The Effect Of Independence, Professional Ethics & Auditor Experience On Audit Quality

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Abstract: This research aimed to analyze the effect of independence, professional ethics, and auditor’s experience on audit quality in auditor at Public Accountant Firm in DKI Jakarta. The data in this research used data primer which obtained from questionnaire given to 127 respondent. This research was casualty research, which aimed to test the hypothesis about the effect of one or some variables (Independent Variable) on other variable (dependent variable). This research shows that independency, professional ethics and auditor’s experience effect on audit quality.

Index Terms: Independence, Professional Ethics, Auditor Experience and Audit Quality.

1 INTRODUCTION

Public accountants have an important role in gaining trust from the public. The trust of the public as Users of financial statements lies in the responsibility of the public accountant for the services provided, as stipulated in article 26 of Law No.5 of 2011 concerning public accountants. As we know in January 2016, the ASEAN Economic Community (MEA) agreement came into effect throughout ASEAN countries including Indonesia. MEA is an era that has a pattern of ASEAN economic integration by establishing a free trade system between ASEAN member countries. In this MEA era, every profession is demanded to improve the quality of its competitiveness, including the profession of public accounting that is trusted by the public. In the MEA era, the profession of foreign public accountants can freely enter Indonesia and compete with local public accountants. If public trust in local public accountants decreases due to the many cases of audit failure that occur, then the role of local public accountants can be easily replaced by foreign public accountants. For this reason, local public accountants must improve their audit quality in order to remain competitive with foreign public accountants in this MEA era. The responsibility of the public accountant for the services provided is listed in Audit Standards (SA) section 200.3 (SPAP, 2013), which is to increase the level of confidence of users of financial statements through the auditor’s opinion on the fairness of financial statements that cover the scope of whether free from material misstatements and prepared in accordance with applicable Financial Accounting Standards (SAK). To achieve the audit objectives above, the public accountant must pay attention to the audit quality produced. Auditing quality according to De Angelo (1981), is defined as the possibility of auditors being willing and able to report fraud in financial statements. The auditor’s willingness and ability to report fraud in financial statements is an important factor when the audit process takes place.

The independence factor is a very important factor, because independence protects the auditor’s ability to form opinions, so that the auditor can be neutral in carrying out the audit process (SA SECTION 200 A.15, SPAP 2013). Independence can also increase the auditor’s ability to maintain his integrity, to act objectively, and not take sides. The second factor that can affect quality auditing is professional ethics. Professional ethics regulates the behavior of public accountants in carrying out their profession. Ethical provisions are listed in the Public Accountants Professional Code of Ethics established by the Indonesian Institute of Certified Public Accountants (IAPI). This code of conduct provides a framework to assist practitioners in identifying, evaluating and responding to threats to compliance with the basic principles of professional ethics. The third factor that can affect audit quality is the auditor’s experience. Many states require a person who has attained educational level auditing and public accounting certification exam, must have experience working in public accounting firm before getting a degree certified public accountant (Louwers, 2015: 27). The experience of public accountants according to Libby & Fredick (1990), can make public accountants more thorough in carrying out the audit process, which will then lead to quality audits (Sun, 2014). Audit failure cases, occurred in PT Indosat 2016 ago. Purwantono, Suherman & Surja Public Accountants Office (affiliated with Earnst & Young), has been proven to violate quality control standards. This Public Accountant Firm was declared to have failed in presenting sufficient evidence to support the calculation, regarding the recording of 4,000 rent spaces in cell phone towers, even though Purwanto, Suherman & Surja Public Accountants Firm provided Unqualified Opinion (WTP) for PT Indosat’s 2011 financial statements on this case, Public Company The Oversight Board (PCAOB) announced on February 9, 2017 that sanctions amounting to US $1,000,000 were sent to KAP Purwanto, Suherman and Surja (source: PCAOB, 2016).

2 LITERATURE REVIEW

2.1 Agency Theory (Jensen & Meckling 1976) 
(Jensen & Meckling, 1976) the principal expects that the business being run can get maximum profits, thereby increasing the value of the company. Maximum profit can be achieved through good coordination and teamwork between the parties involved in the company. But in reality, there is a difference of interest between the principal & agent that creates a conflict of interest that causes agency problems in the company. These conflicts of interest can only be resolved through managerial ownership and control. Those who have
personal interests also know that their interests can only be fulfilled if the company continues to exist.

2.2 Audit Quality
(Arens et al., 2014: 75), Auditing is the process of accumulating and evaluating facts or evidence regarding information that can be calculated in economic entities to ensure and report the level of correspondence or conformity between information and formation of criteria. De Angelo (1981) states that audit quality can be defined as the possibility that (a) auditors will report violations (b) If auditors are not independent, they tend not to report irregularities, and thus damage audit quality. According to the Indonesian Institute of Accountants (IAI) audits carried out by auditors are said to be of quality, if they meet auditing standards and quality control standards. Quality audits can help management and stakeholders in making the right and accurate decisions. (Francis, 2011) Legally auditing is divided into two, "audit failure" or "audit success". Audit failure occurs if the auditor does not act independently in fact, or if the independent auditor incorrectly issues a clean audit report because it fails to collect sufficient audit evidence in accordance with auditing standards. Audit failure has economic consequences for auditors, clients and third parties. Successful audits occur when auditors carry out audits in accordance with auditing standards and issue audit opinions that are in accordance with the conditions of the client's financial statements at a level consistent with audit risk.

