

# The Effect of Competence, Professionalism, and Independence on Audit Quality

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## Abstract:

Audit quality is very necessary because the company's financial statements before being published must be audited in advance by the auditor. High audit quality will increase people's trust in the reliability of audited financial statements. The aim of this study is to determine the effect of competence, professionalism, and independence to audit quality. This study was conducted on 100 respondents, which are the auditors who work at 33 Public Accountants Office at Jakarta by using convenience sampling. Data analysis technique used is descriptive and verification analysis. Audit quality in this study is proxies by the audit process and result. The result concluded that competence, professionalism, and independence have an effect on audit quality.

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## 1. Introduction

Several events or cases related to inadequate audit quality have occurred and have a negative impact, namely a decrease in the level of public confidence in both the public accounting profession and the public accounting firm as an auditing service provider. One of the most common events is Arthur Andersen. Arthur Andersen is a public accounting firm that audits Enron Corporation's financial statements and at the same time has lost its objectivity. This happens because there is no independence when auditing. The reason is allegedly because Arthur Andersen acted as an internal auditor as well as an external auditor and his payment of tens of millions of dollars apparently exceeded the costs of the external audit themselves [1].

In the latest case that occurred in Indonesia at this time is the financial statements fraud case, which violated the professional audit standards when conducting audits of PT. Sunprima Nusantara Financing (SNP). Based on official data

from the Financial Professional Development Center, this audit firm has not yet fully implemented the control of information systems related to customer data and the accuracy of payment receivable journals. At that time the audited financial statements were for the financial year 2012 to 2016. The audit firm had not yet carried out adequate procedures regarding the process of fraud risk detection and fraud response / risk. The audit firm quality control system also has not been able to prevent the threat of close relations between seniors such as the audit team manager and the same client for quite a long period. The Ministry of Finance considers this to reduce the professional skepticism of accountants. In addition, the Satrio Bing Eny or SBE Audit Firm which is one of Deloitte's Indonesian entities was also involved in this case. Therefore, Deloitte Indonesia also received sanctions from the Ministry of Finance in the form of recommendations for making procedures and policies in the quality control system of public

accountants related to the threat of closeness to senior team members [2].

Based on some of the cases outlined, factors related to audit quality such as: competence, work experience, professionalism, and auditor independence need to be considered. But the question is whether these factors really affect the quality of the audit? If it has an effect, how will it affect audit quality? These things are the objectives of this research. Financial statements play an important role in providing several of financial information. Financial statements also show the results of management's responsibility for the use of resources entrusted to them. Business competition and development in today's business world is increasingly fast coupled with the responsibility to display quality financial reports, triggering companies to commit fraud or fraud. Fraud in financial statements is often done by interested parties to provide an overview of quality financial statements, so as to fool potential investors in making investment decisions.

## **2. Literature Review and Hypothesis Development**

### **2.1. Audit Quality**

Actually there is no definite understanding of audit quality. But there are also some other parties who have tried to interpret what the meaning of audit quality is according to [3], audit quality is a condition where an auditor reports there is a violation in the auditee or client accounting system. In this case the auditor has an important role because the auditor must conduct an audit, where the audit itself has a function to minimize the occurrence of information mismatches between management and the shareholders. The role of the auditor is important especially in the process of ratifying a company's financial statements. Therefore, auditors need to produce quality audit quality so that the objectives of the audit activity itself can be achieved [4].

In general it can be concluded that the audit quality is the result of an audit process that has been carried out by an auditor that can contain a variety of possibilities both the presence and absence of violations that occur in the client's

financial statements and at the same time the audit report made must be based on existing standards

### **2.2. Competence of Auditor**

Competence is the auditor's ability to conduct the audit process. In general, competence is influenced by knowledge and experience; in this case what is meant is in the audit field. Auditors with knowledge and expertise as well as experience in accounting and auditing can have a better understanding of auditing so that the quality of audits produced will also be better. So the higher the competency of an auditor, the higher the quality of audits produced. According to [5], [6], and [7] the competence of an auditor influences the quality of audits produced. Meanwhile, according to [8] auditor competence has no effect on audit quality. Based on the explanation above, the research hypothesis is formulated as follows.

H1: Competence of auditor has significant influence on audit quality

### **2.3. Professionalism of Auditor**

Professionalism is a form of one's accountability for the tasks entrusted to him. When the people is responsible and carry out their duties properly then it appears that the person has a professional attitude. Similarly, the auditor profession also requires a professional attitude. An auditor's professionalism can indirectly be increased by raising awareness of an auditor's social obligations and opening the view that dedication is needed to the auditor profession so that the work given can be done with totality. In addition, the attitude of professionalism is also needed by auditors, especially when auditing. So it can be concluded that the higher the auditor's professionalism, the better and can be trusted also the quality of the audit. This is in accordance with research conducted by [9], [10] and [11], the professionalism of an auditor influences the quality of audits produced. Meanwhile, according to [8] auditor professionalism has no effect on audit quality. Based on the explanation above, the research hypothesis is formulated as follows.

