

The Role Of Auditor Competence And Auditor Independence

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Abstract

A public accountant's audited financial accounts are more reliable than unaudited or unaudited financial statements. However, in recent years, the public has questioned the accuracy of audits produced by public accountants due to discrepancies between the auditor's view and the actual situation of the company. Auditor expertise, independence, and ethics all play essential roles in assuring audit quality. This is a quantitative study that employs a survey method with purposive sampling, with the respondent criteria for each KAP being one auditor. Data was gathered using a questionnaire instrument that was graded on a Likert scale. This study's population consisted of auditors working at the Public Accounting Firm (KAP) in city of Bandung with active status at the OJK, with 76 KAPs participating and 55 responding to a questionnaire. The data was analysed using the partial least squares (PLS) method with the assistance of the SmartPLS programme. The data analysis results show that: (1) auditor competence has a significant positive effect on audit quality with an original sample estimate of 0.369, a statistic of 3.594, and a significance of 0.05, (2) auditor independence has a significant positive effect on audit quality with an original sample estimate of 0.567, a statistic of 3.191, and a significance of 0.05, and (3) auditor independence has a significant positive effect on audit quality with an original sample estimate of 0.567, a statistic of 3.191 (3) With an original sample estimate value of 0.288, a t-statistic of 2.445, and a significance of 0.05, auditor ethics can positively moderate the influence of auditor competence on audit quality; however, auditor ethics cannot moderate the influence of auditor independence on audit quality with an original sample estimate value of -0.251, a t-statistic of 1.584, and a significance > 0.05. The practical implication of this research is that in order to generate high audit quality, auditors must increase their auditors' competence, independence, and ethics so that the final audit report can be used to make the proper decision.

Keywords: Auditor Competency, Auditor Independence, Auditor Ethics , Audit Quality

Introduction

Financial reports from companies that have been audited by public auditors are more trustworthy than unaudited financial accounts. The user of the audit report expects that the financial statements that have been audited by a public accountant will be free of material error, valid, and in line with the applicable accounting rules.

Outsiders consider the auditor's work as a guideline when making decisions. The auditor's role is to deliver an opinion based on the findings of his field audit (Prasetyawati et al., 2018). Audit quality is critical because higher audit quality results in financial reports that can be trusted and used to make choices. In order to generate a credible audit quality, an auditor must follow generally accepted principles and standards while presenting audited financial statements. Fitrianti and Su'un (2018). Nonetheless, the quality of audits performed by public auditors has come under investigation in recent years due to discrepancies between the auditor's view and the real situation of the company.

Several high-profile cases involved well-known public accounting companies. First, CNBC Indonesia claimed that Deloitte failed to detect fraud in SNP Finance's financial reporting because it failed to follow the precautionary principle (professional scepticism). Second, AP Kasner Sirumapea recognises income for an incorrect period without adequate audit evidence to support its recognition in accordance with the text of the agreement and events after the financial statements' date. Third, in auditing the financial statements, KAP RSM Amir Abadi Jusuf, Aryanto, Mawar, and Partners did not include an opinion on the dependability of material, and many inconsistencies were discovered in the investigative papers that needed to be questioned. Fourth, PT Hanson International is believed to have manipulated its annual financial reporting presentation for 2016 with manipulation relating to the sale and acquisition of ready-to-build plots (Kasiba) worth IDR 732 billion, resulting in a loss of IDR 732 billion. The company's earnings has greatly increased. Furthermore, Sherly Jokom, an accountant from KAP Purwantono, Sungkoro, and Surja, all members of Ernst & Young Global Limited (EY), received a one-year suspension of their Certificate of Registration (STTD) (www.cnbcindonesia.com).

The four examples above demonstrate that in order to maintain their independence, auditors must be able to disclose these violations in audited financial statements (Siahaan & Simanjuntak, 2019). As third-party entities performing audits of customer companies, professional public accountants or independent auditors play an important role. They carry out the duties and obligations of the company's management in order to review the financial statements. Audit quality allows the auditor to detect fraud in the accounting system and record it in financial reports delivered to management.

Many additional researchers have conducted studies on the impact of expertise on audit quality. Oktari et al. (2020) concluded that expertise has a significant impact on audit outcomes quality. However, a study conducted by Andi Hardianti et al. (2022) discovered that the competency variable from a partial perspective has no significant effect on audit quality, therefore high auditor competence is not a guarantee that audit quality would improve. Many other scholars have also conducted studies on the impact of independence on audit quality. Dahner Andreinal et al. (2021) found that independence has a significant impact on audit quality, whereas Sarwenda Biduri et al. (2021) discovered that independence had no impact on audit quality.

