Evaluation of Risk Factors in Client Acceptance Decisions:
Evidence from Public Accountants in Indonesia

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Topic: Auditing
INTRODUCTION

Accounting scandals and the collapse of leading firms in the world in recent years have made public trust on financial statement and public accountant profession deteriorate. Enron, WorldCom, and Xerox are example of the scandals in U.S. involving public accountants. In Indonesia, there were also some large companies with indication of fraud involving public accountants from big accounting firms, such as PT Kimia Farma and PT Indofarma in terms of inflating inventory value, and Bank Global related to fictitious investment. There were also another cases related with PT Bank Lippo, PT Great River, and PT Telkom. Bapepam-LK decided to impose sanction on auditors of those companies.

This cases involving auditors show that public accountants profession faces high risk potential. To deal with this risk, public accountants should put in front professional skepticism and risk alertness in every engagement they accept. In this context, it is important to implement risk management in selecting which firms to be chosen as auditee. But, there is an indication that auditors sometimes ignore it, especially due to tight competition among public accountant firms to find clients. That is why, it is interesting to investigate auditor’s perception regarding risk assessment on client acceptance decision.

Johnstone and Berdard (2003) show that good risk management process on client acceptance decision is important key to decrease auditor’s business risk in dealing with litigation in the future. Huss and Jacobs (1991) show that risk evaluation (where risk consists of audit risk, client business risk, and auditor’s business risk) is essential first step in client acceptance decision. Previous research also show that audit risk, client business risk, and auditor’s business risk has negative relationship
client acceptance decision (Asare and Knechel, 1995; Cohen and Hanno, 2000; Johnstone, 2000; Asare et al., 2002).

Wondabio (2006) study on risk management in Indonesia also has the same conclusion, that is risk assessment has significant influence on client acceptance decision. But, his study only observed risk assessment at one big public accounting firm only. Hence, it is difficult to generalize the result on another public accounting firm, especially the small ones. Our study extends Wondabio study by including respondents from diverse public accounting firms’ size. We also include audit fee and specialist as additional factors that we considered will influence the client acceptance decision.

Our results indicate that respondents perceived Management Characteristics and Integrity as the most important factors in risk assessment process. We find significant difference of degree of importance of risk factors based on public accountant firm’s characteristics (public accountant firm’s size) and public accountant’s characteristics (gender and age). We also find that total risk has significant and negative influence on client acceptance decision. Audit fee has significant and negative influence on client acceptance decision, contrary to our prediction. This result maybe due to the positive correlation between audit fee and total risk. The existence of specialist do not has significant influence on the decision.

Our study has several contributions. First, similar study is rare in Indonesia. Hence, this study contribute to auditing literature in Indonesia especially related to risk assessment process in public accounting firms. Second, our results could provide input for public accounting firms to consider which risk factors is the most important in client acceptance decision.
2. PREVIOUS RESEARCH AND HYPOTHESES DEVELOPMENT

2.1. Risk factors in Client Acceptance Decision

Before accepting a client’s engagement, Public Accounting Firm should perform an initial investigation of the company before making a decision to accept or not to accept such engagement (Arens, 2005). In general, such initial investigation basically is related to the company business community, financial stability, and the prior relationship with previous auditor. The Public Accounting Firm should also consider the risk with the concerned of company and industry in which the company is operating, litigation risk that may be arise and the risk of the audit itself. The investigation towards the new prospective client and the present client is a very crucial part in defining the audit risk level which can be accepted. If the level of audit risk towards the client is higher than normal risk which is stated by the auditor, the auditor should not accept such engagement.

In the assessment process of client acceptance, the Professional Standard of Public Accountant (Standar Profesional Akuntan Publik / SPAP) requires the auditor to have to obtain an understanding business of the client. The auditor should obtain an understanding with the client regarding the services that will be performed for each engagement. This understanding will reduce the risk of misinterpretation about the needs and expectations of the other party, from the side of the auditor as well as from the client side.

In considering the client acceptance decision, the auditor should make an evaluation on the risk level that the auditor is facing in the audit process and how to handle the risk towards each of his client. This is a very important factor because the client will determine the client’s portfolio owned by the auditor (Simonic and Stein, 1990); Bedard and Johnstone, 2000). Besides by evaluating this risk, the auditor
can minimize the possibility of litigation which can occur because of an error made in performing of audit process.

