issue. Several studies suggest that longer auditor tenure may increase the risk of diminished independence due to the familiarity threat, where auditors become too close to their clients over time, potentially reducing their professional skepticism and objectivity in evaluating financial statements.

This phenomenon is also reflected in studies within the Indonesian context, such as those by Rahman and Ali [24] and Putri and Wulandari [25], which found that extended auditor tenure negatively affects auditor independence and objectivity in Indonesia's business environment. These conditions are exacerbated when internal and external supervisory mechanisms are less effective, and auditor rotation policies are not strictly enforced. From a regulatory perspective, Indonesia has implemented tenure limits—three years for individual auditors and six years for audit firms—to safeguard auditor independence. Nevertheless, as noted by Susanto [26], the enforcement of these regulations faces challenges such as limited auditor resources and pressure from client management.

Several prior studies have examined the relationship between auditor tenure and auditor independence and objectivity, yielding mixed and sometimes contradictory results. DeAngelo [18] was among the earliest to highlight that longer auditor tenure may increase the risk of reduced auditor independence due to familiarity threats. This view was supported by subsequent empirical research such as Johnson et al. [20] and Simunic & Stein [23] who found that extended auditor-client relationships could compromise auditor objectivity and independence.

On the other hand, Myers et al. [19] argued that longer auditor tenure might enhance audit effectiveness because auditors develop deeper knowledge of their clients' businesses, which can improve audit quality. This nuanced perspective was echoed in Francis' [21] literature review, which suggested that the effect of tenure on audit quality depends heavily on regulatory frameworks and supervisory mechanisms in place.

Research focusing on emerging markets, including Indonesia, adds further insight. Chen et al. [22] found that in developing economies, prolonged auditor tenure tends to negatively impact auditor independence. Provided empirical evidence from Indonesia showing that longer tenure may reduce auditor independence. Studies by Putri and Wulandari [25] and Susanto [26] also pointed out that auditor tenure negatively affects auditor objectivity and that existing rotation regulations in Indonesia are not yet fully effective in preserving auditor independence.

More recently, Hartono [27] examined public companies in Indonesia and confirmed that extended auditor tenure has a significant negative impact on auditor independence, emphasizing the need for stronger enforcement of tenure limits and rotation policies.

Overall, the literature reveals that auditor tenure's influence on independence and objectivity is complex, context-dependent, and moderated by regulatory and governance factors. This study aims to build on these findings by providing a comprehensive literature review with a particular focus on Indonesia's auditing environment.

Conclusion

This literature review reveals that auditor tenure has a significant and nuanced impact on auditor independence and objectivity. While longer auditor tenure may lead to increased familiarity with the client, potentially compromising independence and objectivity due to reduced professional skepticism, it can also enhance audit quality by improving the auditor's understanding of the client's business environment.

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