

Review article

# The Influence of Ethics on Audit Quality, A case study of a Public Accounting Office in the City of Surabaya

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Received Date: 08 September 2021

Revised Date: 10 October 2021

Accepted Date: 18 October 2021

**Abstract** - This study aims to examine the effect of ethics on the audit quality of public accounting firms in Surabaya. This research is motivated by the issue that Indonesian public accountants pay less attention to the quality of the audits they produce. This is indicated by the existence of financial cases that befell many companies that involve public accountants. The population in this study is auditors who work in Public Accounting Firms in Surabaya; according to the book *Directory Public Accounting Firms*, 42 KAPs are standing in Surabaya. While the sample selected in this study was 14 Public Accounting Firms, each Public Accounting Firm had 5-8 people who were used as respondents, and 62 questionnaires were returned and filled out completely. The analytical tool used is multiple linear regression,

**Keywords** - Independence, Professional Competence and Prudence, Audit Quality, Public Accounting Firm

## I. INTRODUCTION

Highlighting the public accounting profession in Indonesia, which generally works in Public Accounting Firms, can be started from the existence of the public accounting profession itself. As we know that public accounting is a profession that provides inspection services on company financial statements and at the same time provides opinions on reports Public accountants are said to be a profession because they have met the criteria as required by The Uniform Rules of Professional Conduct (RJ Anderson in Nadirsyah, 1993), namely: (1) Mastering intellectual skills through long-term education and training (2) General practice by providing services to the community (3) Personal services (4) Acting objectively in dealing with problems (5) Subordinating personal interests (6) There are associations or an independent association, which establishes a standard of qualification that applies to the competence of each member, as well as fosters and develops expertise and service standards (7) There is a code of ethics to protect the public interest (8) There is a forum for the exchange of opinions, knowledge, and experiences among peers to improve their functioning, and fostering and developing expertise and service standards (7) There is a

code of ethics to protect the public interest (8) There is a forum for exchanging opinions, knowledge, and experiences between colleagues to improve their functions. and fostering and developing expertise and service standards (7) There is a code of ethics to protect the public interest (8) There is a forum for exchanging opinions, knowledge, and experiences between colleagues to improve their functions.

Professional work must be distinguished from other jobs. The quality and results of their work cannot be judged by the public outside the profession concerned. People outside the profession are considered ignorant of its quality and work, even though they are scientists. Therefore, this professional organization must be able to maintain and develop the quality of its members so that the trust of the general public is maintained properly. Likewise, with the public accounting profession increasing public trust, it is necessary to maintain its credibility. Therefore, the responsibility of the public accounting profession is not only to uphold compliance with professional standards but also to include legal and social responsibilities.

Today's assessment of public accountants is not pleasant. This can be seen from the number of cases that occurred in public accountants. For example, the Enron case in 2002 was quite shocking to the world because of the involvement of the great public accountant Arthur Anderson in manipulating its financial statements. Likewise, in Indonesia, there are many negative assessments of the performance of our public accountants. Many phenomena occur in Indonesia; for example, the number of foreign public accountants who enter Indonesia and are selling well are requested for their services by companies in Indonesia. Then questions arose from the public: "Where are our public accountants? Is the quality of our public accountants in doubt? Likewise with other negative questions.

From this phenomenon, it is not surprising that then there are many criticisms of Indonesian public accountants. For example, Prof. Dr. Wahyudi Prakarsa explicitly said that our public accountants are less adaptive to the environmental system, so reviewing the existing accounting education system is necessary. The same thing was also expressed by Soedarjono, former chairman of IAI for 1994-



1998, that many of our public accountants work as amateurs. Even criticism that insults our public accounting profession has also been made by Pande Raja Silalahi (Accounting Media, 1998), that public accountant opinions can be ordered according to the client's taste.

From the comments above, it can be considered that our public accountants have not fully mastered the actual work, are not independent, and lack mastery of foreign languages. So when compared with foreign accountants in Indonesia such as; Philippines, Sri Lanka, and India, our accountants are still less competitive, especially in terms of professionalism.