Theoretically, the Public Accounting Firm should consider some benefits and expenses related to the prospective client’s potential. These benefits here are among others related to the engagement fee received by the auditor and the reputation of the services given to the client. While the auditor’s expenses are including the human resources expenses used in the engagement (including the possibility of the occurrence of litigation due to undetected misstatement and litigation of client business failure or other sources which are not related with the undetected misstatement) (Simunic, 1980; Houston et al., 2003). Client acceptance decision process covers 3 (three) stages: 1) Risk evaluation/assessment and return gained from the client concerned, 2) Considering the management risk strategy by the Public Accounting Firm, and 3) The client acceptance decision based on a long term consideration. The client acceptance decision process starts with practice development activities, which provides opportunities to assess the client (Asarecs, 1994). When practice development activities provide opportunities to consider the client’s potential, the next process is evaluating the fee that has to be charged and assessed whether risk/return from the client can be accepted.

In analyzing the risk level faced by the auditor, the auditor usually will evaluate the three types of risks that are client risk, audit risk, audit business risk (Johnstone and Bedard, 2003). The research of Huss and Jacobs (1991) described risk assessment (included are audit risk, client’s business risk and auditor business risk) are first step which are very crucial in the client’s acceptance decision. The previous research describes that the higher the audit risk level is, the client business risk, the
auditor business risk, the lower the possibility of the client acceptance (Asare and
Knechel, 1995; Cohen and Hanno, 2000; Johnstone, 2000; Asare et al., 2002).

2.2. Auditor Characteristics and Risk Assessment

Before client acceptance decision, the Public Accounting Firm should perform
an assessment about the risk level which will be faced when accepting the client. The
assessment of the risk level will be different among the Public Accounting Firms,
which may be caused by the different characteristics among the firms. Investigation
by Chow et al. (2006) compared the Big 4 Firms and Non Big 4 Firms concerning the
audit structure, the factors of client acceptance decision, risk assessment, and the
auditor’s rigidness in applying accounting standards. This research came to the
conclusion that the Big 4 Firms and Non Big 4 Firms have different degree of
importance on several concerned risks. The result of this research become the first
basic hypothetical form in this research, that there is a different gradual importance on
the risk factors which establish client acceptance based on the Public Accounting
Firm characteristics. What is meant by the Public Accounting Firm characteristics is
the size of the Firm concerned and affiliation with a foreign Firm.

H1a: There is a different degree of importance on risk factors which related in client
acceptance decision between the big firm and the small firm.

H1b: There is a different degree of importance on risk factors which related in client
acceptance decision between the affiliate firm and the international firm.

Besides influenced by the Public Accounting Firm characteristics, the different
important risk factors are also influenced by the auditor’s characteristics that
performed the assessment. This characteristics influences the auditor’s perception
against the risk he/she is facing. The female auditor is often said to be more risk
averse compared to the male auditor. The female characteristics that tends more to avoid risk will influence her assessment of the client acceptance.

H2a: There is a different degree of importance on risk factors which related in client decision between female auditor and male auditor.

The auditor’s characteristic related to auditing experience also maybe influences the auditor’s assessment risk. The more experienced auditor will have more consideration because has experienced all kinds of situations and events which have an impact in establishing the risk level in the acceptance audit process. These experiences can be measured from the auditor’s age, his working experiences and position in the Public Accounting Firm’s organization where the auditor works.

Based on the above prediction, the related hypothesis with the auditor’s experience is as follows:

H2b: There is a difference different degree of importance on risk factors which related to the client acceptance decision between the auditor with average age and below the average age.

H2c: There is a difference different degree of importance which related to the client acceptance decision between the client and the work experience above average and auditor below the average.

H2d: There is a difference different degree of importance on the risk factors which related to the client acceptance decision between the auditor and partner’s position and auditor with another position.

2.3. Risk Assessment in Client Acceptance Decision

The previous research describes that risk assessment is the first most crucial step in client acceptance decision (Johnstone and Bedard, 2003; Huss and Jacobs,
1991). The higher the audit risk level, the client business risk and the auditor business risk level, the lower possibility of client acceptance (Asare and Knechel, 1995; Cohen and Hanno, 2000; Johnstone, 2000; Asare et al., 2002).