Researchers are interested in revisiting this study using new indicators to measure competence, accounting ethics, independence, and auditing quality due to some changes in the outcomes of these investigations. This study also included accountants with offices in City of Bandung KAP as respondents, with the provision of one KAP for every one auditor, because the population of KAP in City of Bandung is the highest compared to other locations in City of Bandung, as shown in the graph below

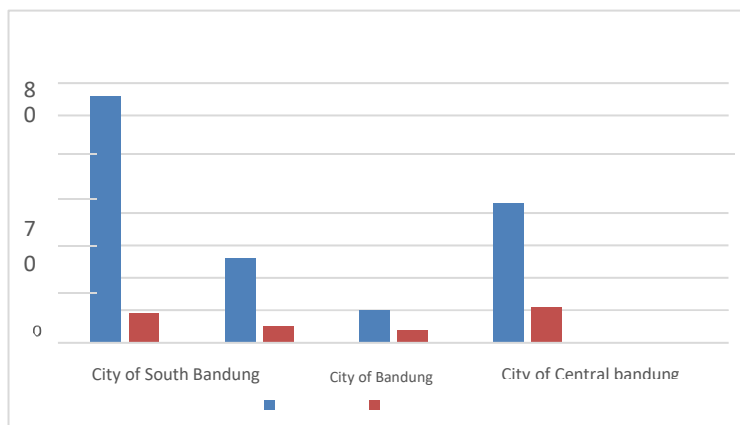


Figure 1 depicts the KAP population in the city of Bandung.

Based on the context of the problems described earlier and the disparities in the results of previous studies, the authors are motivated to investigate how accountant competence and independence affect auditing quality by taking accountant ethics into account as a variable that moderates the results.

Methods

The survey method is used as an analytical tool in this study, which takes a quantitative approach. The Partial Least Squares (PLS) technique was used to collect data. This study's population consists of accountants at KAP in the Bandung area. To choose respondents, the purposeful sampling technique was utilised, with the criteria of one auditor from each KAP. A questionnaire was used to collect data, which was graded on a Likert scale. According to the OJK website, there are 76 active KAPs in the City of Bandung in 2022, and 55 people responded to the questionnaire.

Results and Discussion

Validity Test

Variable	AVE	Information
Auditor Competency	0.608	Valid
Auditor Independence	0.753	Valid
Audit Quality	0.738	Valid
Auditor Ethics	0.642	Valid

Source: Data processing with *Smart PLS 3*

Table 1 contains critical indicators, such as AVE values for competency, accountant ethics, independence, and auditing quality. Each construct has an AVE number that surpasses the 0.5 criterion. This demonstrates that the indicators and questionnaires used to assess the influence of competence, independence, and auditing quality have a high level of validity.

Reliability Test

Table 2 *Composite Reliability*

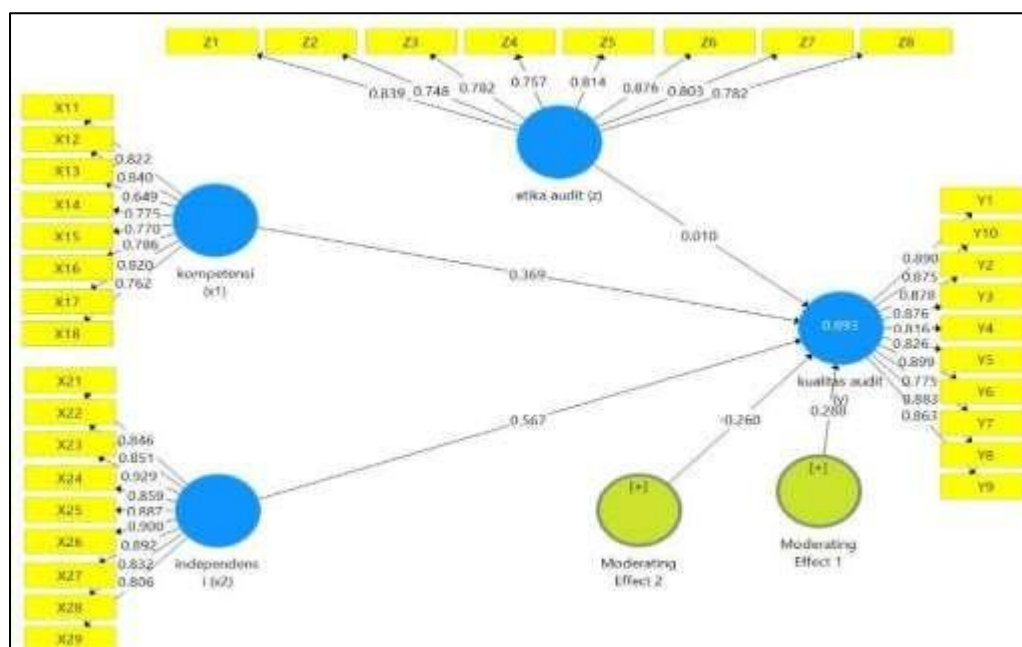
Variable	<i>Composite Reliability</i>	Information
Auditor Competency	0.925	Reliable
Auditor Independence	0.965	Reliable
Audit Quality	0.966	Reliable
Auditor Ethics	0.935	Reliable

Source: Data processing with *Smart PLS 3*

According to Table 2, each construct or latent variable has a composite reliability value greater than 0.7. This suggests that the internal alignment between these variables is very reliable. As a result, the results of measuring the variables in this study may be expected to be consistent and dependable.