H2: Professionalism of auditor has significant influence on audit quality

## 2.4. Independence of Auditor

Independence is one of the attitudes that must be owned by an auditor or public accountant. An auditor's independence means that the auditor has a mental attitude that is opinionated and is not easily influenced or influenced by other parties (being free). In addition, independence in this case can also be interpreted as an auditor who is not easily controlled by other parties and has objective considerations when conducting the audit process and preparation of audit reports so that the opinions expressed express an audit of quality. If an auditor has independence, the auditor will carry out the audit process freely and provide good audit quality. According to research conducted by [12], when an auditor has independence in carrying out his work, the quality of the resulting audit also cannot be doubted so that the financial statements that have been examined can be trusted for reliability. When that happens, investors or other interested parties will be able to make better decisions. In this study it is stated that auditor independence significantly influences audit quality. In line with research conducted by [4] and [13] who also stated that independence had a significant influence on audit quality. Based on the explanation above, the research hypothesis is formulated as follows.

H3: Independence of auditor has significant influence on audit quality

## 3. Research Methodology

### 3.1. Research Object and Sample

The object of research used was the collection of questionnaire samples on the topics raised, the population of this study was the Public Accounting Firm (KAP) registered in the Directory of the Indonesian Institute of Certified Public Accountants (IAPI) in the DKI Jakarta area. Respondents in this study are auditors who

work at audit firm as junior auditors, senior auditors, supervisors, managers and partners.

Respondents for this study are accountants working in public accounting firms located in the DKI Jakarta area. The population in this study is difficult to determine with certainty, because the number of auditors in the DKI Jakarta area every day is very large and is always increasing or decreasing, because someone joins, moves to another public accounting firm, and resigns. In this connection, the calculation of determining the number of samples to be used follows the reference from [14] and [15] said that sufficient samples numbered more than 30, while [14] said the minimum number was 20-25, while good was between 50-100. Based on this preliminary study we determined that the number of samples used as many as 100 samples.

### 3.2. Data Analysis Method

If the data has been collected, data processing is then performed, presented and analyzed. In this study the authors used a statistical test, to assess the variables X and Y, the analysis used was based on the average of each variable. Researchers conduct a prerequisite test before a regression test is used. The prerequisite tests conducted were validity and reliability tests

After pass the validity and reliability test, the data will be processed to regression test to answer the hypothesis. The regression test that conducted will consist of partial hypothesis t test, simultaneous f test and determination of coefficient test.

### 3.3. Operation of Variables

In this study, the variables used are independent variables and dependent variables. The dependent and independent variables will be explained as follows:

**Table 1. Operation of Variables**

Variable	Measurement
Audit quality (Y) [3]	Experience conducting audits Understand the client's industry Responsive to the client industry

	Obey the general standard
Competence (X1) [6]	Knowledge Nature Self-Concept Motives Skills
Professionalism (X2) [16]	Dedication to the profession Social obligations Independence Confidence in the profession Relationships with fellow professions
Independence (X3) [17]	Independent in fact Independent in appearance Independent in expertise

## 4. Research Result

### 4.1. Validity Test

Validity test is an index that shows the questionnaire instrument used actually measures what is measured. A questionnaire is said to be valid or valid if the questions on the questionnaire are able to reveal something that will be measured by the questionnaire. The validity of a

questionnaire can be determined from the results of the significance test. If the value of r count is greater than the value of r table then the questions in the questionnaire are considered valid or valid [18]. Based the results of the validity test using the statistical software, each question in variable is said to be valid if the r count value > r table. R table with these conditions in this study is 0.195.

**Table 2. Validity Test**

Variables	R count	Variables	R count
Audit_Quality_1	0.329	Independence_4	0.529
Audit_Quality_2	0.490	Independence_5	0.617
Audit_Quality_3	0.567	Independence_6	0.654
Audit_Quality_4	0.673	Independence_7	0.386
Audit_Quality_5	0.584	Independence_8	0.452
Competence_1	0.325	Independence_9	0.513
Competence_2	0.520	Professionalism_1	0.262
Competence_3	0.331	Professionalism_2	0.258
Competence_4	0.458	Professionalism_3	0.302
Competence_5	0.341	Professionalism_4	0.277
Competence_6	0.354	Professionalism_5	0.304
Competence_7	0.521	Professionalism_6	0.315
Competence_8	0.394	Professionalism_7	0.338
Competence_9	0.405	Professionalism_8	0.355
Competence_10	0.500	Professionalism_9	0.209

Independence_1	0.482	Professionalism_10	0.286
Independence_2	0.453		
Independence_3	0.438		

Based on the results from Table 2, we can conclude that all the questions in questionnaires regarding the variables were valid, it is based on that all r count value is higher than r table.

#### 4.2. Reliability Test

The reliability test is carried out with the aim of finding out whether the respondent's answer to the questions in the questionnaire is consistent or

stable. A questionnaire is said to be reliable or reliable if a person's answer to a statement is consistent from time to time. The reliability testing method uses Cronbach's alpha. Cronbach's coefficient alpha that is acceptable (acceptable) is a value of at least 0.60 [19]. A variable can be considered reliable if the value of Cronbach's alpha calculated r results ( $\alpha \geq 0.6$ ) [18].