Johnstone and Bedard made a research on the audit risk impact, the client business risk, and the auditor’s business risk against the client acceptance decision. In this research, the audit risk is measured with the fraud risk and error risk. Meanwhile, the client business risk is measured with ongoing concern risk, and auditor business risk is measured from whether the client is a public company or not. The result of this research describes that the possibility of client acceptance is negatively related to fraud risk and error risk as proxy from the audit risk, going concern risk as proxy of the auditor business risk. This result is consistent with the previous research which says that the higher the audit risk, the client business risk and the auditor business risk are related with the possibility of the decline of client acceptance. Based on the above explanation, thus a hypothesis regarding the relationship between risk and client acceptance decision is as follows:

H3a: The auditor’s risk has a negative impact on the possibility of the client acceptance by the auditor.

H3b: The client’s business risk has a negative impact on the possibility of the client acceptance by the auditor.

H3c: The auditor’s business risk has a negative impact on the client acceptance by the auditor.

H3d: Total risk has a negative impact on the possibility of the client acceptance by the auditor.
2.4. The Effect of Specialist and Audit Fee on Risk Assessment in Client Acceptance Decision

After risk assessment, auditor will know the risk level of the potential client and then to design specific audit strategy in accordance with the risk level. If the risk level is moderate or high, auditor should use risk management strategy. Johnstone dan Bedard (2003) suggest that the first risk management strategy is to assign specialist into audit team (Bell et al., 1997; Winograd et al., 2000).

Previous research has investigate the specific difference in terms of specialist knowledge and client acceptance decision process related to decreasing audit risk (Johnson et al., 1991; Wright dan Wright, 1997). Gendron (2001) in his case study describe a situation where public accounting firm made a client acceptance decision with experience personnel as a contingent variable. Theoretically, Johnstone dan Bedard (2003) argue that auditor knowledge related to practices in specific industry, economic condition, and competitive environment also moderate client risk. A specialist also able to improve client’s probability to survive by suggesting high quality business consideration based on his/her audit findings (Bell et al., 1997). Johnstone dan Bedard (2003) show that specialist could moderate relationship of audit risk and client acceptance decision.

Therefore, we formulate following hypothesis:

H4a: Specialist has a positive impact on the possibility of the client acceptance by the auditor

In addition to specialist assignment in audit team, public accounting firm could choose strategy related to audit fee. Audit for high risk client will incur high audit cost, which will be reflected in higher audit fee (Arens et al., 2005). Higher fee also help public accounting firm to cover risk management cost for accepting high risk client.
Experimental research (Pratt dan Stice, 1994; Houston et al., 1999) provide evidence that fee is used as a risk management strategy. Johnstone dan Bedard (2003) find that higher audit fee will moderate the relationship between risk and client acceptance decision.

Based on above explanation, we develop following hypothesis:

H4b: Audit fee has a positive impact on the possibility of the client acceptance by the auditor

3. RESEARCH METHODOLOGY

3.1. Research Instrument

We collect data by distributing questionnaires (available from author upon request). Questionnaires consists of 4 parts: (A) respondent data, (B) risk factors using 7 Likert scale, (C) risk ranking, and (D) client acceptance decision. Part B consists of 7 groups to represent client business risk, audit risk, and auditor business risk. Part C related to ranking of each risk group. To determine degree of importance of each risk factor, score from part B multiply by weight from part C. Higher score indicates higher degree of importance. Part D will identify risk assessment process in client acceptance decision and also to identify the existence of specialist and level of audit fee.

3.2. Pengumpulan Data

Our respondents consist of senior auditors, managers, and partners who have authority for client acceptance decision. We sent the questionnaires to all public accounting firms reside in DKI Jakarta. Total returned questionnaires are 82.
3.3. Research Model

To answer first research question, we will present descriptive statistics from Questionnaires Part B and C. Higher score indicates higher importance risk factor. Hypothesis 1 and 2 will be tested using univariate test (mean difference test). Samples will be grouped based on each characteristics:

- Public accounting firm characteristics:
  - Firm size: based on number of partners (above mean and below mean)
  - Firm affiliation: affiliated with foreign public accounting firm or not.

