



## ANALYSIS OF COMPETENCE, INDEPENDENCE AND PROFESSIONAL ETHICS INFLUENCE ON AUDIT QUALITY (EMPIRICAL STUDIES OF PUBLIC ACCOUNTANT OFFICES IN MEDAN)

<sup>1</sup>Desi Ika; <sup>2</sup>Yani Suryani

<sup>1, 2</sup>Faculty of Business Economics, Harapan University, Medan – Indonesia

Email: desiika2@gmail.com; [syani91@yahoo.co.id](mailto:syani91@yahoo.co.id)

### Abstract

*Audit quality is very important because high audit quality will produce reliable financial statements as the basis for decision making. The profession of a public accountant is like a double edged sword. On the one hand, auditors must pay attention to credibility and professional ethics, but in the other hand auditors must also face pressure from clients in various decision making. This study attempts to develop a conceptual framework that can capture the construct of audit quality, therefore it can capture the complexity found in audit quality research. This research indicates that partially or simultaneously the competence, independence and professional ethics have a positive and significant effect on audit quality. Therefore, if someone has high competence, independence and professional ethics, will be the better the quality of the audit. Quality audit is very important to ensure that the accounting profession fulfills its responsibilities to investors, the general public and the government and other parties who rely on audited financial reports by upholding high ethics. If an auditor has challenged established professional standards, the audit quality produced by the auditor will be very low. But the higher the auditor obeys the ethics of the auditor, the higher the audit quality produced.*

**Keywords:** *competence, independence, professional ethics and audit quality*



## **A. Introduction**

One of the uses of public accountant services is being able to provide information that is quite accurate, relevant and reliable for the decision-making process. The financial statements that have been audited by the fairness public accountant will be more reliable when compared to financial statements that have not been audited. In addition, the audit report users expect that the financial statements audited by the public accountant are free from material misstatement, can be trusted to be used as a basis for decision making and in accordance with the accounting principles in force in Indonesia. Therefore, an independent and objective professional service is needed to assess the fairness of the financial statements presented by management.

The number of cases of companies that "fall" because of business failures associated with the failure of external auditors who carry out audit services so that this can threaten the credibility of financial statements. This threat further influences people's perceptions, especially the users of financial statements for audit quality. Audit quality is important because high audit quality will produce reliable financial reports as the basis for decision making.

In carrying out audits, auditors must act as experts in the field of accounting and auditing. Achievement of expertise begins with formal education, which is further expanded through audit experience and practice (SPAP, 2001). In addition, the auditor must undergo adequate technical training, which covers both technical and general education aspects. In addition, an auditor is required to constantly keep abreast of developments in business, accounting principles and auditing standards and his profession. In order to support professionalism as a public accountant, auditors in carrying out audit duties must be guided by audit standards set by the Indonesian Institute of Accountants (IAI), namely general standards, field work standards and reporting standards. Since general standards are a reflection of personal qualities that must be owned by an auditor that requires the auditor to have sufficient expertise and technical training in carrying out audit procedures. While the standard of field work and reporting standards regulates the auditor in terms of data



collection and other activities carried out during the audit and requires the auditor to compile a report on the audited financial statements as a whole.

But in addition to audit standards, public accountants must also adhere to a professional code of ethics that regulates the behavior of public accountants in carrying out the practice of their profession both with fellow members and with the general public. This code of conduct regulates professional responsibility, competence and professional prudence, confidentiality, professional behavior and technical standards for an auditor in carrying out his profession. Public accountants or independent auditors in the task of auditing client companies have a strategic position as a third party in the client company environment that is when public accountants carry out the duties and responsibilities of management to audit the financial statements of the companies they manage. In this case the management wants the performance to always look good in the eyes of external companies, especially owners / investors. However, on the other hand, the owner wants the auditor to report on the actual conditions of the situation at the company. From the description above, there is a different interest between management and users of financial statements.

Large trust from users of audited financial statements and other services provided by public accountants is what ultimately requires public accountants to pay attention to the quality of the audit they produce. The questions from the public about the quality of the audit produced by public accountants are getting bigger after a lot of scandals involving public accountants both abroad and within the country. Domestic scandals can be seen from the action taken by the Honorary Board of the Indonesian Institute of Accountants (IAI) on 10 Public Accountant Offices which were indicated as having committed gross violations when auditing banks that were liquidated in 1998. In addition there were financial and managerial cases of public companies that did not can be detected by public accountants which causes the company to be fined by Bapepam (Winarto, 2002).



