

# The Effect of Independence and Professionalism on Audit Quality (Case Study at the Public Accountant Office in DKI Jakarta)

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The profession of public accountants is a growing profession because the government has been supporting the development of this profession. Therefore, it is expected that in carrying out the audit duties, the auditor will maintain the quality of the audit produced at the Public Accounting Firm in the City of DKI Jakarta. The purpose of this study was to determine the effect of auditor independence on audit quality, and the effect of professionalism on audit quality in public accounting firms in the city of DKI Jakarta. The research method uses descriptive and verification methods, the characteristics of the research are replication with a survey approach. The result of the hypothesis test is that auditor independence in the DKI Jakarta KAP has a significant influence on Audit Quality. The regression coefficient value, which is positive, is 28.699. The hypothesis test results are that auditor professionalism, in the City of DKI Jakarta KAP, has a significant influence on Audit Quality. The regression coefficient value, which is positively, is valued at 23.866. The hypothesis test results are that auditor independence and professionalism, in DKI Jakarta City Public Accounting Firm, has a significant effect with a significance value of 0.007 or 0.7% < 5%. These results show that Independence (X1) and Professionalism (X2) have a significant influence on Audit Quality (Y).

**Key words:** *Independence, Professionalism, Audit Quality.*

## Introduction

The public accounting profession is known to the public, from the audit services provided to users of financial information. The emergence and development of the public accounting profession in a country is in line with the development of the company and various forms of corporate legal entities in the country. In the development of its business, both individual companies and various companies in the form of other legal entities cannot avoid the withdrawal of funds from outside parties, which are not always in the form of capital participation from investors, but in the form of withdrawal of loans from creditors. Thus, parties interested in the company's financial statements are no longer limited to the company's leadership, but extend to investors and creditors and potential investors (Djatkiko and Rizkina, 2014).

The company requires an auditor to conduct an audit of the financial statements, so the company must be increasingly critical in choosing a Public Accounting Firm (KAP) to audit the company's financial statements. In addition to being used by companies, the audit results can also be used by parties outside the company such as prospective investors, creditors, BAPEPAM, and other related parties to assess the company and make strategic decisions related to the company. In this case the public accountant functions as a third party that connects company management with parties outside the company concerned. The task is to provide a belief, from the opinions given about the fairness of the financial statements as a basis for making decisions, that the financial statements presented by management can be trusted.

In addition to the Enron case that occurred in the US, several cases of poor auditing have also occurred in Indonesia. One of them is the case that happened to KAP Justinus Aditya Sidharta who indicated that he had made a mistake in auditing the financial statements of PT Great River International. The investigation by BAPEPAM-LK found indications of inflating sales accounts, receivables and assets of, up to hundreds of billions of Rp, in Great River's financial statements, which resulted in the company failing to pay debts. This phenomenon of errors in auditing financial statements has been a driving motivation for this research. Violations of the accountant's code of ethics found in several countries turned out to affect the quality of the audit produced.

Auditor involvement is very important in determining audit quality. Examinations (audits) carried out with high professionalism, maintaining an independent attitude during the examination and carried out by auditors who are competent in their fields, are expected to be of good quality, and produce truthful audit results. Based on the description of the background above, the researcher is interested in researching "The Effect of Independence and Professionalism of Auditors on Audit Quality in KAP in DKI Jakarta"

### ***Identification of Problems***

Based on the background of the problem, research questions can be formulated as follows:

1. What is the influence of Independence on audit quality, at the Public Accountants in DKI Jakarta?
2. How does the influence of Professionalism effect audit quality, at the Public Accountants in DKI Jakarta?
3. How does the influence of independence and professionalism affect Audit Quality at the Public Accountants in DKI Jakarta?

### **Theoretical Basis**

#### ***Independence***

According to Mulyadi (2010: 26-27), "Independence means free from influence, not controlled by other parties, do not depend on other parties. Independence also means the existence of honesty, meaning in considering the facts and existence objective considerations are impartial in formulating and express his opinion ".

According to Mautz and Sharaf in Tuanakotta (2011: 64) the three dimensions of independence are as follows:

#### ***1. Programming independence***

Independence programming is freedom (free from the control or influence of others, for example in the form of restrictions) to choose techniques; audit procedures, how deep the audit techniques and procedures are.

The programming independence indication is:

- 1) Free from pressure or managerial intervention or friction intended to eliminate (eliminate), determine (specify) or modify anything in the audit.
- 2) Free from any intervention from a non-cooperative attitude by applying the selected audit procedure.
- 3) Free from the efforts of outside parties who force the audit work reviewed outside the limits of reasonableness in the audit process.

#### ***2. Investigative independence***

Investigative independence is freedom (free from control or the influence of others, for example in the form of restrictions) to choose an area, activities, personal relations and

managerial policies to be examined. This means that there must be no legitimate source of information that is closed to auditor (Hussain et al., 2018). The indications of investigative independence are:

- 1) Direct and free access to all books, records, leaders company employees and other sources of information about activities company, obligations and sources
- 2) Free from the efforts of the company leader to assign or arrange activities that must be checked or determine who can receive an evidential meter (something that has valuable proof).
- 3) Free of personal interests or relationships; eliminate or limit the examination of activities, notes or people who should be included in the scope of the examination.