- Public accountant characteristics:
  - Gender: male and female
  - Age: based on respondents’ age (above mean and below mean)
  - Working experience: based on respondents’ total working experience in years (above mean and below mean)
  - Position: partner and non-partner

To test hypothesis 3a – 3c, we will use SEM (Structural Equation Modelling), while to test hypothesis 3d and 4a-b will be using following research model:

\[
\text{ACCEPT} = \beta_0 + \beta_1 \text{RISKSCORE} + \beta_2 \text{FEE} + \beta_3 \text{SPECIALIST} + \varepsilon_i
\]

Where:

\[
\text{ACCEPT} = \text{client acceptance decision (1 if accept client and 0 otherwise)}
\]

\[
\text{RISKSCORE} = \text{total risk, consists of 3 risk components:}
\]

\[
\text{CLIENTRISK} = \text{client business risk}
\]

\[
\text{AUDITRISK} = \text{audit risk}
\]

\[
\text{AUDITORRISK} = \text{auditor business risk}
\]

\[
\text{FEE} = \text{audit fee (1 if above or equal the standard set by public accounting firm and 0 otherwise)}
\]
\text{SPECIALIST} = \text{specialist (1 if there is specialist and 0 otherwise)}

Expected sign: \( \beta_1 < 0, \beta_2 > 0, \beta_3 > 0. \)

4. RESULTS

4.1. Descriptive Statistics

Table 4.1 presents descriptive statistics of respondents in the survey. From 82 respondents, majority are male with percentage of 74\% and female with percentage of 26\%. Most of the respondents, with percentage of 54\%, are in the partner position. Based on the age of respondents, the average age of the respondents are 42.23 years old, with the youngest respondents is 22 years old and the oldest respondent is 70 years old. The average working experience of respondent is 14.3 year as an auditor. This shows that the respondents on average are well experienced auditor, which also experience in client acceptance decision. From the descriptive statistics of the respondents we can also see that most of the respondents come from small public accountant firms (74\%) with partner less than five persons. Respondents that come from public accountant firms with partner more than five persons are 26\%. In addition, respondents that come from public accountant firms with foreign affiliation are equal to respondents that come from public accountant firms without foreign affiliation.

4.2. Risk Factors Identification

The first objective of this research is to identify auditor’s perception on degree of importance of risk factors in client acceptance decision. Table 4.2 presents the average score and average weight of each risk factor. The table shows that the response on overall risk factors has average above the median scale of 4, with highest score for risk factors of Organizational and Management Structure and Litigation Risk.
and lowest score for risk factor of Relationship between Entity and its Employees. This result shows that all the risk factors identify in this research are important in client acceptance decision. In addition, base on the weight of importance, auditors put heaviest weight of importance on Management Characteristics and Integrity and lowest weight of importance on Relationship between Entity and its Employees factor.

To identify the rank of importance on risk factors, the rank are based on the average score multiply by the weight that auditors put on each factor, so that the rank will cover score on degree of importance and weight of importance of each factors. Table 4.3 presents score of importance multiply by the weight of importance and the rank of importance of each risk factor to auditors. Management Characteristics and Integrity is the factor that considered being the most importance factors by the auditors, followed by Litigation Risk factor, Operational Characteristics and Financial Stability, and Susceptibility of Assets to Misappropriation. Whereas, the three factors that have the lowest rank on importance are Organizational and Management Structure, Industry Condition, and Relationship between Entity and its Employees.

4.3. Public Accountant Firm and Auditors Characteristics Differences and Assessment on the Degree of Importance of Risk Factors

The second objective of this research is to investigate the effect of public accountant firm and auditor characteristics differences on auditor’s assessment on degree of importance of risk factors in client acceptance decision. Public accountant firm characteristics in this research are based on number of partner in the firm and whether the firm has foreign affiliation to international public accountant firm or not. While auditor characteristics in this research are gender, age, working experience as auditor, and auditor position.
To test whether public accountant firm and auditor characteristics affect degree of importance on risk factor in client acceptance decision, this research will test the difference in average score of overall and each of risk factors for each characteristics of public accountant firm and auditor. The test of difference will utilize risk score multiply by weight of importance for total risk factors and each component of risk factors. The result of the test is presents in Table 4.4.

The first hypothesis in this research is that there is a difference in degree of importance on risk factors that effect client acceptance decision base on public accountant firms’ characteristics. The result on Table 4.4 shows that there is a significant difference (at 5% level with p value of 0.028) in degree of importance on overall risk factors that effect client acceptance decision base on public accountant firms’ characteristics that have to do with number of partner in the firm. This result suggest that public accountant firm with partner more than average (5 persons) will assess degree of importance on overall risk factors differently than public accountant firm with partner less than average in client acceptance decision. While base on each component of the risk factors, the result showed that there are significant differences in degree of importance on risk factors between public accountant firm with partner more than average and public accountant firm with partner less than average. The risk factors components that significantly difference are Management Characteristics and Integrity, Organizational and Management Structure, Operational Characteristics and Financial Stability, and Susceptibility of Assets to Misappropriation.

