

## Auditor Ethics Moderates the Effect of Independence and Competence on Audit Quality



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**ABSTRACT:** The auditors are expected to improve the quality of the audit through independence, competence, and are guided by the ethics of auditors. This research aims to test the effect of auditor independence and competence of auditors on audit quality with the ethics of auditors as a moderating variable. The population included all auditors working in Malang with research samples are 40 auditors working in the public accounting firm of Malang. This research to test the hypothesis of the study variables. The data collection was done using a questionnaire survey. The data analysis using descriptive statistics, testing instruments using the validity test, reliability test, and classic assumption test. Hypothesis testing using multiple regression analysis, partial test (T-test), and moderation test. The results of this research indicate that independence and competence have a positive effect on audit quality, then auditor ethics is able to moderate the relationship between these variables.

**KEYWORDS:** Independence, Competence, Ethics of Auditor, Audit Quality

### 1. INTRODUCTION

An auditor is a party trusted by the public to examine the financial statements of an entity. From these financial reports the auditor issues a fairness opinion whether the financial statements are in accordance with Financial Accounting Standards (SAK). It is this trust from users of financial statements that requires the auditor to pay attention to audit quality. "Audit quality is a probability and also the technical ability of the auditor in assessing the fairness of financial reports" (Deli and Syarif, 2015: 2). Marsellia, Meiden and Hermawan (2012: 2) argue "to produce a quality audit, an auditor must have credibility in his work"

Karnisa and Chariri (2015: 2) argue "To perfect the results of research on variables that affect auditor quality, variables outside of the independent variables in this study can be added, such as motivation, independent auditor ethics, not as moderating or intervening." According to Dewi (2016: 3) "a public accountant in detecting errors adheres to any knowledge and how these errors can occur in financial reports". "Public accountants are the party responsible for financial reports, which will be used as a basis for decision-making both internal and external to the company" (Darayasa and Wisadha, 2016: 143).

Several studies have proven that audit quality is influenced by the independence, competence and ethics of the auditor. Like Marsellia's research, Meiden and Hermawan (2012) concluded that an overly high level of independence actually results in low audit quality. Furthermore, according to Alim, Hapsari and Purwanti (2007) competence, independence, and the interaction between independence and auditor ethics affect audit quality. Deli and Syarif (2015) suggest that simultaneously, competency, independence and work experience affect audit quality but auditor ethics cannot moderate these factors. Dewi (2016) proved that independence and competence have a significant effect on audit quality and auditor ethics are able to moderate.

Suharti and Apriyanti (2019) show that competence affects audit quality and independence does not affect audit quality. While the interaction between competence and auditor ethics does not affect audit quality and the interaction between independence and auditor ethics also does not affect audit quality. Likewise, the results of the research by Pratama, Utary, and Utomo (2018) show that Independence has no significant effect on Audit Quality, Competency variables have a significant effect on Audit Quality, Auditor Independence interaction variables with Auditor Ethics have a significant effect on Audit Quality, and Auditor Competency interaction variables with Auditor Ethics has no significant effect on Audit Quality

This research is a replication of the variables that have the findings of previous studies related to audit quality. Researchers examine the effect of independence and competence on audit quality, and whether auditor ethics are able to moderate this relationship.

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## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

### 2.1. AUDIT QUALITY

De Angelo (in Alim et al, 2007: 4) suggests "audit quality is the probability in which the auditor is able to find and report a violation in the client's accounting system". Deis and Giroux (in Alim et al, 2007: 4) examine four things that are considered to have a relationship with audit quality, namely (1) the length of time the auditor conducts an examination of a client company (tenure), (2) number of clients, (3) health client finances, and (4) review from third parties.

### 2.2. AUDITORS ETHICS

In the professional standards of public accountants (IAPI, 2016) states that the auditor's code of ethics is a rule regarding auditor behavior that is in accordance with auditing standards and professional demands in the organization and is a measure of quality that must be achieved by the auditor in carrying out his work, if the established rules are not fulfilled then the auditor can be said to work below standards and is considered to have committed malpractice.

