

Evaluating Auditor Independence in Audit Engagements: A Case Study of Public Accounting Firm X

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ABSTRACT

Auditor independence is the foundation of audit credibility, yet in practice it is often threatened by long-term relationships, fee dependency, and implicit client pressures—particularly within medium-sized public accounting firms. This study aims to analyze the forms of independence threats that arise in audit practices at KAP X and evaluate the mitigation strategies implemented by auditors and the organization. Data were collected through in-depth interviews with partners, auditors, clients and regulators, as well as analysis of internal documents such as independence policies and independence declaration forms. The findings reveal four primary threats: self-interest, familiarity, intimidation, and self-review—emerging through relational dynamics and economic pressures. Although mitigation strategies exist, they remain informal and rely heavily on partner leadership. The study concludes that auditor independence is more strongly shaped by ethical culture and daily practices than by structured quality control systems.

Keywords: Auditor Independence, Independence Threats, Independence Safeguards.

Evaluasi Independensi Auditor dalam Audit (Studi Kasus Kantor Akuntan Publik X)

ABSTRAK

Independensi auditor merupakan fondasi kredibilitas proses audit, namun praktiknya sering terancam oleh hubungan jangka panjang, ketergantungan fee, serta tekanan implisit dari klien, khususnya pada Kantor Akuntan Publik skala menengah. Penelitian ini bertujuan menganalisis bentuk ancaman independensi yang muncul dalam praktik audit di KAP X serta mengevaluasi strategi mitigasi yang dijalankan auditor dan organisasi. Data dikumpulkan melalui wawancara mendalam dengan partner, auditor, klien dan regulator, serta analisis dokumen internal seperti kebijakan independensi dan surat pernyataan independensi. Hasil penelitian menunjukkan empat ancaman utama: self-interest, familiarity, intimidation, dan self-review threat—yang muncul melalui dinamika relasional dan tekanan ekonomi. Strategi mitigasi tersedia, tetapi masih bersifat informal dan bergantung pada kepemimpinan partner. Penelitian menyimpulkan bahwa independensi auditor lebih dipengaruhi budaya etika dan praktik sehari-hari dibandingkan sistem pengendalian mutu yang terstruktur.

Kata Kunci: *Independensi Auditor, Ancaman terhadap Independensi, Safeguards Independensi.)*

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INTRODUCTION

The public accounting profession plays a vital role in maintaining the transparency and accountability of financial statements. Auditor independence is the cornerstone of audit quality, as an opinion can only be trusted when the auditor is free from any form of influence. Luthfi and Hatta (2024) explain that public accountants are authorized parties providing services regulated by law, while Romadhon and Fidiana (2022) emphasize that independence is a mental attitude free from pressure and not dependent on particular interests. This provision aligns with Law No. 5 of 2011 on Public Accountants, which stipulates that public accountants must conduct their practice independently, with integrity, and in compliance with professional standards and the code of ethics to safeguard the public interest (Law No. 5/2011). Auditor independence is a crucial factor in determining the quality and credibility of audited financial statements. It involves not only the auditor's freedom from client influence, but also the ability to provide an objective opinion without pressure from any party.

However, auditor independence faces significant challenges. Economic dependence on clients and implicit pressures within the audit process can undermine auditor objectivity (Wasiah & Wahyuningsih, 2024; Zam & Rahayu, 2014). Lisbeth and Ramadhan (2022) assert that auditors who are economically dependent on their clients face substantial risks of being influenced in their professional judgment. This condition becomes even more complex when the auditor-client relationship is long-standing, as emotional closeness can reduce professional skepticism (Shintya et al., 2016a). Large clients that contribute a significant portion of audit fees may also possess leverage that can influence the auditor's position, either directly or indirectly.