### ***3. Reporting independence***

Independent reporting is freedom (free from the control or influence of others, for example in the form of restrictions) to present the facts revealed from the examination or giving recommendations or opinions as a result of the examination. The indications of Reporting Independence are: Free from feeling loyal to someone or feeling obliged to someone to change the impact of the reported facts.

- 1) Avoid the practice of issuing important things from the report formal and include it in informal reports in the form any.
- 2) Avoid using obscure language (blurred, vague) whether intentional or not in the statement of facts, opinions and recommendations in interpretation.
- 3) Free from attempts to veto (judgment) the auditor about what which should be included in the audit report, both factual or opinion.

### ***Professionalism***

According to Arens et al. (2015: 96), professionals have the responsibility to act more than just self-responsibly and in line with legal provisions and community regulation. Public accountants, as professionals, admit responsibility to the community, clients, and fellow practitioners, and engage in respectable behaviour even though it means self-sacrifice. Auditor professionalism is important in this profession, because an auditor is required to have a professional attitude in carrying out their duties. An auditor can be said to be professional if they reflect the attitude of professionalism.

There are four concepts of professionalism, according to Sukrisno Agoes (2012: 43), stated as follows:

- 1) Professional responsibility

The responsibility of the profession in carrying out its responsibilities as a professional auditor, each member must always be moral and use professional considerations in all the activities he did.

2) Integrity

Integrity is an element of character that underlies the emergence and recognition of professional integrity as a quality that is underlying public trust and a benchmark for members to test the decisions taken.

3) Objectivity

Objectivity is a quality that provides value for service given by the member. The principle of objectivity requires members to be fair, impartial, intellectually honest, have no prejudiced or biased, and be free from conflicts of interest or under the influence of other parties.

4) Competence

Competence is a knowledgeable auditor experience that is quite explicit; where a professional can meet the audit objective, and be careful and thorough. Every member must carry out professional services with caution, competence and perseverance, and has an obligation to maintain knowledge and professional skills at the level needed to ensure that the client benefits from the most advanced professional services and techniques.

### ***Audit quality***

Audit quality according to De Angelo (1981) in Alim et al. (2007: 1), i.e. is:

"The probability that an auditor finds and reports a violation in the client's accounting system." In accordance with the Public Accountant Professional Standards (SPAP) audit implemented by the auditor will be said to be of good quality, if it fulfils provisions or standards of auditing.

According to Wooten (2003) in Yogi's research (2017: 9) indicators for measuring audit quality are as follows:

#### ***1. Detect misstatements***

"Detecting material misstatements is influenced by how well the audit team performs the audit, which in turn is influenced by the quality control system and management resources of the audit firm. Many studies have used firm size as a surrogate for these audit firm and audit team factors, and their findings have been controversial"

## ***2. Compliance with Applicable General Standards***

KAP members who carry out the assignment of auditing, attestation, review services, complications, management consulting, taxation or audit services from the auditor, as the auditor must be able to meet the needs of clients. The auditor's strong commitment to the audit services provided is responded to well by the client.

## ***3. Compliance with SOPs***

The company's operational standard (SOP) is a written stipulation about what to do, when, where, by whom, how to do, whatever is needed, and others, all of which are work procedures that must be followed and carried out. Based on SPAP SA section 318, regarding understanding of the client's business, when carrying out an audit on financial statements, the auditor must obtain knowledge about the business to allow auditors to identify and understand events, transactions, and practices which, in the auditor's opinion, are likely to have a significant impact on the financial statements or on audit reports.

### ***Conceptual Framework***

Independence is one way for auditors to engage in good quality audits. With independence, auditors have the ability to understand conflicts of interest that can arise between company owners and company managers. From this, it is explained that independence is an attitude that is free of influence, an independent auditor is not controlled by others, so that with such an attitude an auditor can provide quality audit results. Independence has an influence on the quality of the audit produced; this is seen from the length of an auditor cooperating with his client. If the auditor has long been examining his client's financial statements, the relationship might develop to the point where it is influencing the auditor's independence, resulting in a decline of audit quality. According to Supriyono in Afridian et al (2011), "Auditor independence is one of the important factors to produce a quality audit. Because if the auditor loses his independence, the audit report produced is not in accordance with the reality so that it cannot be used as a basis for decision making".

### **Hypothesis 1: Auditor independence influences audit quality.**

A professional auditor is seen in terms of the auditor's performance to carry out their functions and duties. Understanding of the auditor's performance here as a public accountant who conducts an objective examination of the financial statements of a company that aims to provide good quality audit results. According to Mikhail (2012), professionalism is important and must be applied to every public accountant in carrying out professional work in order to achieve an adequate audit quality. This will have an impact on people's views in trusting

financial statements, if the auditor is no longer able to use his professional attitude, then the report from the audit results can no longer be trusted and has a negative impact on the quality of the audit.

