

# The Effect Of Competence And Independence To Audit Quality With Auditor Ethics As A Moderation Variable

St.Ramlah, Arzal Syah, Muh. Arif Dara

**Abstract:** The purpose of this study is to test and analyze the quality of audit, independence of audit quality, audit and audit of audit quality and auditor audits. The researchers used moderation regression analysis (MRA). Respondents in this study are the auditors who work at the Makassar city public accountant office as much as 31 Auditors. The result of the research is positive and significant competence to audit quality. Audit quality can be achieved if the auditor has good competence. Competence consists of two dimensions of experience and knowledge, positive and significant Independence to audit quality, Independence is a determining factor of audit quality, to improve audit quality, an auditor must have good independence. Auditors who have a high level of usefulness in things that are known, have a high selfish attitude, process audits, SOPs to do, not even caution, audit quality that does not produce good, independent interaction and ethics auditor. In order for the auditor to maintain its independence, the auditor needs to maintain the ethics in the work, which in this case is called the auditor ethics.

**Keywords:** Competence, Auditor Independence, Auditor Ethics

## 1 INTRODUCTION

Public accounting profession has an important role in conducting audit of financial statements in an organization and is a profession of public trust. From the government accounting profession, the public expects free and impartial assessment of the information presented by the company's management in the financial statements (Kharisma & Hadiprajitno: 2012), auditor Profession has been in the public spotlight in recent years along with the rise of cases. These cases relate to violations committed by auditors. the public increasingly questioned the quality of audits generated by the auditors. The phenomenon of failure of independent auditors. The Cases that occur in Indonesia there are also some accounting irregularities scandal including PT Kereta Api Indonesia, PT Telkom, PT Kimia Farma, Datascript, PT Raden Motor, PT. Samcon, Indo Farma, PT Pupuk Sriwidjaya (Persero), and others. In the context of the financial scandal above, raises the question of whether the engineering tricks can be detected by a public accountant who audits the financial statements or has actually been detected but the auditor actually safeguards the practice of the crime. Of course if what happens is the auditor is not able to detect the tricks of financial statement engineering, then the core problem is the competence or expertise of the auditor. But if that happens exactly public accountant come to secure the engineering practice then the core problem is the independence of the auditor. Related to this context, the question arises how high the level of competence possessed by the current auditor in detecting fraud committed by the client. How high is the level of independence possessed by the current auditor in disclosing the fraud committed by the client. Does the competence and independence of the auditor affect the quality of audits produced by government accountants. Looking at the phenomenon, it is suspected that there are other factors that affect the relationship between competence and independence with audit quality. Competence and independence in its application will be related to ethics. In general, ethics is a set of moral principles or values. Each profession has its own code of ethics as a guideline that must be adhered to, including the profession of government accountants. In performing its duties, an auditor shall comply with the professional ethics issued by IAI. Currently the

auditor's ethical values have decreased by looking at the number of cases involving the public accounting firm. Accountants have an obligation to maintain their highest ethical standards of conduct to the organizations in which they operate, their profession, society and themselves where accountants have the responsibility to be competent and to maintain their integrity and objectivity.

### A. Attribution Theory

Freiz Heider (1896-1988) was an Austrian psychologist who discovered Attribution Theory. Attribution theory describes how people explain (make attributions about) the behavior of others and themselves. The process of attribution is the process of determining whether an observed behavior or event is caused extensively by a person who is an internal factor or by an external environment (McShane, 2008) in (Zoja, 2014). Attributes attributed to a character (such as personality, motivation, and attitude) or attributes can be attributed to situations (such as external pressure, social norms, peer pressure, natural disasters, etc.). There are three rules to determine whether a person's behavior is predominantly determined by internal factors or external factors. Internal attribution is made when the observed individual behaves like this in the past (high consistency) and behaves like this to others or in other situations (low distinctiveness), and others do not behave like this in the same situation (low consensus). In contrast, an external attribution is made when there is low consistency, high distinctiveness and high consensus. In this study, researchers will use attribution theory because researchers will conduct research related factors that affect the quality of audits, especially on the characteristics of personal auditor itself. The characteristics of the personal auditor will affect the quality of the audit it performs because it is an internal factor that encourages the auditor to perform its actions (Zoja, 2014).