The independence crisis is not merely a conceptual issue; numerous major audit scandals have demonstrated the destructive consequences that arise when auditor independence is compromised. The Enron-Arthur Andersen case, for example, illustrates how conflicts in the auditor's role and involvement in non-audit services can collapse the entire foundation of public trust in the profession (Halomoan, 2008). In Indonesia, the Kimia Farma and Bank Lippo scandals revealed that failures in maintaining independence—whether through allowing fraud to occur or failing to detect material misstatements—significantly diminished the credibility of Public Accounting Firms (Sari & Rahmi, 2021). Similar impacts are evident in other financial statement manipulation cases, which have strengthened negative public perceptions regarding the effectiveness of auditor oversight.

Ramadhan et al. (2024) assert that such patterns of manipulation have heightened public skepticism toward Public Accounting Firms, amplified doubts regarding audit quality, and raised fundamental questions about auditors' ability to truly act independently when confronted with economic or relational pressures from clients. These findings demonstrate that independence is not merely a technical issue, but the very foundation of public trust—one that is highly vulnerable to collapse when control systems fail to operate effectively.

This context is also relevant to Public Accounting Firm X, which faces long-term relationships with clients and certain fee dependencies. Preliminary findings indicate the potential presence of self-interest threats and psychological pressures

that may affect auditor objectivity. These observations align with Oktaviani (2019), who states that audit fees are a primary determinant of weakened independence risk. In addition, Thabita (2023) finds that junior auditors tend to be more vulnerable to managerial communication pressures that influence their professional judgment.

Most previous studies have employed quantitative approaches and focused on large Public Accounting Firms (the Big Four). However, non-Big Four firms, particularly small and medium-sized practices, are more susceptible to independence threats due to relational proximity and less sophisticated quality control systems (Pratiwi, 2020; Pramesti, 2021). These findings are consistent with international evidence presented by Zainal Abidin et al. (2021), who report that small and medium public accounting practices face significantly more complex independence challenges than larger firms, primarily due to limited resources, close relationships with clients, and quality control structures that are not yet fully formalized. Furthermore, Saputra et al. (2019) found that conflicts of interest and relational pressures are dominant factors affecting auditor independence in medium-scale firms, particularly when auditors experience economic dependence and maintain strong interpersonal ties with clients.

This research gap not only highlights shortcomings in the existing literature but also reinforces the urgency of conducting a qualitative study at Public Accounting Firm X. The purpose of this in-depth exploration is to understand how auditor independence is genuinely maintained, tested, negotiated, or even potentially compromised in day-to-day audit practice—an aspect that cannot be fully captured through quantitative approaches. Accordingly, this study is expected to provide a substantive contribution to the development of understanding regarding independence threats within small and medium-sized public accounting firms, while also offering a more realistic contextual perspective for audit practice in Indonesia.

Drawing on Agency Theory as its foundation, auditors are positioned as independent parties responsible for safeguarding the principal's interests against the opportunistic actions of agents. However, recent studies indicate that the theory does not fully capture the complexity of the social, economic, and interpersonal pressures experienced by auditors (Pramesti, 2021; Ramadhan et al., 2024). Therefore, this study is designed to explore auditors' lived experiences at Public Accounting Firm X in maintaining independence amid dynamic client relationships and practical pressures that cannot be explained through numerical analysis.

This study is expected to provide both empirical and practical contributions to strengthening quality control systems and maintaining auditor objectivity within medium-sized Public Accounting Firms. The selection of Public Accounting Firm X is based on its complex client relationships, certain fee dependencies, and its current position under intensified regulatory oversight. These conditions enable the study to capture a more realistic portrayal of how auditor independence is practiced within a medium-scale audit environment. Practically, this research is expected to assist Firm X in identifying sources of independence pressure, reinforcing quality control mechanisms, and formulating more robust mitigation strategies. Academically, it contributes by expanding the understanding of auditor

independence from a qualitative perspective within non-Big Four Public Accounting Firms.