Outer Model

measurement models carried out for testing linkage (*loading value*) between the indicator and its construct (latent variable).

Figure 2. *Full Partial Least Square Structural Model*Source: Data processing with *Smart PLS*

The goal of the outer loading test is to determine the relationship between the item or indicator score and the construct score. A trustworthy indicator has a correlation value greater than 0.7. However, in the early stages of development, a correlation of 0.5 is still acceptable (Ghozali, 2008). The outer

loading value of the auditor's independence variable, competence, audit quality, and ethics has above or at least approached 0.5, according to the test results. As a result, the variables of auditor independence and competency, audit quality, and ethics meet the requirements of the adequacy model or convergent validity standards.

Inner model

The inner model or structural model is tested to determine the relationship between constructs, significant values, and the research model's R-square. For the dependent construct, the structural model is evaluated using R-square (Ghozali, 2008:26). The limit utilised to determine the success or failure of the suggested hypothesis is 1.96. If the t-statistic value is greater than the t-table value (1.96), the hypothesis can be accepted. On the other hand, if the t-statistic value is less than the t-table (1.96), the hypothesis is rejected. The strength and significance of the relationship between constructs in the study model will be exposed more clearly during this procedure.

	Original sample estimate	Mean of sub samples	Standard deviation	T statistics	Hypothesis
Auditor Competency → Audit Quality	0.369	0.344	0.103	3,594	Accepted
Auditor Independence → Audit Quality Moderation Auditor Ethics	0.567	0.504	0.178	3,191	Accepted
Auditor Competency → Audit Quality Moderation Auditor Ethics	0.288	0.226	0.118	2,445	Accepted
Auditor Independence → Audit Quality	-0.260	-0.251	0.164	1,584	Rejected

We can view the R-square value of each latent variable while evaluating the structural model with SmartPLS software. The R-square value acquired as a result of this research data processing is shown below.

Table 4 R-Square

	<i>R-Square</i>	<i>Adjusted R-square</i>
Audit Quality	0.893	0.882

Source: Data processing with *Smart PLS 3*

The audit quality variable has an R-square level of 0.893 in this study. This suggests that the variables of competency, accountant ethics, and independence can account for approximately 89.3% of the difference in audit quality. On the other hand, 10.7% are still triggered by variables that were not included in this study. These findings demonstrate that accountants' competence, independence, and ethics are critical in influencing the quality of the subsequent audit.

Hypothesis test

	Original sample estimate	Mean of sub samples	Standard deviation	T statistics	P Values	Hypothesis
Auditor Independence → Audit Quality	0.567	0.504	0.178	3,191	0.002	Accepted

Hypothesis 1

Table 5. Results for Inner Weight Hypothesis 1

Source: Data processing with Smart PLS

The data processing results in table 5 show that Auditor Competence has a positive and significant impact on audit quality, with the original sample estimate value of 0.369 and the t-statistic of 3.594 (exceeding t-table 1.96). The first hypothesis (H1), that auditor competence has an effect on audit quality, can be accepted using this value. This outcome emphasises the significance of an accountant's competence when doing client financial reporting audits and producing quality research results.

In the perspective of cognitive theory, competency is intimately tied to public auditors' sufficient understanding and experience. An accountant must be highly skilled in order to perform their tasks. Accountants, as experts, must constantly refresh their knowledge and comprehend the most recent advancements in the rules and regulations that govern their profession. The more knowledgeable an auditor is, the higher the quality of the audit that can be performed.

Hypotesis 2

Table 6 Result for Inner Weight Hypothesis 2

	Original sample estimate	Mean of sub samples	Standard deviation	T statistics	P Values	Hypothesis
Auditor Competency → Audit Quality	0.369	0.344	0.103	3,594	0.000	Accepted

Source: Data processing with Smart PLS

Table 6 shows that auditor independence has a positive and significant impact on audit quality, as indicated by the original sample estimate value of 0.567 and the t-statistic of 3.191 (exceeding the t-table of 1.96). As a result, the conclusion may be drawn that the second hypothesis (H2), which

holds that Auditor Independence has an effect on audit quality, is acceptable. If an accountant truly demonstrates independence, they will not be swayed by customers and will be willing to reveal and report any accounting system irregularities.