### B. Competence

Trotter (1986) in Aqmalia (2014) defines that a competent person is a person who with his skills to do the job easily, quickly, intuitively and very rarely or never make mistakes. According to Christiawan (2002) in Marsellia, et al. (2012) competencies related to the education and experience sufficient owned by public accountants in the field of auditing

and accounting. The Dictionary of LOMA Competence (1998) in Kharismatuti and Hadiprajitno (2012) competencies is defined as the personal aspects of a worker that enable him to achieve superior performance. These personal aspects include the nature, motives, value systems, attitudes, knowledge and skills in which competence will guide behavior, while behavior will produce performance. Lee and Stone (1995) in Elfarina (2007), defines competence as sufficient expertise that can explicitly be used to audit objectively. Dreyfus and Dreyfus (1986) in Aprianti (2010), defines competence as a person skill in a sustainable role which moves through the learning process, from "knowing something" to "knowing how". Such as from a knowledge-dependent rule to an intuitive statement.

### C. Independence

According to the Public Accountant Professional Standards 2001 section 220 PSA No.04 paragraph 2, independence means not easily influenced, because he performs his work for the public interest (differentiated in terms of practicing as an internal auditor). Thus, he is not justified in favor of any interest, because whatever perfect technical expertise he possesses, he will lose the impartiality that is most important to maintain freedom of opinion. Factors influencing the independence of auditors by Lavin in Alim et al. (2) Competition among KAPs, (3) Provision of services other than audit services, (4) Duration of audit assignments, (5) Large accounting firms, and (6) ). In addition, Shockley (1981) in Kharismatuti and Hadiprajitno (2012) also revealed the results of research that there are four factors that influence the independence of government accountants, namely (1) Provision of consulting services to clients, (2) Competition between KAP, (3) , and (4) The length of the audit relationship with the client. Cooperation with the client for too long can lead to vulnerability to the independence of the auditor. Not to mention the various facilities that clients provide during auditing assignments for auditors. It is not possible, the auditor becomes "easy to control" client because the auditor is in a dilemmatic position. The definition of independence in The CPA Handbook according to E.B. Wilcox in Aprianti (2010) is an important auditing standard because the opinions of independent accountants aim to increase the credibility of financial statements presented by management. Independent means public accountant is not easily influenced. A public accountant is not justified in favor of anyone's interests. The public accountant is obliged to be honest not only to the management and owners of the company, but also to the creditors and other parties who put their trust in the work of the public accountant (Christiawan 2002) Mayangsari (2003) mentioned that independence is an attitude expected of an auditor to have no personal interest in the execution of his duties, which is contrary to the principle of integrity and objectivity. Every accountant shall maintain integrity and objectivity in his professional duties and each auditor shall be independent of all conflicting interests or improper influence. Based on the above understanding can be concluded that the independence is a person's attitude to act honestly, impartial, and report findings only based on existing evidence.

### D. Auditor Ethics

The competence and independence of the auditor in its application will be related to ethics. Accountants have an obligation to maintain their highest ethical standards of

conduct to organizations in which they are sheltering, their profession, society and themselves where accountants have the responsibility to be components and to maintain their integrity and objectivity (Nugrahaningsih, 2005).

### E. Audit Quality

The quality of the audit as De Angelo (1981) in Aqmalia (2014) refers to as the probability that an auditor discovers and reports a violation in his client's accounting system. Audit quality variables will be measured using conformity assessment indicators with audit standards and quality indicators of audit reports. The GAO public sector (1986) in Aqmalia (2014) defines audit quality as compliance with professional standards and on the terms of agreement to be considered. The likelihood that the auditor will find misstatements depends on the competence of the auditor, while the act of reporting misstatements depends on the independence of the auditor. A public accountant or an independent auditor in performing his duties must hold the principles of the profession. As a reference of this research can be mentioned some of the results of research conducted, among others: Alim, et al. (2007), his research entitled The Effect of Competence and Independence on Audit Quality with Auditor Ethics as Moderation Variables. This research is done by explanatory research approach. The results of the study prove that competence has a significant effect on audit quality. Meanwhile, the interaction of competency and auditor ethics has no significant effect on audit quality. The study also found empirical evidence that independence has a significant effect on audit quality. Marsellia, et al. (2012), his research entitled The Influence of Competence and Independence on Audit Quality with Auditor Ethics as a Moderator Variable. Also proves that competence has a significant effect on audit quality. Meanwhile, the interaction of competency and auditor ethics has no significant effect on audit quality. The study also found empirical evidence that independence has a significant effect on audit quality. While Tjun, et al. (2012), his research entitled The Effect of Competence and Auditor Independence Against Audit Quality. Proves that competence affects audit quality but independence has no effect on audit quality