The conceptual framework of this study is developed to understand how auditor independence is influenced by the interactions and dynamics that occur within the audit practice at Public Accounting Firm X. Grounded in Agency Theory as the primary foundation, auditors are positioned as independent parties responsible for bridging the interests of principals and agents through the examination of financial statements. However, in the real context of non-Big Four firms, independence is shaped not only by formal regulations but also by economic relationships, client management pressures, auditor competence, auditor experience, and the magnitude of audit fees received. These variables are interconnected and form a complex situation that can either strengthen or weaken auditor objectivity. This conceptual framework illustrates that auditor independence is not merely a technical attribute, but the result of interactions between internal and external factors that influence professional judgment. By understanding these relationships, the study seeks to capture how auditors negotiate their independent stance when facing various dilemmas that arise during audit engagements, and how organizational policies and client relationship dynamics affect the quality of audit decisions produced.

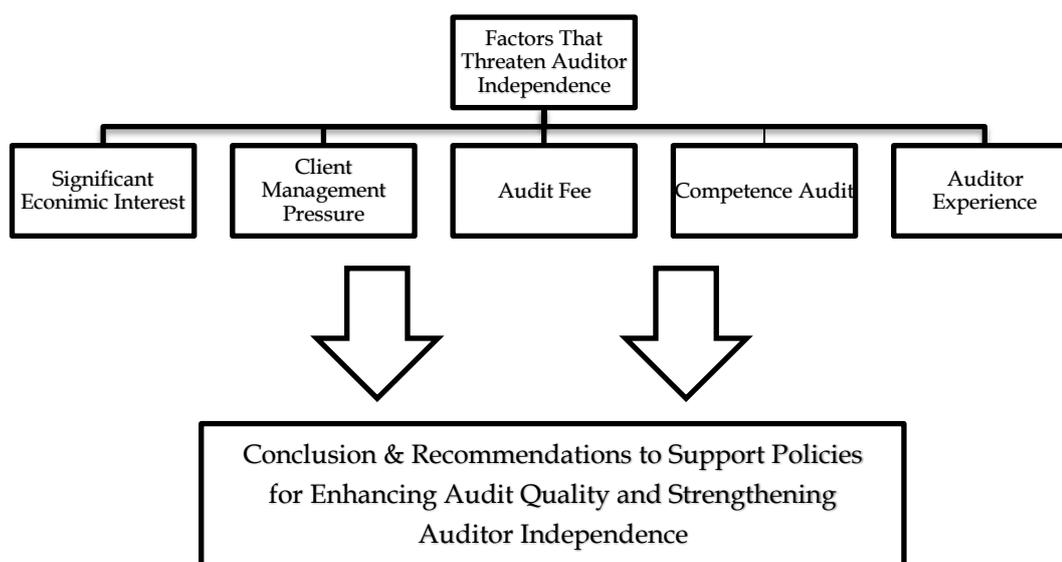


Figure 1. Research Framework

Source: Research Data, 2025

RESEARCH METHODS

This study employs a qualitative approach with a non-positivist paradigm, as auditor independence is not merely a technical phenomenon that can be classified through numerical data or linear causal relationships, but a social reality shaped by interactions, perceptions, and auditors' experiences in dealing with pressures, client demands, and organizational dynamics. This approach aligns with the view that audit practice cannot be separated from its social context, as emphasized in

ISA 200, which requires auditors to exercise professional judgment that is influenced by the engagement environment, client relationships, and pressures that may not always be visible in formal documentation. Accordingly, an interpretive approach is selected to capture the meanings constructed by auditors behind their actions and professional decisions.

This interpretive approach also aligns with the characteristics of Public Accounting Firm X, a small-to-medium-sized practice with a relatively simple quality control structure, close client relationships, and certain fee dependencies. These factors cannot be adequately understood through quantitative instruments, as independence threats often manifest in the form of implicit pressures, interpersonal negotiations, or compromises in audit procedures that are not formally documented. In other words, to understand independence within such a context, a method is required that can uncover the subjective meanings constructed by auditors and partners as they confront professional dilemmas.