### 2.3. AUDITOR INDEPENDENCE

Darayasa and Wisadha (2016) argue "independent means that the auditor is not easily influenced. Public accountants are not justified in favoring anyone's interests. "Public accountants have an obligation to act honestly not only towards management and company owners, but also with creditors and other parties' concerned placing trust in the work of public accountants".

### 2.4 AUDITOR COMPETENCE

Marsellia, Meiden, and Budi Hermawan (2018) state that an overly high level of independence actually results in low audit quality. The interaction between independence and auditor ethics has a significant effect on audit quality. Competence also has a significant influence on audit quality. However, if it interacts with auditor ethics, then the interaction of competence and auditor ethics does not affect audit quality. Darayasa and Wisadha (2016) show that competence has a positive effect on the level of audit quality. Audit quality can be achieved through the competencies possessed by the auditors, these competencies consist of two dimensions, namely knowledge and experience.

### 2.5 HYPOTHESIS DEVELOPMENT

#### 2.5.1 Auditor Independence and Audit Quality

Agency theory shows that there is a gap between management and principals in a company, so an auditor is needed to overcome this problem. One of the attitudes that must be owned by the auditor to reduce the gap between principals and management is an attitude of independence. The auditor has the role of conveying the fairness of a financial report. So the attitude of auditor independence is needed so that the report is free from errors or fraud and to benefit a party.

Audit quality can be influenced by the independence of the auditor. Previous research conducted by Alim, Hapsari and Purwanti (2007) showed that independence has a positive effect on audit quality. Likewise, research conducted by Dewi (2016) and research by Darayasa and Wishada (2016) found that independence has a significant effect on audit quality. Furthermore, Deli and Syarif (2015) conducted research on the factors that influence audit quality and found that independence partially or simultaneously has a positive effect on audit quality.

Based on the description above, the researcher draws the conclusion that good audit quality results from an impartial attitude and in accordance with the facts in assessing a financial report.

H1: Auditor Independence has a positive effect on Audit Quality

#### 2.5.2 Auditor Competency and Audit Quality

Competence is the ability, expertise and knowledge possessed by the auditor to complete their duties properly. Increasing audit quality depends on the level of competence possessed by the auditor. The more competent and skilled an auditor is, the higher the quality of the audit results.

Research conducted by Marsellia, Meiden, and Hermawan (2018) found that competence has a significant effect on audit quality. Deli and Syarif (2015) also found that competency partially or simultaneously has a positive effect on audit quality. Research that shows positive results between competence and audit quality is research conducted by Alim, Hapsari and Purwanti (2007), Darayasa and Wisadha (2016) and research from Dewi (2016).

Based on the explanation above, the hypothesis is formulated as follows:

H2: Auditor competence has a positive effect on audit quality

#### 2.5.3 Auditor Independence, Auditor Ethics, and Audit Quality

Auditor ethics are the principles, morals and values held by auditors to act professionally according to professional standards. Auditors who adhere to auditor ethics act according to established professional standards, so that the audit quality produced is better. In research conducted by Marsellia, Meidan and Hermawan (2018) high independence has a negative impact on audit quality. However, if auditor ethics moderates the relationship between independence and audit

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quality, then the result is positive. There are other studies which show that auditor ethics can support the relationship between independence and audit quality, namely research from Dewi (2016), Darayasa and Wisadha (2016), and Alim, Hapsari, and Purwanti (2007).

Based on the above theory, auditor ethics has a significant impact on the relationship between independence and audit quality. Therefore, it can be hypothesized that:

H3: The interaction between Auditor Independence and Auditor Ethics has a positive effect on Audit Quality.

### **2.5.4. Auditor Competency, Auditor Ethics and Audit Quality**

High competence and expertise have a good impact on audit quality. Competence in research is measured through four indicators, namely knowledge, training, experience, and expertise. Likewise, auditors who adhere to auditor ethics according to predetermined standards produce good audit quality in their implementation. Meanwhile Halim et al (2014) argues that professional commitment as measured by the ability and love of the auditor to hold responsibility according to the rules and norms in professional conduct strengthens the effect of competence on audit quality. Based on research conducted by Dewi (2016) as well as research from Darayasa and Wisadha (2016) results in auditor ethics being able to have a positive impact on the relationship between competence and audit quality.