In addition, the results show that there is no significantly difference in assessment of degree of importance on risk factors in client acceptance decision base on affiliation to international public accountant firm. Nevertheless, base on components of risk factors the result showed that there are significant differences
between public accountant firm with affiliation to international firm and public accountant firm without affiliation to international firm. The differences are on Organizational and Management Structure and Susceptibility of Assets to Misappropriation. In conclusion, Hypothesis 1 cannot fully accepted because the result only supportS the hypothesis that stated there is a difference in degree of importance in risk factors base on size of the public accountant firm and fail to support the hypothesis that stated there is a difference in degree of importance in risk factors base on international affiliation of public accountant firm.

The second hypothesis is that there is a difference in degree of importance on risk factor that effect client acceptance decision base on auditors’ characteristics. Auditors’ characteristics in this research are gender, age, working experience, and auditors’ position. Based on gender, Table 4.4 showed that there is a significant difference between female auditor and male auditor in degree of importance on overall risk factors that effect client acceptance decision. This result support Hypothesis 2a which state that there is a difference in degree of importance in risk factors in client acceptance decision between male and female auditors. By risk component, there is also a significant difference in degree of importance in Litigation Risk between male auditor and female auditor. This result showed that female auditors are more conservative in making client acceptance decision and consider the risk factors, especially Litigation Risk, more importance than male auditors.

While based on auditors’ age, the result showed that there is a significant difference between auditors with age above average (the average age of the respondent is 42 years old) and auditors with age bellow average in degree of importance on overall risk factors that effect client acceptance decision. This result support Hypothesis 2b which state that there is a difference in degree of importance in
risk factors in client acceptance decision between auditors with age above average and auditors with age below average. By risk component, there is also a significant difference in degree of importance in Litigation Risk between auditors with age above average and auditors with age below average. This result showed that auditors with age above average are more conservative in making client acceptance decision and consider the risk factors, especially Litigation Risk, more importance than auditors with age below average.

Furthermore, based on working experience as an auditor, the result showed that there is no significant difference between auditors with audit working experience above average (the average audit working experience of the respondent is 14 years) and auditors with audit working experience below average in degree of importance on overall risk factors that effect client acceptance decision. This result fail to support Hypothesis 2c which state that there is a difference in degree of importance in risk factors in client acceptance decision between auditors with audit working experience above average and auditors with audit working experience below average. By risk component, there is significant difference between auditors with audit working experience above average and auditors with audit working experience below average in degree of importance on Management Characteristics and Integrity that effect client acceptance decision. This result suggest that auditors with audit working experience above average consider the same degree of importance in overall risk factors with auditors with audit working experience below average, and consider different degree of importance only in Management Characteristics and Integrity factor in client acceptance decision.

Finally, based on auditors’ position (whether the auditors is a partner in his public accountant firm or not), the result showed that there is no significant
difference between auditors with partner position and auditors with non partner position in degree of importance on overall risk factors that effect client acceptance decision. This result fail to support Hypothesis 2d which state that there is a difference in degree of importance in risk factors in client acceptance decision between auditors with partner position and auditors with non partner position. By risk component, there are significant differences between auditors with partner position and auditors with non partner position in degree of importance on Management Characteristics and Integrity, Operational Characteristics and Financial Stability, and Relationship between Entity and its Employees that effect client acceptance decision.

Overall, the results suggest that there are differences in degree of importance in risk factors in client acceptance decision based on public accountant firm characteristic measured by number of partner in the firm, and auditors’ characteristics measured by gender and age. Furthermore, most of the difference in degree of importance on risk factors between public accountant firm and auditors connect to factors in Management Characteristics and Integrity, Operational Characteristics and Financial Stability, Susceptibility of Assets to Misappropriation, and Litigation Risk.

4.4 Risk Assessment in Client Acceptance Decision

The third research question to be addressed in this paper is whether risk assessment is a factor that influence decision to accept a prospective client. As predicted in Hypothesis 3, there is a negative relationship between risk and probability that a client will be accepted. In other words, the higher the risk is– including audit risk, client’s business risk, and auditor’s business risk – the lower the probability that auditors accept clients’ assignment. Result of test on hipotesis 3a-3c using Lisrel is presented in the path diagram in Diagram 4.1. Measure of goodness of fit using
RMSEA shows that the overall model fits the data and can explain the relationship among variables.