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Primary data were obtained through in-depth interviews with auditors at various levels within Public Accounting Firm X—ranging from partners and senior auditors to junior auditors—as well as regulators who interact directly with the firm. The use of semi-structured interviews enabled the researcher to explore auditors' experiences naturally, providing space for informants to elaborate on client pressures, the dynamics of long-term relationships, and the ways they negotiate audit procedures when conflicts of interest arise. This approach also offered opportunities to observe how auditors understand and internalize the principles of independence as required under Law No. 5 of 2011, the IAPI Code of Ethics, and ISA 220 concerning the partner's responsibility in overseeing compliance with independence requirements for all members of the audit team.

In addition to interviews, this study employs secondary data in the form of internal documents from Public Accounting Firm X. These documents include the annual Independence Statement, internal independence policies, staff rotation guidelines, internal quality monitoring results, and audit engagement documentation for selected clients. The analysis of these documents refers to the requirements of ISQM 1, which mandates that audit firms maintain a documented independence monitoring system, including conflict-of-interest verification, threat assessment, and the implementation of safeguards. The analysis also assesses the alignment of these documents with Ministerial Regulation PMK 186/2022, which requires audit firms to ensure the absence of financial, business, or personal relationships that may impair auditor independence. Accordingly, the internal documents are evaluated not only in terms of their existence but also in terms of how consistently they are applied in actual audit practice.

Data analysis was conducted using a thematic approach, beginning with initial coding of the interview results, identifying narrative patterns, and developing core themes that illustrate auditors' experiences related to independence threats. This process was carried out in alignment with the understanding of ISA 400 on audit risk, which emphasizes that auditors must recognize factors that may influence objectivity and professional skepticism – including client pressure, long-term relationships, and economic conflicts. The researcher repeatedly reviewed the transcripts, highlighted sections indicating dilemmas, categorized the excerpts, and compared the responses of partners, senior auditors, junior auditors, and regulators to identify differences and consistencies in their perceptions.

The validity of the findings was strengthened through source triangulation, conducted by comparing information obtained from different levels of auditors, internal documents, and external oversight results. This process ensured that each finding did not merely reflect individual perceptions, but represented a consistent portrayal of auditor independence conditions within Public Accounting Firm X. Methodological triangulation was also employed by cross-checking interview results with documentary evidence, ensuring that interpretations were not solely based on subjective narratives but supported by relevant formal documentation. The analysis continued until data saturation was reached, meaning that additional interviews no longer produced new themes, indicating that the underlying structure of meaning related to independence had been sufficiently explored.

This approach enables the study to capture auditor independence in a more comprehensive manner. Independence is understood not only as compliance with formal policies, but also as a social experience shaped by client pressures, interpersonal relationships, structural limitations, and internal organizational dynamics. Through an interpretive approach, the research is able to uncover how auditors interpret and negotiate their independence in real situations – such as when facing client objections to audit procedures or when long-term relationships begin to create subtle yet significant biases.

Thus, this study provides a more comprehensive depiction of auditor independence in small-to-medium-sized Public Accounting Firms such as Firm X. It not only reveals discrepancies between formal policies and actual field practices, but also highlights that ethical culture, communication patterns, and partner leadership play a far more dominant role than documented quality control systems. These findings enrich both academic and practical understanding regarding the challenges of maintaining independence in non-Big Four audit firms, whose quality control structures are less robust and heavily influenced by the dynamics of social relationships with clients.

RESULT AND DISCUSSION

The findings of this study were derived from an in-depth analysis of internal documents of Public Accounting Firm X, complemented by comprehensive interviews with partners, senior auditors, junior auditors, and regulatory representatives. The document analysis provided an overview of the formal framework governing auditor independence at the organizational level, while the interviews revealed how these rules are implemented, interpreted, and negotiated

in day-to-day practice. All information was then synthesized into several key themes that illustrate how auditor independence is shaped by the firm’s work culture, supervisory patterns, and the intensity of professional relationships with clients. This approach enabled the study to capture the reality of independence more holistically – from administrative commitments to the relational tensions auditors encounter when interacting directly with client management.