De Angelo (1981) defines audit quality as a possibility that the auditor will find and report violations in the client's accounting system. The findings of violations measure audit quality related to the auditor's knowledge and expertise. In the other hand, violation reporting depends on the auditor's motivation to disclose the violation. This boost will depend on the independence of the auditor. De Angelo (1981) defines audit quality as a possibility (joint probability) where an auditor will find and report violations in the accounting system of his client. The possibility isthat the auditor will find a misstatement depends on the quality of the auditor's understanding (competence) while the act of reporting misstatements depends on the auditor's independence. Kusharyanti (2003) says that to perform auditing tasks, auditors need auditing knowledge (general and specific), knowledge of auditing and accounting fields and understanding the client industry. In carrying out an audit, the auditor must act as an expert in the field of accounting and auditing. Achievement of expertise begins with formal education, which then goes through audit experience and practice (SPAP, 2001). In addition, auditors must undergo adequate technical training covering both technical and general education aspects.

Research conducted by Libby and Frederick (1990) in Kusharyanti (2003: 26) found that experienced auditors have a better understanding of financial statements. They are also more able to provide a reasonable explanation of errors in financial statements and can classify errors based on audit objectives and the structure of the underlying accounting system (Libby et al, 1985) in Mayangsari (2003). Tubbs (1990) in Mayangsari (2003) has succeeded in showing that the more experienced auditors are, the more sensitive they are to the misstatement of financial statements and increasingly understand the things related to errors found. But in accordance with its responsibility to increase the level of reliability of financial statements of a company, the public accountant does not only need to have competence or expertise but also must be independent in auditing. Without independence, auditors mean nothing. The public does not believe in the audited results of the auditor so that the public will not



ask for auditing services from the auditor. Or in other words, the existence of auditors is determined by its independence (Supriyono, 2006).

Thus he is not justified in favoring the interests of anyone, because whatever perfect technical expertise he has, he will lose his impartiality which is very important to maintain his freedom of opinion. The independence referred to above does not mean the attitude of a prosecutor in a court case, but it is more equitable with an impartial attitude towards a judge. The auditor acknowledges the obligation to adhere not only to management and the owner of the company, but also to creditors and other parties who place trust in the reports of independent auditors, such as prospective owners and creditors.

It is interesting to note that the public accounting profession is like a double-edged sword. On the one hand auditors must pay attention to credibility and professional ethics, but on the other hand auditors must also face pressure from clients in various decision-making. If the auditor is unable to resist pressure from clients such as personal, emotional or financial pressures, auditor independence has diminished and can affect audit quality. In terms of research methods, there is currently little research conducted on the development of conceptual frameworks that can capture the construct of audit quality. Development of a comprehensive model of audit quality needs to be done so that the model can capture the complexity found in audit quality research.

## **B. Literature Review**

### **1. Competence**

According to Lee and Stone (1995), defining competencies as sufficient expertise can be used explicitly to conduct audits objectively. The first general standard (SA section 210 in SPAP 2001) states that an audit must be carried out by one or more who have sufficient technical expertise and training as an auditor, while the third general standard (SA section 230 in SPAP, 2001) states that in conducting audits and preparation of the report, the auditor must use his professional skills carefully and thoroughly (due professional care). The competency according to De Angelo (1981) can be seen from various perspectives,



namely the viewpoint of the individual auditor, the audit team and the Public Accounting Firm (KAP):

a. Individual Auditor Competence.

There are many factors that influence the auditor's ability, including knowledge and experience. To perform auditing tasks, auditors need auditing knowledge (general and specialized) and knowledge of the auditing, accounting and client industry fields. In addition, experience in conducting audits is also needed.

b. Team Audit Competence.