Relationship between client’s risk and client acceptance decision is significantly negative, providing a support for hipotesis 3a. Audit risk and auditor’s business risk (litigation risk) also significantly affect client acceptance decision, however in the direction that oppose the prediction in hipotesis 3b dan 3c. The sign of coefficients show that the higher the Audit Risk and Auditor’s Business Risk are, the higher the probability that the auditor will accept assignment from the client. This result is not as predicted. Comparing the significance of the three risk components, the result shows that Client’s Risk is more significant that the other two components, i.e. Audit Risk dan Auditor’s Business Risk. It indicates that Client’s Risk is the risk component that becomes the auditors’ main consideration in accepting a prospective client. It implies that an auditor will accept an assignment from a client as long as the Client’s Risk is low, regardless the level of Audit Risk dan Auditor’s Business Risk.

Audit Risk has a significant positive relationship with Client’s Business Risk. On the other hand, Audit Risk has no relationship with the Auditor’s Business Risk. Client’s Business Risk also has a significant positive relationship with Auditor’s Business Risk. It indicates that Auditor’s Business Risk (litigation risk) is affected more by risks pertaining to client’s business, not by auditor’s ability to detect fraud and material error (audit risk).

Result on regression of model (1) to test influence of risk, fee, and specialization on client acceptance decision is presented in Table 4.5. $R^2$ for overall model is 0.460, indicating that the model can explain the relationship between independent and dependent variables.
Result on statistical test shows that variable RISK SCORE has significant negative relationship with client acceptance decision, which is consistent with prediction in Hipotesis 3d. It can be interpreted that the higher the Client’s Risk is, the lower the probability that the auditor will accept the client’s assignment. This result is consistent with the result of previous study that concluded that higher Audit Risk, Client’s Business Risk, and Auditor’s Business Risk associated to lower probability of client acceptance (Asare and Knechel, 1995; Cohen and Hanno, 2000; Johnstone, 2000; Asare et al., 2002; Johnstone and Bedard, 2003). Variable RISK SCORE is measured by the average score, i.e. the total risk score divided by the number of risk factors. Alternatively, this variable is also measured by total risk, that is obtained by summing up each risk factor. Additional test using this alternative risk measurement arrives in similar result.

Variable FEE has sign of coefficient that is contrary to the expectation and significant at 10%. Consequently, there is no support for hipotesis 4a that the higher the fee is, the lower the probability that the auditors will accept clients’ assignment. This unexpected result might due the fact that risk is one of determinants of audit fee, therefore the relationship between fee and client acceptance decision is captured in the negative relationship between risk and client acceptance decision. Significant positive correlation between variable RISKSOCRE and FEE provides a support for this explanation. It can be interpreted that larger fees imply higher risks, and thus decrease the probability that auditors will accept clients’ assignments.

Variable SPECIALIST has significant positive relationship with the probability of client acceptance, indicating that specialist availability influence auditors’ decision to accept clients’ assignment. This result is consistent with
expectation under hypothesis 4c that if auditor has specialization required to audit specific clients, the probability that the clients will be accepted are higher.

In addition to using logistic regression as previously explained, this study also performs test on hypothesis 3d using LISREL. Result on this test is presented in path diagram in Diagram 4.2. T-values for variable RISK and SPECIALIST (SPC) that are higher than 1.9 indicate that those two variables have significant influence on auditors’ decision to accept prospective clients. The negative sign of RISK coefficient is consistent with the expectation and result of previous test. It can be interpreted that the higher the risk is, the lower probability that clients’ assignment will be accepted. The positive sign of SPECIALIST coefficient indicates that specialist availability in the audit firms will increase probability of acceptance of clients’ assignment. Meanwhile, variable FEE has insignificant negative coefficient, which is consistent with the result of previous test. It indicates that auditors’ judgement on risk and specialist availability are two factors that have stronger influence on client acceptance decision, compared to fee factor. In addition, t-value for each risk component is statistically significant. This result implies that Audit Risk, Client’s Business Risk, and Auditor’s Business Risk are important components that are considered in assessing overall risk.

5. SUMMARY

5.1. Conclusion

Management’s characteristics and integrity is considered as the most important factor that influence client acceptance decision, followed by Litigation Risk, Operating Characteristics and Financial Stability, and Susceptability of Assets to Misappropriation. Meanwhile, the three least important factors are Organization and
Management Structure, Industry Condition, and Relationship between the Entity and its Employee.