2.3 Independency
(Louwers, 2015: 599) in the principle of responsibility requires the auditor to maintain independence in mental attitude and independence in appearance. Independence in mental attitude, the auditor is expected to be impartial and does not differentiate by respecting all professional judgment and all audited financial statements. Whereas, Independence in appearance relates to the perception of users of financial statements from auditor independence. For example, if the auditor does not have a financial interest either directly or indirectly, the auditor must ensure that there is no part in their behavior that appears to influence independence in giving opinion. Audit quality and professional value depend on auditor independence. If the auditor's independence is doubtful, the user of the audited financial report will question what is the motive of the public accounting firm in completing its audit tasks, which can reduce the audit value. Independence can protect the auditor's ability to form opinions, so the auditor can be neutral in carrying out the audit process (SA SECTION 200 A.15, SPAP 2013). Francis (2011) states that quality audits are when auditors can work competently and independently. The study conducted by Soekrisno Agoes (2014), Ling Lin (2014) and Jamal & Sunder (2011), found that independence had an effect on audit quality.

2.4 Professional Ethics
According to (Arens et al, 2014: 78) ethics can be broadly described as a moral principle or value. (Frankena, 1973: 4) Ethics is a branch of moral philosophy about morality, moral problems and moral judgment. (Louwers, 2015: 592) the function of ethical principles is not to produce definite rules, but to produce guidelines for each individual in doing something or in decision making. The auditor's profession is always required to always follow the professional code of ethics. There are two principles in applying ethics, the first imperative principle, namely the principle that directs decision-making to behave in accordance with the requirements of ethical regulations, and the second principle of utilitarianism, namely the emphasis on checking the consequences of each action rather than following several ethical rules. According to Albeksh (2016), the higher the auditor's commitment in applying ethics, the higher the quality audit report will be. Research conducted by Nasrabadji & Arabbian (2015) and Anis Chariri (2017), found that professional ethics had an effect on audit quality.

2.5 Auditor’s Experience
According to Libby in Ashton (1999: 180) auditor experience is defined as a first & second hand encounter that provides auditor opportunities for learning in an audit environment. First hand encounter is the process of completing an audit and reviewing it by the supervisor by giving input to the audit process carried out by the field auditor. Second hand encounter is the process of discussing the results of the audit opinion with Audit Firm partners. (Cahan & Sun, 2014) Experienced auditors have extensive knowledge and more developed structures of thinking compared to inexperienced auditors. According to Libby & Frederick (1990) the experience of auditors can influence the audit quality, they find that the more experience the auditor has, the auditor can increasingly find a variety of allegations in explaining audit findings. Soekrisno Agoes (2012: 32) states that no matter how high a person's ability in other fields, including in the business and financial fields, he cannot fulfill the requirements intended in auditing standards, if he does not have education and adequate auditor experience in auditing because of this will have an impact on the audit quality. Anis Chariri (2014) and Panji & Sukirman (2017) find that auditor experience influences audit quality. Furthermore in this study the size of this research hypothesis is as follows:

H1 = There is the effect of the Independency on audit quality.
H2 = There is an influence of Professional ethics on audit quality.
H3 = There is an effect of auditor experience on audit quality.

3 RESEARCH METHOD
The method used in this study is causal method with a quantitative approach, which measures the relationship between research variables or to analyze how a independent variable influences dependent variables. This research uses primary data. The tools used to collect primary data is a questionnaire intended for auditors working in the public accounting firm in the region of Jakarta. The scale of this research is the Likert scale. The sample in this study was taken used convenience sampling. This study uses multiple linear regression analysis, the model used in multiple linear regression analysis is as follows:

\[ Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e \]  

Description:
Y = Audit quality
a = Intercept value (constant)
b = Coefficient direction of regression
X1 = Independence
X2 = Professional Ethics
X3 = Auditor’s Experience
E = error

4 RESULT
On the results of this regression analysis Audit Quality (Y) as the dependent variable, and the independent variables are Independence (X1), Professional Ethics (x2) and Auditor Experience (X3). The regression equation based on the regression model is as follows:

\[ Y = 2.964 + 0.278X1 + 0.468X2 + 0.296X3 + e \]

Description:
Y = Audit quality
a = Intercept value (constant)
b1 = Regression direction coefficient shows the magnitude of the influence of Independence
b2 = Regression direction coefficient shows the magnitude of the influence of Professional Ethics
b3 = Regression direction coefficient shows the magnitude of the influence of the Auditor’s Experience
X1 = Independence
X2 = Professional Ethics
X3 = Auditor’s Experience