Based on previous research, it provides the fact that competency in auditing has a significant impact on audit quality with auditor ethics as the moderating variable. Therefore it can be hypothesized that:

H4: Interaction of Auditor Competence and Auditor Ethics has a positive effect on Audit Quality.

## **3. RESEARCH METHODOLOGY**

This research is included in the self-administered survey, quantitative, and causality study. The population in this study are all auditors who work in KAP (Public Accounting Firm) in Malang City. This study is limited by the population of auditors who work in Public Accounting Firms in Malang City, with a sample size of 40 respondents. Appropriate sampling in research is more than 30 and less than 500 and in multivariate research the sample size should be 10 times or greater than the number of variables in the study (Ghozali, 2011).

The data analysis method used in this study includes validity testing and reliability testing. The classic assumption tests used are normality, multicollinearity, and heteroscedasticity. Multiple regression analysis, partial test (T test), and moderation test were used to test the hypothesis.

## **4. RESULTS AND DISCUSSION**

### **4.1. RESEARCH RESULT**

The description of the research variables is the result obtained from the respondents' answers to each statement indicator of the research variables. Based on distributing questionnaires to auditors as correspondents of 40, statistical results in research conducted with a total of 40 respondents.

- 1) The Independence variable (X1) has a minimum value of 8, a maximum value of 25, a mean value of 17.80, and a standard deviation value of 4.916. With a standard deviation value that is smaller than the mean value, it can be concluded that the data is spread evenly.
- 2) Competency Variable (X2) has a minimum value of 9, a maximum value of 25, a mean value of 21.25, and a standard deviation value of 4.075. With a standard deviation value that is smaller than the mean value, it can be concluded that the data is spread evenly.
- 3) The Auditor Ethics Variable (Z) has a minimum value of 7, a maximum value of 25, a mean value of 20.48, and a standard deviation value of 4.224. With a standard deviation value that is smaller than the mean value, it can be concluded that the data is spread evenly.
- 4) Audit Quality Variable (Y) has a minimum value of 7, a maximum value of 25, a mean value of 20.40, and a standard deviation value of 4.131. With a standard deviation value that is smaller than the mean value, it can be concluded that the data is spread evenly.

Research testing in terms of validity can be measured from the Sig value. (2-tailed)  $< 0.05$  and the Pearson Correlation is positive, then the questionnaire items are valid. Or it can be seen from the results of the Pearson Correlation where the value of  $r_{count} > r_{table}$  means that the indicator is declared valid. The  $r_{table}$  value can be searched by looking at the  $r_{table}$  with as many as 40 and with a tolerance of 5%, the result of the  $r_{table}$  is 0.312. All items obtain a significance value of 0.00040. From these results it can be seen that all numbers have a sig value of  $< 0.05$  and Pearson Correlation  $> 0.312$ , so it is concluded that the data obtained is valid.

The reliability test obtained alpha results for independence of 0.8300, competency of 0.9733, auditor ethics of 0.9571,

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and audit quality of 0.9054, Alpha value above 0.700. The results of this study indicate that all items used as measuring instruments for the variables of Independence (X1), Competence (X2), Audit Quality (Y), and Auditor Ethics (Z) are reliable. Testing the instrument using the Kolmogorov-Smirnov above obtained a Kolmogorov-Smirnov (2-tailed) value of 0.890 > 0.05 so it can be concluded that the regression equation has fulfilled the data normality test.

In the multicollinearity test, independence from audit quality obtains a tolerance of 0.980 and a VIF of 1.020. Competence on audit quality obtains a tolerance of 0.922 and a VIF of 1.085. Auditor ethics towards audit quality obtains a tolerance of 0.939 and VIF of 1.064. The calculation results show that there is no independent variable that has a tolerance value of less than 0.1, which means there is no correlation between the independent variables. The VIF calculation results also show that there are no independent variables that have a VIF value of more than 10. So it can be concluded that there is no multicollinearity between the independent variables in the regression model.