**Table 3. Reliability Test**

Variable	Cronbach's Alpha
Audit Quality (Y)	0.758
Auditor Competence (X1)	0.753
Auditor Professionalism (X2)	0.808
Auditor Independence (X3)	0.767

Based on Table 3 it can be concluded that from the results of the reliability testing of all Cronbach's alpha has higher than 0.60, so the reliability test results show that all variables are reliable, so the questionnaire can be an instrument that is used repeatedly.

#### 4.3. Determination of Coefficient

The coefficient of determination is between zero and one. A small  $R^2$  value means that the ability of independent variables to explain the

dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the dependent variables.

The Adjusted R Square value based on Table 4 is 0.486, meaning that the variation of the dependent variable can be explained by the independent variable at 48.6%, while the remaining 51.4% is explained by other variables not included in the regression model in this study.

**Table 4. Determination of Coefficient**

<i>Model Summary<sup>b</sup></i>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.708 <sup>a</sup>	.502	.486	1.53466

a. Predictors: (Constant), Total\_X3, Total\_X2, Total\_X1

b. Dependent Variable: Total\_Y

#### 4.4. Simultaneous F Test

The F test is used to test the research model by comparing the value of F count with F table and to

determine the effect of all independent variables on the dependent variable simultaneously or together. In this study, F table = 2.70.

**Table 5. F Test**

<i>ANOVA<sup>a</sup></i>					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	227.693	3	75.898	32.226	.000 <sup>b</sup>



<i>Residual</i>	226.097	96	2.355
<i>Total</i>	453.790	99	

a. *Dependent Variabel*: Total\_Y

b. *Predictors*: (Constant), Total\_X3, Total\_X2, Total\_X1

Based on the results of Table 5, it shows the F-calculated value of 32.226 and the value of sig. equal to 0,000, so that the independent variables (competence, independence, and professionalism) together affect the dependent variable (audit quality).

#### 4.5. Partial T Test

T test is a test conducted to determine the effect of each independent variable individually on the

dependent variable. This test can be done by comparing T arithmetic with T table or can see the column of significance p value [18]. Based on a 95 percent confidence level (= 0.005). If the value of T count > T-table or Sig.  $\leq$  0.005 means that the independent variable partially influences the dependent variable. In this study t table = 1.661. Based on Table 6 below, it can be concluded as follows.

**Table 6. T Test**

#### *Coefficients<sup>a</sup>*

<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>	<i>Collinearity Statistics</i>	
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>			<i>Tolerance</i>	<i>VIF</i>
(Constant)	2.039	2.008		1.015	.313		
Total_X1	.273	.052	.446	5.248	.000	.718	1.392
Total_X2	.106	.032	.272	3.331	.001	.776	1.289
Total_X3	.080	.043	.161	1.854	.047	.690	1.448

a. *Dependent Variable*: Total\_Y

### 5. Conclusion and Suggestion

#### 5.1. Conclusion

Based on the test results and data analysis of this study, the following conclusions can be obtained:

1. Competence influences audit quality showing the result that audit opinion has a significant effect on audit quality. Based on these results it can be concluded that if the auditor has a competent attitude in carrying out audit tasks, the results will be satisfactory, by carrying out audit procedures and the results of the report do not cross deadlines, bearing in mind the auditor's tasks are very numerous and many clients are not only focused on a client. This result is support previous research conducted by [4], [20].

2. Professionalism influencing audit quality shows the results that based on these results it can be concluded that if the auditor is professional, the auditor will focus on his work and not have a bad mind to commit fraud and hold fast to its establishment so that it has a significant influence on audit quality. Our result support previous research by [9], [11].

3. Independence affects the quality of the audit shows the results that the results of the audit cannot be influenced by any party, especially clients, because the results of the audit must be independent so that financial statements with a fairness level that is not in doubt will have a significant effect on audit quality. Our result support previous research by [1], [4]

## 5.2. Suggestion

Based on the limitations of this study, the following are suggestions or recommendations to several parties that researchers can provide after completing this research:

1. For further researchers, research can be done by using more independent variables outside this study. Trying something new by making more research involves many partners in the Public Accounting Firm in the DKI Jakarta and surrounding areas so that it can get more accurate results based on the experience of being an auditor. In addition, further researchers are expected to conduct research with a longer period of time in order to have better results. Future researchers can also use interviews at a Public Accounting Firm that is officially registered at the OJK to obtain more accurate results based on the results of the survey. Although there have been many previous studies, audit quality must go deeper to find an invention that will be a lesson for the community.

2. For auditors, it is expected to be wise in carrying out the audit process and always be accompanied by procedures in carrying out the tasks and be more careful and more careful in the task especially for the client because there are many who use the auditor's duties for the benefit of individuals, especially clients who have long provided data for audited and difficult to find and avoid the auditor, because the deadline is not long, presumably the auditor can be more careful in managing the time so that the audit results remain quality

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