The test results show that there are differences in the degree of importance of risk factors considered in client acceptance decision, based on public accountant firm characteristic (i.e. size of the firm that is measured by number of partner in the firm) and auditors’ characteristics (that are measured by gender and age). Furthermore, most of the difference in degree of importance on risk factors between public accountant firm and auditors are associated to Management Characteristics and Integrity, Operational Characteristics and Financial Stability, Susceptibility of Assets to Misappropriation, and Litigation Risk.

Total Risk variable has significant negative relationship with auditors’ decision to accept a prospective client. It can be interpreted that the higher the Client’s Risk is, the lower the probability that auditors will accept assignments from the clients. Among the three factors of risk (Client’s Risk, Audit Risk, dan Auditor’s Business Risk), Client’s risk is the factor that influence client acceptance decision the most.

Specialization is a variable that positively influence client acceptance decision. Fee also has significant influence on client acceptance decision, however the sign of coefficient is contrary to the expectation. This result might due to positive relationship between two independent variable, i.e. fee and risk.

5.2. Limitation

1. Number of respondents under study is only 82. This very limited number of respondent is due to the timing of the questionnaire distribution near the year, which is the busiest time for auditors.
2. Respondents represent only Jakarta area and exclude auditors in the rest of Indonesia. However, considering that most auditors reside in Jakarta, we believe that inclusion of auditors outside Jakarta will not significantly change this study’s result.

3. This study include only number of partners and affiliation with international audit firms as measure of audit firms’ characteristics. Size of audit firms (that can be measured by the total revenue or total assets) is not included due to difficulty to obtain the revenue or assets data.

5.3. **Suggestion for Further Research**

1. To arrive in a more generalized result, this study should include more respondents, including those residing outside Jakarta.

2. This study should consider other variables that represent audit firms’ characteristic, such as size of audit firm.
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Table 4.1
Descriptive Statistics

Panel A: Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>61</td>
</tr>
<tr>
<td>Female</td>
<td>21</td>
</tr>
</tbody>
</table>

Panel B: Position in Public Accounting Firms

<table>
<thead>
<tr>
<th>Position</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Partner</td>
<td>38</td>
</tr>
<tr>
<td>Partner</td>
<td>44</td>
</tr>
</tbody>
</table>

Panel C: Age, Audit Working Experience, and Total Working Experience

<table>
<thead>
<tr>
<th>Age</th>
<th>Audit Working Experience</th>
<th>Total Working Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>42,33</td>
<td>14,30</td>
</tr>
<tr>
<td>Median</td>
<td>40,50</td>
<td>12,00</td>
</tr>
<tr>
<td>Min</td>
<td>22,00</td>
<td>1,00</td>
</tr>
<tr>
<td>Max</td>
<td>70,00</td>
<td>40,00</td>
</tr>
</tbody>
</table>

Panel D: Public Accounting Firms Size

<table>
<thead>
<tr>
<th>Number of Partners</th>
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</thead>
<tbody>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Min</td>
</tr>
<tr>
<td>Max</td>
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</tbody>
</table>

Panel E: Affiliation with Foreign Public Accounting Firms

<table>
<thead>
<tr>
<th>Affiliation with Foreign</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>41</td>
</tr>
<tr>
<td>No</td>
<td>41</td>
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</tbody>
</table>
Table 4.2
Risk Factors Score

<table>
<thead>
<tr>
<th>Risk Factors</th>
<th>Mean</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Management Characteristics and Integrity</td>
<td>5.1</td>
<td>18%</td>
</tr>
<tr>
<td>2. Organizational and Management Structure</td>
<td>5.4</td>
<td>13%</td>
</tr>
<tr>
<td>3. Industry Condition</td>
<td>4.9</td>
<td>13%</td>
</tr>
<tr>
<td>4. Operational Characteristics and Financial Stability</td>
<td>5.2</td>
<td>17%</td>
</tr>
<tr>
<td>5. Susceptibility of Assets to Misappropriation</td>
<td>5.1</td>
<td>15%</td>
</tr>
<tr>
<td>6. Relationship between Entity and its Employees</td>
<td>4.5</td>
<td>9%</td>
</tr>
<tr>
<td>7. Litigation Risk</td>
<td>5.4</td>
<td>15%</td>
</tr>
</tbody>
</table>