In the context of agency theory, independence is a crucial presupposition. When an auditor is independent, the appraisal offered to the financial statements under enquiry will reflect the company's true situation. As a result, audited financial reporting becomes more trustworthy to all parties involved. The quality of audit inspection results will improve as independence increases. This demonstrates how critical independence is for an auditor in completing a quality audit.

Hypothesis 3

Table 7 Result for Inner Weight Hypothesis 3

Source: Data Processing With Smart PLS (2023)

In the perspective of cognitive theory, it is assumed that if the accountant's ethics are good and in accordance with the determined provisions, the auditor will maximize the examination of the audit report by using the competence and experience he has. In conclusion, the quality of auditing done will be better. This shows how important the role of ethics is in helping optimize the quality of audits carried out by an accountant.

The findings of the data analysis, provided in table 7, show that auditor ethics have a favourable impact and can attenuate the impact of competence on audit quality. The original sample estimate value of 0.288 and the t-statistic of 2.445 (which exceeds the t-table of 1.96) reflect this. This value makes the third hypothesis (H3), that auditor ethics can moderate the impact of auditor competence on audit quality, acceptable. These findings suggest that in order to improve audit quality, it is required not only to have a high degree of knowledge, but also to adhere to professional ethics. An auditor with good ethics will be more objective and will produce quality audits with high integrity.

According to cognitive theory, if the accountant's ethics are good and in compliance with the decided provisions, the auditor would maximise the examination of the audit report by utilising his competence and experience. Finally, the quality of auditing performed will improve. This demonstrates the significance of ethics in enhancing the quality of audits performed by accountants.

Table 8 Result for Inner Weight Hypothesis 4

	Original sample estimate	Mean of sub samples	Standard deviation	T statistics	P Values	Hypothesis
Auditor Ethics moderating Competency Audit → Audits Quality	0.288	0.226	0.118	2,445	0.015	Accepted

Source: Data Processing With Smart PLS (2023)

In the perspective of cognitive theory, it is assumed that if the accountant's ethics are good and in accordance with the determined provisions, the auditor will maximize the examination of the audit report by using the competence and experience he has. In conclusion, the quality of auditing done will be better. This shows how important the role of ethics is in helping optimize the quality of audits carried out by an accountant.

The findings of the data analysis, as shown in table 8, show that ethical auditors lack the ability to

	Original sample estimate	Mean of sub samples	Standard deviation	T statistics	P Values	Hypothesis
Auditors Ethics moderating Auditor Independence → Audis Quality	-0.260	-0.251	0.164	1,584	0.114	Rejected

control the impact of independence on audit quality.

The original sample estimate value of -0.260 and the t-statistic of 1.584 (under the t-table of 1.96) support this finding. As a result, the fourth hypothesis (H4), stating that Auditor Ethics can attenuate the impact of Auditor Independence on Audit Quality, must be rejected.

According to agency theory, an auditor must be able to understand conflicts of interest that occur between principals and agents as a third party. The outcomes of this study, however, reveal that auditor ethics have no effect on the link between independence and audit quality. This is due to the auditor's conflict of interest in fear of losing the client company being audited. As a result, the relationship between accountant ethics is more related to customer relationships than to the quality of audits performed. These findings suggest that, in the context of this study, ethical issues cannot always mitigate the association between independence and audit quality.

Conclusion

The findings of this study show that auditor competence has a positive and significant impact on audit quality, which is consistent with auditing principles that require auditors to be competent in order to carry out audit responsibilities and deliver optimal audit quality. Auditor independence has a significant positive impact on audit quality. Audit findings that can be trusted and of high quality will be obtained by an accountant who can provide an independent attitude.

Furthermore, auditor ethics has the potential to mitigate the impact of auditor competence on audit quality. These findings suggest that in order to improve audit quality, it is required not only to have a high level of knowledge, but also to adhere to professional ethics. An accountant with excellent ethics will be more impartial and honest, contributing to higher audit quality.

Unfortunately, auditor ethics cannot mitigate the influence of auditor independence on audit quality. This suggests that the accountant may be in a conflict of interest, fearful of losing the audited firm's clients. As a result, the auditor's ethical relationship is more concerned with client relations than with audit quality.

Overall, this study gives useful information about the role of auditor skill, independence, and ethics in increasing audit quality. Auditors who are knowledgeable, independent, and ethical will be able to give high-quality, dependable audit outcomes. The findings of this study further highlight the

importance of maintaining auditor independence and encouraging professional ethics improvement in order to promote audit integrity and quality in an increasingly dynamic and complicated business environment.

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