In the initial stage, document analysis was used as a triangulation method to understand the formal foundation of the firm’s independence policies. The results indicate that Public Accounting Firm X has two primary administrative instruments, namely a general independence policy and an Independence Statement that must be signed by all audit team members. The structure of these documents is presented in Table 1, showing that, formally, Firm X has established a basic foundation for independence, although its nature remains largely declarative.

Table 1. Classification of Internal Documents on Auditor Independence Policies

Type of Document	Main Substance
Auditor Independence Policies Based on Public Information	An overview of the organizational structure, ethical culture, and the partner’s role as the direct overseer of independence in small and medium-sized public accounting firms.
Independence of Letter	A written commitment from all audit team members stating that they are free from conflicts of interest and are prepared to maintain professional objectivity, signed before the audit begins.

Source: Research Data, 2025

The classification of internal documents in Table 1 indicates that Public Accounting Firm X has, in principle, established administrative safeguards as an initial foundation for auditor independence. However, their effectiveness remains highly dependent on the personal commitment of auditors and the direct supervision of the partner, rather than on a structured or system-based verification mechanism. Such a pattern is common among small and medium-sized audit firms, where quality control systems rely more on trust and close interpersonal relationships within the team, while automated independence monitoring – commonly implemented in larger firms – has not been fully adopted.

Another administrative safeguard is reflected in the Independence Statement, which must be signed before the engagement begins. In this assignment, all team members signed the statement on the same date October 21, 2024 indicating consistent administrative compliance across all position levels. However, the process remains declarative, as it is not accompanied by substantive independence checks, such as verification of share ownership or family affiliations with the client. This reinforces the finding that the implementation of independence in Public Accounting Firm X still relies more heavily on individual discipline and internal ethical values than on a standardized quality control structure.

Table 2. Recapitulation of the Audit Team’s Independence Statements at Public Accounting Firm X

No	Position	Date of Signatuire	Remarks
1	Partner	October 21, 2024	Declares being free from conflicts of interest and is responsible for all significant audit decisions.
2	Senior Manager	October 21, 2024	Maintains objectivity in technical supervision.
3	Supervisor	October 21, 2024	Ensures operational independence in team coordination.
4	Auditor 1	October 21, 2024	Maintains independence in the execution of procedures.
5	Auditor 2	October 21, 2024	Has no relationship or affiliation with the client.

Source: Research Data, 2025

Table 2 shows that all team members declared that they had no financial, business, or familial relationships with the client. However, this process remains declarative, as it is not followed by any substantive independence verification mechanisms, such as checks on share ownership, family affiliations, or personal transactions. This limitation reflects a common characteristic of small and medium-sized audit firms, which have not yet fully adopted a structured independence verification system as required by ISQM 1. This limitation also aligns with the broader profile of such firms, which often lack systematic processes for the continuous identification, evaluation, and mitigation of independence risks as emphasized in the International Standard on Quality Management (ISQM) 1 (IAASB, 2020).

In-depth interviews provide a more complex picture of the state of auditor independence. Implicit pressure from clients emerged as the most frequently mentioned threat, particularly when clients resisted procedures such as cash counts or the sample size of vouching, which they perceived as burdensome. In many situations, auditors replaced primary procedures with alternative ones – not due to audit risk considerations, but as a result of relational compromises. This indicates that independence is not explicitly impaired, but eroded through subtle and repeated social negotiations. A2 (Auditor 2) explained how auditors must adjust sample sizes when clients express objections:

“If the client objects to providing vouching samples... if it was supposed to be 50 items, we reduce it to 30... we look for a win-win solution... not strictly sticking to the primary procedure, but using other alternative procedures instead.”