The second field work standard states that if the job uses an assistant then it must be properly supervised. In an assignment, an audit team usually consists of junior auditors, senior auditors, managers and partners. This audit team is seen as a factor that further determines audit quality. Good cooperation between team members, professionalism, persistence, and skepticism, a strong process of quality control, experience with clients, and good industry experience will produce a high-quality audit team. In addition, the attention of partners and managers on assignments was found to be related to audit quality.

c. Competence from the KAP Viewpoint.

The amount of KAP according to Deis& Giroux (1992) is measured by the number of clients and the percentage of audit fees in an effort to keep their clients from moving to other KAPs. Large KAPs produce higher audit quality because there are incentives to maintain a reputation in the market. In addition, large KAPs already have extensive and large client networks so that they are not dependent or not afraid of losing clients (De Angelo, 1981). In addition, large KAPs usually have more and better resources to train their auditors, finance auditors to various continuing professional education, and conduct audit testing than small KAPs.

Based on the construct proposed by De Angelo (1981), competence is proxies in two ways, namely knowledge and experience so that in this study to be used is competence from the perspective of individual auditors, this is because auditors are subjects who conduct audits directly



and are directly related to the process audit so that good competence is needed to produce a quality audit.

## **2. Independence**

The second general standard (SA section 220 in SPAP, 2001) states that "In all matters relating to engagement, independence in mental attitude must be maintained by the auditor". This standard requires that the auditor must be independent (not easily influenced), because he is carrying out his work in the public interest. In the Code of Ethics for Public Accountants it is stated that independence is the attitude expected of a public accountant not to have a personal interest in carrying out his duties, which is contrary to the principles of integrity and objectivity. Independent means that public accountants are not easily influenced. Public accountants are not justified in favor of anyone's interests. Public accountants are obliged to be honest not only to management and company owners, but also to creditors and other parties who place trust in the work of public accountants (Christiawan, 2003).

Independence according to Arens et al (2008: 111) can be interpreted as taking an unbiased viewpoint. The auditor must not only be independent in facts, but also must be independent in appearance. Independent in fact (independent in fact) if the auditor is really able to maintain an unbiased attitude throughout the audit, since independence in appearance is the result of other interpretations of this independence. However, independence can be interpreted as a mental attitude that is free from influence, is not controlled by others, not dependent on others. Independence also means the existence of honesty in the auditor in considering the facts and the existence of objective considerations that are not impartial in the auditor's self in formulating and expressing their opinions (Mulyadi, 2010).

## **3. Professional Ethics**

Maryani and Ludigdo (2001), define ethics as a set of rules or norms or guidelines governing human behavior, both those that must be done and those that must be abandoned by a group or professional



society. In this case the auditor must also comply with the established Code of Ethics. So that the implementation of the audit must refer to the Audit Standards and Code of Ethics which is an inseparable part of the audit standard. Fatt (1995) reveals that every profession has some knowledge and abilities and every professional expects to show his professional quality. The quality of the profession shows the quality of the individual. Every profession must have standards that govern the ethics of the profession. The same goes for the audit profession. The audit profession ethics has rules so that an auditor's professionalism can be maintained. Ashbaugh (2004) describes audit standards as useful for regulating the mental attitude of independent auditors towards their clients. The client provides a fee to the auditor for compensation for audit services. Therefore, an auditor is not justified in negotiating the audit results with clients simply because they have paid a large fee.

#### **4. Audit Quality**

De Angelo (1981: 186) defines the result quality of audit as the probability that an auditor finds and reports about a violation in his client's accounting system. The possibility of finding a violation depends on the auditor's technical abilities and the auditor's independence. The Indonesian Accountants Association (IAI) states that audits conducted by auditors are said to be of quality, if they meet auditing standards and quality control standards. Auditors' professional quality criteria as regulated by general auditing standards include independence, integrity and objectivity. Thus the quality of the audit results is the output of the audit process in accordance with the standards of inspection and reporting and quality control that has been established, including the implementation of auditing practices that can be accounted for by the auditor as an ethical form of the profession.