### **Hypothesis 2: Auditor professionalism influences audit quality.**

Independence means mental attitude free from influence, not controlled by other parties, and not dependent on others. Independence also means that there is honesty in the auditor in considering facts and objective considerations that are impartial in formulating and expressing their opinions. PSA no. 04 (SA Section 230) in Sukrisno Agoes (2012: 35) states that, in carrying out audits and reporting reports, the auditor must use his professional skills to carry out professionalism in scepticism, namely the attitude of the auditor who thinks critically to audit evidence by always questioning and evaluating audit evidence.

### **Hypothesis 3: Independence and auditor professionalism influence audit quality**

#### ***Research Method***

The object of research in this study is the Public Accountant Firm (KAP) in the City of Jakarta. In this study the method to be used is the descriptive and verification method. The type of data used in this study is primary data and the researcher used a questionnaire as a data collection technique.

In this study the variables used are qualitative variables, namely Independence and Professionalism. Scaling is needed in measurement. The scale used is the Likert scale. The Likert scale is used for measuring the attitudes, opinions and perceptions of someone or a group of people about a social phenomenon.

The population of this study is the Public Accounting Firm (KAP) located in the city of Jakarta.

#### **Research Results and Discussion**

##### ***Effect of Independence ( $X_1$ ) on Audit Quality ( $Y$ )***

The result of the hypothesis test is that auditor independence in the Public Accounting Firm DKI Jakarta has a positive and significant influence on the t count, greater when compared to the Audit Quality t table. This can be seen from the value of the positive regression coefficients, which are 28,699 and t table ( $2,149 > 1,680$ ) at 5% significance level. In addition, the significance of the Auditor's Independence in the City DKI Jakarta is smaller than the value of  $\alpha = 5\%$  ( $0.038 < 0.05$ ) this shows that independent variable influences Audit Quality.

These results are in line with previous research conducted by Ridwan Firdaus (2016) which states that independence has a significant effect towards Audit Quality. Supported also by Susilawati's research, (Maya R Atmawinata, 2014) which states that independence has a significant influence on audit quality. The coefficient of determination ( $R^2$ ) is 0.111 (11.1%). This result shows that independence ( $X_1$ ) has an effect of 11.1% on Audit Quality (Y).

#### ***Effect of Professionalism ( $X_2$ ) on Audit Quality (Y)***

The result of the hypothesis test is that auditor professionalism in KAP Kota DKI Jakarta has a positive and significant influence on the tcount, greater when compared to the Audit Quality table. This can be seen from the value of the positive regression coefficients, which are 23,866 and t-table ( $3,025 > 1,680$ ) at 5% significance level. Besides that the significance value of Auditor Professionalism is smaller than the value of  $\alpha = 5\%$  ( $0.005 < 0.050$ ). This shows that the variable of Professionalism influences Audit Quality.

These results are in line with previous research conducted by Ghina Siti Haniya (2016) which states that professionalism has a significant effect towards Audit Quality. Supported also by Susilawati's research, Maya R Atmawinata (2014) which states that Professionalism has an influence which is significant on audit quality. This is in line with Annur's research (Maemunah Muslim, 2015) which states that professionalism is significantly influential on Audit Quality. Coefficient of determination ( $R^2$ ) obtained 0.198 or if it is 19.8%. This result shows that Professionalism ( $X_2$ ) has an effect of 19.8% on Quality Audit (Y).

#### ***Effect of Independence ( $X_1$ ) and Professionalism ( $X_2$ ) on Audit Quality (Y)***

From the results of the F test above, it can be seen that the calculated F value of 5.642 is obtained. The Independence variable and Professionalism variable is greater than the Ftable value, equal to 3.24 with a significance value of 0.007 or 0.7%  $< 5\%$ . So,  $H_0$  is rejected and we accept  $H_a$ . These results indicate that Independence ( $X_1$ ) and Professionalism ( $X_2$ ) have a significant influence on Audit Quality (Y).

## **Conclusions and Recommendations**

### ***Conclusions***

Based on the results of the study, as described in the previous chapter, conclusions can be drawn as follows:

1. Independence has a positive and significant effect on Audit Quality, and has a positive relationship direction. This means that the better the independence of an auditor, the better the quality of the audit produced.
2. Professionalism has a positive and significant effect on Audit Quality, and has a positive relationship direction. This means that the better the professionalism of an auditor, the better the quality of audit produced.
3. The results of the study show a Simultaneous Test of Independence and Professionalism has a positive and significant effect on Quality Audit. The result of the F test is the calculated to a F value of 5.642. The Independence variable and the Professionalism variable is greater than the Ftable value of 3.24 with a value significance of 0.007 or  $0.7\% < 5\%$ ; so  $H_0$  is rejected and we have accepted  $H_a$ . Results show that Independence ( $X_1$ ) and Professionalism ( $X_2$ ) have a significant influence on Audit Quality ( $Y$ ).

### ***Recommendations***

The suggestions that researchers can convey based on the results of research that has been done are as follows:

1. Provide regular education and training on Independence and Professionalism, which is expected to further improve the Quality of Audit produced.
2. Require auditors to continue their education.
3. Review and relearn about audit quality.
4. Following the certification program.

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