## 2. Research Methodology

In this research model and technique of data analysis using multiple linear regression approach. Based on the hypothesis proposed, the multiple linear regression analysis model in this study can be formulated as follows:

Model one:  $Y =$   
 Information :  
 $Y =$  audit quality  
 $a =$  Constants  
 $b =$  regression coefficient  
 $e =$  Error  
 $=$  Competence  
 $=$  Independence

In testing the hypothesis is to determine whether the ethical variable of the auditor is a moderation variable, the researcher uses moderated regression analysis (MRA). MRA is a special application of multiple linear regression, where in the regression equation contains elements of interaction (multiplication of two or more independent variables). Interaction test is used to determine the extent to which the

interaction of auditor ethical variables can affect the competence and independence on audit quality. Interaction test is done by multiplying the moderation variable with the independent variable. If the result variable is significant then it can be concluded that the moderation variable is able to moderate the causal relationship between the independent variable to the dependent variable.

### 3. RESULTS

#### Moderated Regression Analysis (MRA)

Based on the data in the table, the result of the Moderated Regression Analyzer (MRA) equation can be made with the following equation:

$$Y = 30,871 + 3,307 X_1 - 3,140 X_2 - 1,490 X_3 - 0,173 (X_1 * X_3) + 0,213 (X_1 * X_3) + e$$

In this Moderated Regression Analysis (MRA) equation, the listed constant value is 30.871, so it can be interpreted that the independent variable is assumed to be zero, then the average variable outside the fixed model will improve the audit quality by 30,871 units. The value of regression coefficient  $\beta_1$  of 3.307 in this study can be interpreted that the competence variable ( $X_1$ ) has a positive effect on audit quality ( $Y$ ). This means that as the expertise improves one unit, audit quality will also increase 3,307 units. The coefficient value of  $\beta_2$  - 3,140 in this study can be interpreted that the independence variable ( $X_2$ ) has a negative effect on audit quality ( $Y$ ). This means that when independence increases by one unit, audit quality will decrease by -3.140 units. The coefficient value of  $\beta_3$  -1,490 in this study means that the auditor ethical variable ( $X_3$ ) has a negative effect on audit quality ( $Y$ ). This means that when the auditor's ethics has increased by one unit, the audit quality will decrease by -1,490 units. The coefficient value  $\beta_4$  - 0.173 in this study means that the interaction between competence ( $X_1$ ) with Ethics auditor ( $X_3$ ) has negative effect on Quality audit ( $Y$ ). this means that when the interaction between competence and auditor ethics has increased sebsar one unit, then the audit quality will decrease by -0.173 units. The value of coefficient  $\beta_5$  sebsar 0,213 in this research mean that interaction between independence ( $X_2$ ) with auditor ethics ( $X_3$ ) have positive influence. This means that when the auditor's ethical independence and interaction have increased with one unit, the audit quality will also increase by 0.213 units. f. Simultaneous Test (F Test) From Anova test result or F test indicates that F value as much as 21,947 with level of significance 0.000 far below 0,05. It states that competence ( $X_1$ ), independence ( $X_2$ ), auditor ethics ( $X_3$ ), interaction of competence and auditor ethics ( $X_1 * X_3$ ), and independence of auditor interaction and ethics ( $X_2 * X_3$ ) simultaneously affect Quality Audit ( $Y$ ).