#### **C. Method**

This type of research is quantitative descriptive which tests the factors that influence audit quality. In this study carried out on several public accounting firms in the city of Medan based on sources from the





IAPI 2018 directory. The sampling technique is convenience sampling, that is, accountants who work as auditors in KAP; profession level is partner, manager, supervisor, senior, junior. The data source used in this study is primary data in the form of a questionnaire given to auditors. This study uses a sample of auditors who have experienced auditing for at least 3 (three) years. In addition, samples are also distributed to auditors who have decision-making levels in field work related to the materiality of financial statements. This test is carried out for the initial testing of the feasibility of the data to be processed further as a basis for making decisions on the results of the hypothesis. This test starts from the feasibility test of the questionnaire, namely testing the validity and reliability of the data. Then the classical assumption test is carried out consisting of multicollinearity, heteroscedasticity and normality tests. Testing the hypothesis in the study was conducted using multiple regression analysis.

#### **D. Research Findings**

Validity is indicated by comparing the values contained in the corrected item total correlation with the product moment table value. The test results show that the corrected item total correlation value is above the  $r$  table value. This indicates that the questionnaire was declared valid. The measuring instrument used to test the reliability of the data is to test reliability by looking at the value of Cronbach's Alpha. Based on the results of the test, the value of Cronbach's Alpha shows the results that this research can continue. The results of the calculation of the Variance Inflation Factor (VIF) value also indicate that there is no multicollinearity between independent constructs in the regression model. Plots that spread above and below the number 0 on the Y axis indicate that the regression model is good because the plot graph shows that there is no clear pattern in the plot. The data normality test results using Kolmogorov-Smirnov. The test results show that the data is normal. The regression results indicate that the competency variable has a positive and significant effect on audit quality. So if someone has high competence, the better the quality of the audit results. The results of this study indicate that there is a



positive influence of auditor independence on audit quality. so that if someone has high independence, the better the quality of the audit results. the results of this study indicate that there is a positive influence on professional ethics on audit quality. So if someone has high professional ethics, the better the quality of the audit results.

## **E. Discussion**

### **Competence affects audit quality**

The quality of the results of the audits is considered not good if the auditors conducting the audit do not have the qualifications and competencies to understand the criteria for the form of errors during the examination which conclusions will be drawn from the collected evidence (Arens et al. 2012). Lee and Stone (1995) define competence as a skill that is sufficiently explicit to be used to conduct audits objectively. Auditors in carrying out their tasks can do their jobs easily, quickly, and very rarely or never make mistakes, and are supported by qualified knowledge and expertise, it is not impossible that the quality of the resulting audit results will increase. If the higher the competency of an auditor, the better the quality of the audit results will be produced.

### **Independence affects audit quality**

Audit quality is supported by the extent to which the auditor is able to withstand audited pressure accompanied by the ethical behavior he has. Auditors must be able to collect any information gathered to make decisions in producing a quality audit, this cannot be done if it is not supported by independent behavior and attitudes of an auditor (Alim et al; 2007). Arens and Loebbecke (1996: 25) define independence as follows, namely adhering to an impartial view in the conduct of audit testing, evaluation of audit results, and preparation of audit reports. Auditors are required to be accountable for their independence from opinions, conclusions, recommendations, or considerations given to the results of the examinations they have carried out. This is because the services provided will affect the trust of third parties. If an auditor behaves independently, he will give a true assessment of the financial statements being examined, without having any burden on any party. It means, the



higher the independence of an auditor, the better the quality of the audit results.

### **Professional ethics influences audit quality**

The auditor in carrying out his accounting profession must be more sensitive in understanding professional ethics issues, able to implement ethical standards and support the goals of professional norms which is one aspect of his professional commitment, so the quality of audit results will be more maintained, because the ethics of an auditor will affect how the auditor making decisions and drawing conclusions (Hunt and Vitell, 1986). Therefore, to maintain the good name of expertise and protect the interests of the community, generally professional organizations usually have a code of ethics for their members and disciplinary procedures for those who violate the rules. The code of ethics is a written norm that regulates the attitudes, behavior, and karmic order of its members. In carrying out his profession, an accountant must adhere to the accountant's code of ethics. The ethics of the accounting profession in Indonesia is regulated in the Indonesian Accountant Code of Ethics made by the Indonesian Institute of Accountants (IAI) which is one of the accountant organizations in Indonesia. If an auditor has bad ethics, it will damage public trust in the profession of auditors.