T test criteria:
Sig. < 0.05 then H0 is rejected and Ha is accepted
Sig. > 0.05 then H0 is accepted and Ha is rejected

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
<th>Colinearity Statistic</th>
<th>Tolerance</th>
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<tbody>
<tr>
<td>(Constant)</td>
<td>2.964</td>
<td>1.250</td>
<td>2.372</td>
<td>0.019</td>
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<tr>
<td>Independence (X1)</td>
<td>0.278</td>
<td>0.095</td>
<td>2.227</td>
<td>0.029</td>
<td>0.474</td>
<td>2.111</td>
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<tr>
<td>Professional Ethics (X2)</td>
<td>0.468</td>
<td>0.054</td>
<td>4.727</td>
<td>0.000</td>
<td>0.959</td>
<td>2.513</td>
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<tr>
<td>Auditor’s experience (X3)</td>
<td>0.296</td>
<td>0.104</td>
<td>2.858</td>
<td>0.005</td>
<td>0.850</td>
<td>1.786</td>
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From the table result, hypothesis testing can be described as follows:
1.) Independence variables partially influence audit quality. This is because the value of t count (2.920 > 1.979) or significance < 0.05 (0.004 < 0.05) so that H0 is rejected and Ha is accepted. The effect is positive because the value of t count is positive, meaning that if independence increases then Audit Quality also increases.

2.) Ethical variables partially influence Audit Quality. This is because the value of t count (5.579 > 1.979) or significance < 0.05 (0.000 < 0.05) so that H0 is rejected and Ha is accepted. The effect is positive because the value of t count is positive, meaning that if Ethics increases, Audit Quality also increases.

3.) Variables Auditor experience partially influences Audit Quality. This is because the value of t count (2.855 > 1.979) or significance < 0.05 (0.005 < 0.05) so that H0 is rejected and Ha is accepted. The effect is positive because the value of t count is positive, meaning that if the auditor’s experience increases, Audit Quality also increases.

5 DISCUSSION
The test results on the multiple regression and t test analysis shows that the model used in the study is statistically significant. Due to the fulfillment of all the significance tests of the model and the assumption of regression tests, the variables included in the model have produced a good model. Furthermore, it can be interpreted and analyzed the results of the regression. The discussion was conducted to determine the relationship between the results of the estimation statistically with the prevailing theory.

1. Effects of Independence on Audit Quality
Based on the results of the test data on the statement filled by the respondents stated that the independence variable partially influences the Audit Quality. The effect is significant and positive because the value of t count is positive, this finding means that if the auditor applies an attitude of independence, the audit quality produced increases, then the first hypothesis is accepted. Auditors who do not receive non-audit services, are not involved in a conflict of interest and do not have business ties with clients during the audit process, make the auditor more independent in carrying out their audit tasks, so that the results of the audit are qualified, because the auditor objectively gives an audit assessment. The results of this study are in line with the research of Francis (2011), Soekrisno Agoes (2014), Ling Lin (2014) and Jamal & Sunder (2011), which states that independence affects audit quality.

2. Effects of Independence on Audit Quality
Based on the results of the test data on the statement that was filled by the respondents stated that the ethical variable partially had an effect on Audit Quality. The effect is significant and positive because the value of t count is positive, meaning that if Ethics increases, the Quality of the Auditor also increases, then the second hypothesis is accepted. This means that if the auditor follows the code of ethics of a public accountant during the audit process, it can make the audit report produced by the auditor to be qualified. The higher the auditor’s commitment in applying ethics, the higher the quality audit report will be (Albeksh; 2016). The results of this study are in line with the research conducted by Nasrabadi & Arabbian (2015) and Anis Chariri (2017), finding that professional ethics has an effect on audit quality.

3. Effect of Independence on Audit Quality
Based on the results of the test data test on the statement that was filled by the respondents stated that the Variable auditor experience partially had an effect on Audit Quality. The effect is significant and positive because the value of t count is positive, meaning that if the auditor’s experience increases, the Quality of Audit also increases, then the third hypothesis is accepted. According to (Cahan and Sun, 2014) argue that experienced auditors have extensive knowledge and more developed thinking structures than inexperienced auditors. Experienced auditors know better and understand SPAP and PSAK so that the resulting audit report is of higher quality. The results of this study are in line with Libby & Frederick (1990), Anis Chariri (2014) and Panji & Sukirman (2017) found that auditor experience has an
influence on audit quality.

6 CONCLUSION
Based on the research that the author has done and described, conclusions can be drawn as follows:

a.) Independence of the auditor has an effect on audit quality. The higher the independence, the higher the audit report produced. This means that the assessment of the audit report carried out by an independent auditor cannot be intervened by other parties and in accordance with the facts found in the field.

b.) Professional ethics affects audit quality, this means that if an auditor always implements a professional code of ethics, the audit results will be in accordance with the conditions of the actual financial statements.

c.) The auditor's experience influences audit quality, this means that the auditor's flight hours make auditor knowledge more developed, with the experience the auditor always conducts audits in accordance with the knowledge he has. So that the resulting audit report becomes qualified.

REFERENCES