#### Coefficient of Determination Analysis ( $R^2$ )

Based on the output model summary view in table 20 the magnitude  $R^2$  (coefficient of determination) is 0.814. This value indicates that 81.4% variations in audit quality ( $Y$ ) can be explained by competence variables ( $X_1$ ), independence ( $X_2$ ), auditor ethics ( $X_3$ ), competence interaction and auditor ethics ( $X_1 * X_3$ ), and Interaction of independence and ethical auditor ( $X_1 * X_3$ ), the remaining 18.4% is explained by other variables not included in this study.

#### 1. Effect of Competence on Audit Quality

Based on the respondent's answer on the competence variable test instrument results, it is known that the average respondent agreed if the auditor's competence can be seen from the dimensions of knowledge and experience. The most dominant indicators in forming competence variables are training and specialized skills. An auditor will be more competent if the frequency of special training of the courses being followed more and more will improve the auditor's expertise in the audit field. The result of the instrument test of audit quality variable also shows that the average respondent also agree that audit quality can be determined from the dimensions of professional responsibility, public interest, and objectivity. The higher the competency of an auditor will affect the auditor in reporting the client error. The auditor will also have a good audit quality when understanding the client's information system, so audit reporting will also get better. The result of hypothesis test shows that the competence variable has positive and significant effect on audit quality. This means that audit quality can be achieved if the auditor has good competence. Competence consists of two dimensions of experience and knowledge. Auditors as the spearhead of the implementation of audit tasks should always improve the knowledge that has been owned for the application of knowledge can be maximized in practice. Application of maximum knowledge will certainly be in line with the increasing experience owned. This study is consistent with attribution theory developed by Fritz Heider who argued that a person's behavior is determined by a combination of internal forces, that is, factors that come from within a person, such as ability or effort, and external forces, , ie factors that come from outside such as difficulty in work or good luck. So an auditor with high competence is encouraged to improve the resulting audit. This research is in line with Alim's research, et al. (2011) found that there is a positive relationship between auditor competence and audit quality. This indicates that the more competent an auditor performs an audit, the better the quality of the audit is counterfeited. This is reinforced by research conducted by Marsellia et al. (2012), Kharismatuti and Hadiprajitno (2012), Tjun, et al. (2012) found that auditor competence has a positive effect on audit quality. However, this research is not in line with the research of Priyansari and Natalisty (2014) and Utomo (2014) in Darayasa and Wisadha (2016) stating that competence has no effect on audit quality.

#### 2. Effect of Independence on Audit Quality

Based on the respondent's answer on the instrument test of the independence variable, it is known that the average respondent agrees if the auditor's competence can be seen from the dimension of the relationship with the client, the pressure from the client, the analysis from the auditor's counterpart and the audit and non-audit services provided. The most dominant indicator in establishing the independence variable is the sanction and threat of change of the auditor by the client. The existence of threats and changes of auditors provided by the client to the performance of the auditor in this case the threat in question is to always carry out the audit work properly in accordance with the standards and procedures undertaken so that the independence of the auditor will be maintained during the audit. If the audits performed by the auditor are bad, the client will make a change of auditor. Pressure from this client will increase the independence of an auditor. The result of the instrument test of

audit quality variable also shows that the average respondent also agree that audit quality can be determined from professional skepticism dimension. The auditor should not easily believe in all client statements. This unbelieving attitude will increase the independence of the auditor and ultimately lead to increased audit quality. The result of hypothesis test shows that the independence variable has positive and significant effect on audit quality. This shows that independence is a decisive factor of audit quality, this is understood because if the auditor is really independent then it will not be affected by the auditee. But if it does not have independence, especially if the pressure from the auditee, then the quality will not be maximized. The result can be understood that to improve audit quality, an auditor must have good independence. This study is in accordance with the attribution theory developed by Fritz Heider who argued that a person's behavior is determined by a combination of internal forces internal.