In addition, long-term relationships create ambivalent behavior within the audit process. On one hand, the familiarity developed over the years enables auditors to gain a deep understanding of transaction patterns, business workflows, and the characteristics of client management. This enhances work efficiency and accelerates the identification of risk areas. On the other hand, such closeness produces psychological effects that reduce auditors’ assertiveness in communicating sensitive findings. Clients acknowledged that auditors have

become more diplomatic compared to the early stages of the engagement, while junior auditors reported that intensive interactions make them more susceptible to being influenced by management's communication style. This situation represents a strong manifestation of the familiarity threat, in which a professional relationship gradually shifts into an interpersonal one that suppresses professional skepticism.

Another threat that emerged is the economic dependence on strategic clients. During the interviews, auditors indicated that significant decisions often had to be escalated to the partner level—not solely due to technical complexity, but to preserve the continuity of long-term professional relationships with key clients. Regulations also identify this issue as a critical indicator. The regulator explained that the fee contribution from certain clients is always an early signal of potential independence impairment, as an overly dominant economic relationship may influence the auditor's willingness to communicate sensitive findings. The regulator from the Public Accountant Oversight Center (PPPK), Ministry of Finance, emphasized that independence risks increase when the fee contribution from a single client exceeds a particular threshold. R (Regulator) stated:

"We do identify a risk when a client contributes 15% or more of the total fees. That usually becomes a consideration in the auditor's risk profile. But it does not automatically constitute a violation; what matters is how the mitigation measures and quality controls are implemented."

The quotation highlights that the 15% fee threshold is not a legal limit, but rather a risk indicator used in regulatory assessments. For the regulator, what matters is not the percentage itself, but the firm's readiness to implement appropriate safeguards to manage the associated risks. This perspective reinforces the internal finding that, although Public Accounting Firm X does not have clients with excessively dominant fee contributions, mitigation mechanisms remain essential.

Although Public Accounting Firm X does not have clients with extremely dominant fee contributions, the economic relationship dynamics still create a certain bargaining position for clients. In practice, this condition can limit auditors' flexibility when determining the scope of procedures, maintaining sample sizes, or communicating findings that may generate conflict. This situation demonstrates that economic influence, even when not numerically significant, still exerts psychological and practical effects on auditor objectivity.

In limited instances, the study also identified the emergence of self-review threats, namely situations in which auditors provide technical advice or assist clients in preparing certain accounting adjustments that ultimately become the subject of the auditor's own examination in the same period. This practice typically occurs in the form of informal assistance, such as helping clients understand accounting treatments or preparing initial drafts of correction journals. Although its frequency is not dominant, this condition still poses a risk because auditors are, in effect, reviewing work or recommendations they previously provided.

These findings underscore the importance of maintaining a clear separation between audit services and non-audit services, as mandated by professional standards and independence regulations. In the context of Public Accounting Firm X, this threat does not always appear explicitly, but more often emerges through routine operational practices in which auditors attempt to assist clients in ensuring

that their financial statements comply with the standards. This pattern highlights the need to reaffirm the boundaries of the auditor's role to prevent role conflicts that may diminish objectivity and professional skepticism throughout the audit process.

Table 3. Independence Threat Mitigation Strategies at Public Accounting Firm X

Threat Type	Mitigation Strategy	Agency Theory Analysis
Self-interest threat	Signing an Independence Declaration prior to the engagement.	Enhances auditors' ethical awareness; however, the measure remains insufficient in the absence of independent verification mechanisms.
Familiarity threat	Rotation of audit staff and team discussions to reduce excessive closeness with the client.	Helps mitigate relational bias, although implementation is still situational and primarily administrative.
Intimidation threat	Conducting an Engagement Quality Control Review (EQCR) by another partner prior to the issuance of the audit report.	Provides an additional monitoring function, yet its effectiveness is limited as the process often becomes administrative in nature.
Self-review threat	Implementation of EQCR and restrictions on non-audit services to prevent auditors from reviewing work that becomes the subject of the audit within the same period.	Reduces potential conflicts of interest, but the level of effectiveness depends on consistent adherence to established procedures.
General (cross-cutting threats)	Internal team discussions and direct partner intervention when facing client pressure.	Strengthens the collective oversight role of auditors as independent agents, although these practices are not yet fully formalized within the firm's standard operating procedures.