### **F. Conclusion**

The results of the tests conducted indicate that competence has a positive and significant effect on audit quality. So if someone has high competence, the better the quality of the audit results. The results of this study indicate that there is a positive influence of auditor independence on audit quality. So if someone has high independence, the better the quality of the audit results. The results of this study indicate that there is a positive influence on auditor professional ethics on audit quality. So if someone has high professional ethics, the better the quality of the audit results. Quality audit is very important to ensure that the accounting profession fulfills its responsibilities to investors, the general public and the government and other parties who rely on audited financial reports by



upholding high ethics. If an auditor has challenged established professional standards, the audit quality produced by the auditor will be very low. But the higher the auditor obeys the ethics of the auditor, the higher the audit quality produced.

## Bibliography

- Alim, M.N.; Hapsari, T.; dan Purwanti, L., (2007). Pengaruh Kompetensi dan Independensi terhadap Kualitas Audit dengan Etika Auditor Sebagai Variabel Moderasi, *Simposium Nasional Akuntansi X*, Unhas Makassar, 26-28 Juli 2007
- Arens dan Loebbecke. (2008). *Auditing and Assurances Services - An Integrated Approach*. Edisi Kedua belas. Prentice Hall.
- Ashbaugh, Hollis. (2004). Ethical Issues Related to the Provision of Audit and Non-Audit Services: Evidence from Academic Research. *Journal of Business Ethics*. Vol. 52. No. 2. Page: 143-148.
- Christiawan, Yulius Jogi. (2003). Kompetensi dan Independensi Akuntan Publik: Refleksi Hasil Penelitian Empiris. *Jurnal Akuntansi dan Keuangan* Vol.4 No. 2 (Nov) Hal. 79-92
- De Angelo. L.E. (1981). Auditor Size and Audit Quality. *Journal of Accounting and Economics* 3 (1981) : 183-199.
- De Angelo, L.E. (1981). "Auditor Independence, "Low Balling", and Disclosure Regulation". *Journal of Accounting and Economics*. August. pp. 113 – 127.
- Deis, D. R. dan Gary A. Giroux. (1992). "Determinants of Audit Quality in the Public Sector". *The Accounting Review*, (July): 462-479.
- Fatt, Teng, Poon, James. (1995). Ethics and The Accountant. *Journal of Business Ethics*. Vol. 14. No. 12. Page: 997-1004.
- Hunt, S. D., dan S. J. Vitell. (1986). A General Theory of Marketing Ethics. *Journal of Macromarketing*. Spring. Pp. 5-16.
- Ikatan Akuntan Indonesia. (2001). *Standar Profesi Akuntan Publik*. Jakarta: Salemba Empat.
- Ikatan Akuntan Indonesia. (2001). *Standar Profesional Akuntan Publik*. Jakarta: Salemba Empat.



- Kusharyanti. (2003). Temuan Penelitian Mengenai Kualitas Audit Dan Kemungkinan Topik Penelitian Di Masa Datang. *Akuntansi dan Manajemen* (Desember). Hal.25-60
- Lee, Tom & Mary Stone . (1995). Competence and Independence : The congenial Twins Of Auditing?”. *Journal of business finance and Accounting*. 22 (8). (December). Pp1169-1177.
- Maryani, T., & Unti Ludigdo. (2001). Survei Atas Faktor-faktor yang Mempengaruhi Sikap dan Perilaku Etis Akuntan. *TEMA*, 2(1), 49-62.
- Mayangsari, Sekar. (2003). Pengaruh Keahlian dan Independensi terhadap Pendapat Audit: Sebuah kuasi eksperimen. *Riset Akuntansi Indonesia* Vol.6 No.1 (Januari)
- Mulyadi. (2010). *Auditing dan Pendekatan Terpadu*. Edisi 6. Jilid 1. Jakarta: Salemba Empat, Humanika, Medika.
- Supriyono, R.A. (2006). *Pemeriksaan Akuntansi (Auditing): Faktor-faktor yang Mempengaruhi Independensi Penampilan Akuntan Publik*. Yogyakarta: Salemba Empat.
- Winarto, Edi (Juli-Agustus 2002), “Kartu Merah Buat 10 KAP Papan Atas”, *Media Akuntansi*, edisi 27/Juli-Agustus/Tahun IX/ 2002, Hal 5.