Table 4.3
Risk Factors Ranking

<table>
<thead>
<tr>
<th>Risk Factors</th>
<th>Mean*Weight</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Management Characteristics and Integrity</td>
<td>0.902</td>
<td>1</td>
</tr>
<tr>
<td>2. Organizational and Management Structure</td>
<td>0.734</td>
<td>5</td>
</tr>
<tr>
<td>3. Industry Condition</td>
<td>0.632</td>
<td>6</td>
</tr>
<tr>
<td>4. Operational Characteristics and Financial Stability</td>
<td>0.877</td>
<td>3</td>
</tr>
<tr>
<td>5. Susceptibility of Assets to Misappropriation</td>
<td>0.787</td>
<td>4</td>
</tr>
<tr>
<td>6. Relationship between Entity and its Employees</td>
<td>0.399</td>
<td>7</td>
</tr>
<tr>
<td>7. Litigation Risk</td>
<td>0.881</td>
<td>2</td>
</tr>
</tbody>
</table>
Table 4.4
Difference in Degree of Importance of Risk Factors based on Public Accounting Firms’ and Auditor Characteristics

<table>
<thead>
<tr>
<th>Risk Factors</th>
<th>Number of Partners</th>
<th>Affiliation</th>
<th>Gender</th>
<th>Age</th>
<th>Audit Working Experience</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>Sig</td>
<td>Mean Diff</td>
<td>Sig</td>
<td>Mean Diff</td>
<td>Sig</td>
<td>Mean Diff</td>
</tr>
<tr>
<td></td>
<td>0.028**</td>
<td>(0.658)</td>
<td>0.5950</td>
<td>(0.1386)</td>
<td>0.04**</td>
<td>0.5934</td>
</tr>
<tr>
<td>Management Characteristics and Integrity</td>
<td>0.063*</td>
<td>(0.254)</td>
<td>0.3970</td>
<td>(0.0945)</td>
<td>0.3490</td>
<td>(0.1189)</td>
</tr>
<tr>
<td>Organizational and Management Structure</td>
<td>0.077*</td>
<td>(0.206)</td>
<td>0.018**</td>
<td>(0.2155)</td>
<td>0.7780</td>
<td>(0.0327)</td>
</tr>
<tr>
<td>Industry Condition</td>
<td>0.593</td>
<td>(0.039)</td>
<td>0.2230</td>
<td>(0.0910)</td>
<td>0.8530</td>
<td>(0.0152)</td>
</tr>
<tr>
<td>Operational Characteristics and Financial Stability</td>
<td>0.057*</td>
<td>(0.185)</td>
<td>0.7680</td>
<td>(0.0300)</td>
<td>0.3770</td>
<td>0.1133</td>
</tr>
<tr>
<td>Susceptibility of Assets to Misappropriation</td>
<td>0.096*</td>
<td>0.204</td>
<td>0.069*</td>
<td>0.1687</td>
<td>0.1890</td>
<td>0.1684</td>
</tr>
<tr>
<td>Relationship between Entity and its Employees</td>
<td>0.430</td>
<td>0.039</td>
<td>0.5380</td>
<td>(0.0307)</td>
<td>0.3930</td>
<td>0.0582</td>
</tr>
<tr>
<td>Litigation Risk</td>
<td>0.129</td>
<td>(0.218)</td>
<td>0.3070</td>
<td>0.1545</td>
<td>0.054**</td>
<td>0.4202</td>
</tr>
</tbody>
</table>

*** Significant at level 1%
** Significant at level 5%
* Significant at level 10%
Diagram 4.1
Result of Test on Hipotesis 3a-3c using Lisrel
Table 4.5

Result of Test on Regression Model (1)

\[ \text{ACCEPT} = \beta_0 + \beta_1 \text{RISK SCORE} + \beta_2 \text{FEE} + \beta_3 \text{SPECIALIST} \]

<table>
<thead>
<tr>
<th>Expected Sign</th>
<th>B</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.479</td>
<td>.000</td>
</tr>
<tr>
<td>RISKSCORE</td>
<td>-.950</td>
<td>.000 ***</td>
</tr>
<tr>
<td>FEE</td>
<td>-.716</td>
<td>.092 *</td>
</tr>
<tr>
<td>SPECIALIST</td>
<td>1.501</td>
<td>.000 ***</td>
</tr>
</tbody>
</table>

Cox & Snell R Square 0.345
Nagelkerke R Square 0.460

***significant at 1% (one-tail)
*significant at 10% (one-tail)

Diagram 4.2

Test on Hypothesis 3 using LISREL