Professional competence and due care are some of the ethical principles of accountants regulated in the accountant code of ethics made by the Indonesian Institute of Accountants (IAI). Professional competence and prudence are the centers of professional activities that are quite important. Public accountants must apply that in carrying out their professional work/services to achieve good quality work. This is quite clearly stated in the auditing standards and the Indonesian accountant's code of ethics. The principle of professional competence and prudence must always be maintained continuously to ensure the quality of the performance of public accountants. Professional competence and due care require every public accountant to perform his professional responsibilities competently and diligently (Boynton and Kell, 2009).

The principles of professional competence and due care can be developed in 2 (two) ways (Mautz and Sharaf, 1993). First, careful implementation of practical ideas. Second, showing accuracy and thoroughness in various conditions. Meanwhile, in the instructions for implementing the code of ethics for Indonesian accountants, it is explained that a public accountant's competence and professional prudence can be divided into two stages, namely the acquisition stage and the improvement stage (IAI, in Agoes, 2012).

The study of professional competence and due care is interesting to study and because researchers' understanding of the characteristics of professional competence and due care is still very limited (Bedard, 2011; Bedard and Graham, 2013). This research is a development of two previous studies, namely research on perceptions of the independence of Indonesian public accountants (Nardisyah, 1993) and research on identifying characteristics of audit expertise (Muranto and Gudono, 2012).

AAA *Financial Accounting Committee*(2000) in Christiawan (2002:83) states that "Audit quality is determined by 2 things, namely competence and independence. Both of these things directly affect the quality of the audit.

Good audit quality, which is in accordance with the Auditing Standards in the Professional Standards of Public Accountants (Haryono, 2002), which include (1) General Standards, (2) Field Worker Standards, (3) Reporting Standards. Professional Standards of Public Accountants (SPAP) are guidelines that regulate the General Standards for auditing public accountants, regulating all matters

relating to assignments, independence in mental attitude (Nungky Nurmalita, 2011), where the general standard is a reflection of the personal qualities that must be possessed by an auditor which requires the auditor to have sufficient technical expertise and training in carrying out audit procedures.

To support professionalism as a public accountant, the auditor in carrying out audit duties must be guided by the Indonesian Institute of Accountants (IAI). So based on the description above and from previous research, it can be concluded that auditor competence can be formed through knowledge and experience.

## II. LITERATURE REVIEW

### A. Accountant Professional Ethics

Public accountants or independent auditors in carrying out their duties must adhere to ethical principles. According to (Haryono Yusuf, 2002), there are 8 principles that public accountants, namely, must obey: (a) Professional responsibility, (b) Public interest, (c) Integrity, (d) Objectivity, (e) competence, and professional prudence (f) Confidentiality (g) Professional Conduct and (h) Technical Standards.

### B. Independence

Halim (2008: 50) states that there are three aspects of independence, namely: 1) in fact independence, 2) independence in appearance (independence in appearance), 3) independence incompetence (independence from expertise or competence). According to Ahson and Asokan (2004), decision independence is the auditor's ability to resist pressure and maintain an impartial attitude when faced with pressure at work. Higson (2003) finds that if the auditor is not independent, people will perceive that auditing is a waste of time and that the numbers in the financial statements may be meaningless.

### C. Professional Competence and Due Care

Professional competence and prudence are the centers of professional activities that are quite important. Every public accountant must apply that in carrying out their professional services/jobs to achieve quality work. This is quite clearly stated in the auditing standard in the 3rd general standard (SPAP 1994), which reads: "In carrying out the audit and preparing the report, the auditor is obliged to use his professional skills carefully and thoroughly. Auditor competence is the qualification required by the auditor to carry out the audit properly (Rai, 2008 in Sukriah et al., 2009). In conducting an audit, an auditor must have good personal qualities, adequate knowledge, and special expertise in his field. Competence relates to the professional expertise possessed by the auditor as a result of formal education,

### D. Audit Quality

AAA Financial Accounting Standards Committee (2000) in Christiawan (2002) states that: "audit quality is determined by 2 things, namely competence (expertise) and independence, both of which have a direct effect on the quality and potentially influence each other. Furthermore,

the perception of users of financial statements on audit quality is a function of their perception of the independence and expertise of the auditor.

**III. RESEARCH METHODS**

This research can be categorized as causal research, which aims to determine the causal relationship between variables. This study uses a survey method, namely by obtaining a sample from the population by using a questionnaire to collect data from respondents. In this study, the analysis used to determine how much influence the independent variable has on the dependent variable uses multiple linear regression analysis.