Source: Research Data, 2025

Table 3 indicates that the mitigation of independence threats at KAP X operates across administrative, structural, and interpersonal levels. Nevertheless, many of these mechanisms remain informal and rely heavily on day-to-day practices rather than on standardized quality control systems. These findings suggest that the primary strength in maintaining independence lies in the partner's leadership style and the firm's embedded ethical culture, rather than in the existence of systematic SOPs or documented procedures. In other words, ethical leadership serves as the fundamental safeguard for independence, effectively substituting for the structural governance mechanisms that should formally function as risk-control systems.

The implications of this condition become evident when auditors face significant pressure from clients, particularly in situations involving sensitive findings, the need to expand audit procedures, or client objections to certain

procedures. At this point, the audit decision-making process becomes the most critical phase, as auditors must determine whether procedures should be carried out in accordance with standards, modified with adequate justification, or—in extreme cases—discontinued altogether.

When differences in expectations arise regarding the audit scope, objections to additional evidence requests, or client demands to alter the wording of the audit report, the partner assumes control of the escalation through an internal meeting. In this meeting, the partner and the audit team conduct a collective risk evaluation, considering professional implications, potential effects on the audit opinion, and long-term reputational risks to the firm. This approach reflects the implementation of quality control oversight as mandated in SA 220, which emphasizes that the engagement partner is responsible for significant judgments, including ensuring that auditors' professional considerations remain aligned with the principles of independence, ethics, and professional standards (IAPI, 2021).

This escalation process demonstrates that, within KAP X, the partner's role functions as the final safeguard of auditor independence, as critical decisions are not delegated to junior or senior auditors who are more vulnerable to client-related communication pressures. Moreover, this pattern illustrates that in ambiguous situations, audit quality relies more on the partner's ethical leadership than on the existence of formal, written procedural guidelines.

These findings also provide empirical evidence that the partner functions as the gatekeeper of independence. When junior and senior auditors begin to lose bargaining power due to implicit pressure or long-standing relationships with the client, the partner becomes the key actor ensuring that professional standards are not compromised. This aligns with ISQM 1, which emphasizes the importance of tone at the top in fostering a culture of quality and integrity throughout the audit process (IAASB, 2020). In addition, PMK 186/2020 stipulates that Public Accounting Firms must ensure auditor independence through an internal quality control system, including rotation, client risk assessments, and the significant supervisory role of the engagement partner (PMK 186/2020).

CONCLUSION

This study concludes that auditor independence at KAP X is shaped by the interaction between the firm's internal ethical culture, long-term client relationships, implicit pressures arising during the audit process, and the limitations of an understructured quality control system. Formally, KAP X has administrative instruments such as general independence policies and Independence Declarations; however, their effectiveness continues to rely on the partner's ethical leadership rather than on a documented verification system. The four major independence threats—self-interest, familiarity, intimidation, and self-review—emerge with varying intensities and demonstrably influence auditor objectivity through relational dynamics and economic considerations. Meanwhile, safeguards such as mentoring, team rotation, EQCR, and internal technical discussions help restrain the erosion of independence, although their implementation remains insufficiently systematic. Collectively, these findings indicate that auditor independence in small and medium-sized firms is driven

more by professional behavior and individual ethical values than by structural quality control systems.

This study has limitations due to the restricted number of informants, which were drawn from a single audit firm and did not include broader stakeholders such as other external auditors, clients with diverse characteristics, or additional regulators who could contribute to richer perspectives. Furthermore, document triangulation was limited to the available administrative instruments, preventing a complete depiction of the firm's overall quality control configuration. These limitations provide opportunities for future research to broaden the scope, include additional comparative firms, and explore more deeply the relationship between quality control systems, auditors' ethical behavior, and economic-client pressures. A multi-case or comparative study approach may also be employed to assess the consistency of these findings and develop a more comprehensive understanding of auditor independence in small and medium-sized public accounting firms in Indonesia.

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