### 3. Interaction of Competence with Auditor Ethics on Audit Quality

Based on the respondent's answer on the instrument test result of the auditor's ethical variable, it is known that the average respondent agreed if the reward indicator, organizational auditor, family environment and emotional quotient can measure auditor ethics. The reward indicators received by the auditor are the second most dominant indicator in forming the ethical variable. The rewards received by the auditor may affect the auditor's behavior in order to have optimal performance. The greater the rewards earned auditor then the auditor's performance will be better. Auditors who have high rewards of course are auditors who have a high level of competence. The result of hypothesis test shows that the competence variable reinforced by auditor ethics proved to have an effect on to audit quality. Judging from the direction, the competence reinforced by auditor ethics negatively affect the quality of audit. This means it is not aligned and the research hypothesis. Although competence is important for an auditor, but with a relatively low level of competence, as long as the auditor continues to work with regard to the binding professional ethics, it can still produce the same quality of audit, even better than the auditor who has the level very high competence. This is because auditors who have a high level of competence in terms of experience and knowledge, tend to have a high selfish attitude as well, so that in carrying out the audit process, he often ignore SOPs that must be done, even being less cautious, so ultimately the quality of audit the result is not good. This study is consistent with attribution theory developed by Fritz Heider who argued that a person's behavior is determined by a combination of internal forces, that is, factors that come from within a person, such as ability or effort, and external forces, , ie factors that come from outside such as difficulty in work or good luck. So the auditor although not having a good competence but when the auditor still working with attention to professional ethics then he can still produce a good audit quality. This study is in line with Masellia's research, et al. (2012) found that there is a negative correlation between competencies reinforced by auditor ethics with audit quality. But this research is not in line with research Kharismatuti and Hadiprajitno (2012) which states that the interaction of competence with auditor ethics have a significant effect on audit quality.

### 4. Interaction of Independence with Auditor Ethics on Audit Quality

Based on the respondent's answer on the result of the instrument test of the auditor's ethical variable, it is known that the average respondent agreed if the reward indicator, organsasional auditor, family environment and emotional quotient can measure auditor ethics. The organizational indicator of the auditor is the most dominant indicator in forming the ethical variable. The auditor feels that the organization where the auditor works is very meaningful for the auditor. The auditor's work environment will affect the behavior of an auditor. The result of hypothesis test shows that the independence variable reinforced by auditor ethics proved to have an effect on to audit quality. The auditor is expected to maintain his independence attitude even in the audit process, he gets pressure from the client. It is not easy to maintain an auditor's level of independence in order to stay in accordance with that as required, especially after the auditor has been working with the client for too long and is in great touch with the client. This will obviously lead to vulnerability to the independence of the auditor. In addition, granting facilities or prizes from clients to the auditor during the audit process will also affect the independence of the auditor. With these gifts, it is possible that the decisions taken by the auditor related to the audit task will be controlled by the client. In addition, it is very difficult for an auditor to remain independent, especially if in addition to providing audit services to the client's financial statements, the auditor also provides other non-audit services. Thus, providing non-audit services to audit clients, good relationships with clients, or length of working relationship with clients will make auditors more difficult to maintain their independence attitude and it will impact on audit quality generated auditors. To overcome these three things, the auditor needs to maintain professional ethics in carrying out his work, which in this case is called audit ethics.

### 4. CONCLUSION

Based on the formulation of the problem, the hypothesis, as well as analysis and discussion of research results, it can be concluded that: Based on the data that has been collected and hypothesis testing with multiple linear regression analysis and with Moderated Regression Analysis has been done, then the conclusion of this research are as follows:

1. Competence has a positive and significant impact on audit quality. Audit quality can be achieved if the auditor has good competence. Competence consists of two dimensions of experience and knowledge.
2. Independence has a positive and significant impact on audit quality. Independence is a decisive factor of audit quality, to improve audit quality, an auditor must have good independence.
3. The competence and ethical interaction of auditors negatively affects audit quality. Auditors who have a high level of competence in terms of experience and knowledge, tend to have a high selfish attitude as well, so that in carrying out the audit process, he often ignore the SOPs that must be done, even being less cautious, so ultimately the quality of the resulting audit was not good.
4. Interaction independent and ethical auditors have a positive effect on audit quality. In order for the auditor to maintain its independence, the auditor needs to maintain professional ethics in carrying out his work, which in this case is called the auditor ethics..

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