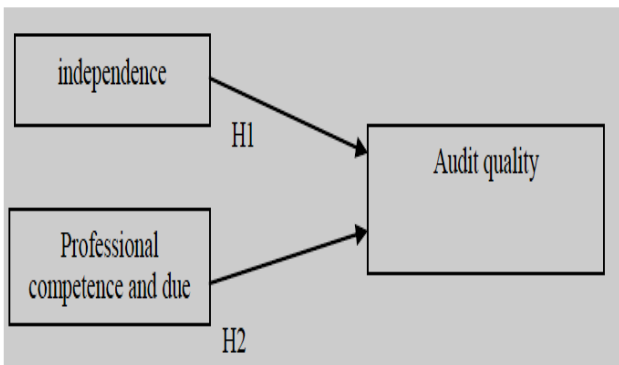


Fig. 1 Conceptual Framework and Research Hypotheses

**A. Hypotheses**

- H1:** Independence has a positive and significant effect on audit quality.
- H2:** Public accountants' professional competence and prudence partially have a positive and significant effect on audit quality

**IV. DISCUSSION**

The results of good hypothesis testing using statistical tests are as follows:

Table 1. Hypothesis Testing

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.384	.476	.408	5.006	.000
Independence (X1)	.423	.126		3.516	.002
Professional Competence and Due Care (X2)	.407	.118		3.460	.001

Dependent Variable: Audit Quality (Y)

The function of the regression equation on decision making is:

$$Y = 2.384 + 0.423 X1 + 0.407 X2$$

From the model above, it is found that the constant value of 2.384 indicates the magnitude of the influence of all independent variables on the dependent variable.

The value of the independent variable (X1) of 0.423 indicates that if the independent variable is increased by one hundred percent, there will be an increase in the dependent variable (audit quality) of 0.423 or 42.3%, and every time the value of independence is decreased by one hundred percent, and there will also be a decrease from the dependent variable (audit quality) is 0.423 or 42.3%.

The value of the professional competence and prudence variable (X2) of 0.407 indicates that if the professional competence and prudence variable is increased by one hundred percent, there will be an increase in the dependent variable (audit quality) by 0.407 or 40.7%, and each decrease the value of professional competence and prudence by one hundred percent will also decrease the dependent variable (audit quality) of 0.407 or 40.7%.

In the results of hypothesis testing 1, the independence variable proved to affect audit quality significantly. The results of hypothesis 2 test, professional competence, and prudence variables have a significant positive effect on audit quality, meaning the higher the level of independence and competence and professional prudence of public accountants (auditors), the higher the level of success in carrying out audits.

**V. DISCUSSION**

From the research that has been done, it is found that independence, competence, and professional prudence significantly influence audit quality both jointly and partially. The effect is positive, namely, the higher the level of independence, competence, and professional prudence possessed by a public accountant, the higher the audit quality produced by an auditor.

The conclusion of this study supports hypothesis 1 and hypothesis 2 that the independence, competence, and professional prudence of public accountants have a positive and significant effect on audit quality both jointly and partially. As the spearhead of the implementation of audit tasks, auditors must maintain an attitude of independence and constantly improve their knowledge, personal quality, and special expertise.

This study shows that the independence, competence, and prudence of professional public accountants (auditors) are positive on audit quality. These results have implications for auditors, especially on the pattern of auditor assignments in conducting audits. Audits should be carried out by auditors who are independent, experienced, and deemed to have adequate knowledge. A senior auditor or partner can do this. Audits can also be given to junior auditors but must be accompanied by at least a senior auditor. This assignment pattern is an effort to maintain audit quality so that the credibility of audit results in the eyes of users of financial statement information can be maintained.

In addition, it can also provide opportunities for junior auditors to increase their knowledge experience as an auditor.

## VI. CONCLUSION

From the results of data analysis and discussion, it can be concluded that based on the regression test results on independence and competence and professional prudence on audit quality. An important implication for further research is to re-examine the instruments that have been used in this study so that the reliability and validity of the instrument can be improved. Suggestions for future research should be to expand the geographical scope of the sample, for example, by taking a sample of auditors at Public Accounting Firm in big cities throughout Indonesia so that the research results have stronger generalizability. Respondents in further research should be expanded, not only from the scope of the implementing auditor but also from the leadership of the Public Accounting Firm.

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