The heteroscedasticity test obtained the results of the significance of the auditor's independence, competence, and ethics on audit quality of 0.706; 0.259; 0.239. These results show that the independent variables have no significant effect on the dependent variable because the significance of each independent variable is greater than the significance level of 0.05, so it can be concluded that there is no heteroscedasticity in this regression equation.

Regression analysis is used to test the hypothesis about the partial effect of the independent variables on the dependent variable. The regression model obtained is as follows:

$$Y = \alpha + b_1X_1 + b_2X_2 + e$$

$$Y = 0,684 + 0,245X_1 + 0,722X_2 + e$$

- 1) The constant value ( $\alpha$ ) of 0.684 indicates that if there are no variables of independence and competence ( $X_1, X_2 = 0$ ), then the audit quality variable will occur 0.684 times.
- 2) The regression coefficient ( $b_1$ ) of 0.245 indicates that if each score of the independence variable increases once, then the score for the audit quality variable will increase by 0.245. This means that independence and audit quality have a unidirectional and positive relationship. So, if the independence variable increases, the audit quality variable will also increase, and conversely if the independence variable decreases, the audit quality will decrease.
- 3) The regression coefficient ( $b_2$ ) of 0.722 indicates that if each competency variable score increases once, then the score for the audit quality variable will increase by 0.722. This means that work experience and audit quality have a unidirectional and positive relationship. So, if the competency variable increases, the audit quality variable will also increase, and conversely if the competency variable decreases, the audit quality will decrease.

Hypothesis 1 aims to examine the effect of independence on audit quality. The results of the t test show that the t test (3.795) is greater than t table (0.312) or the significance value (0.001) is less than alpha (0.05) so that it can be concluded that hypothesis 1 which states that independence has a positive effect on audit quality is acceptable.

Hypothesis 2 aims to examine the effect of competence on audit quality. The results of the t test show that the t test (9.256) is greater than t table (0.312) or the significance value (0.000) is less than alpha (0.05) so that it can be concluded that hypothesis 2 which states that competence has a positive effect on audit quality is acceptable.

The Moderated Regression Analysis (MRA) equation obtained is:

$$Y = -5,210 + 0,897X_1 + 0,110X_2 + 0,750X_3 - 0,031X_1X_3 + 0,008X_2.X_3$$

Based on the results of the MRA test, it was found that independence yielded a significance value of 0.174 greater than alpha 0.05, competence yielded a significance value of 0.850 greater than alpha 0.05 and auditor ethics yielded a significance value of 0.001 less than alpha 0.05. From these results it can be seen that independence and competence are not significant without auditor ethics on audit quality so that auditor ethics is a direct moderating variable. Then hypothesis 3 the interaction of auditor independence and auditor ethics has a positive effect on audit quality and hypothesis 4 the interaction of auditor competence and auditor ethics has a positive effect on audit quality is acceptable.

## 4.2. DISCUSSION

### 4.2.1 Effect of Auditor Independence on Audit Quality

The results of testing the first hypothesis (H1) in this study indicate that independence affects audit quality with a significance of 0.001 < 0.05. The regression coefficient is 0.245 indicating that independence has a positive effect on audit quality. This shows that the more independent an auditor is in conducting an audit, the higher the quality level of the audit he performs. Independence in this study is the first to be determined based on the length of relationship with the client.

The results of this study provide support for the research of Deli and Syarif (2015), Dewi (2016), Alim, Hapsari and Purwanti (2007) and Darayasa and Wisadha (2016) who found that the higher the independence of the auditor, the better

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the audit quality generated. The impartial attitude shown by the auditor when carrying out their duties reflects that the auditor is free from any influence and is honest with third parties on the financial statements that have been audited. The results of the four studies show that there is a positive and significant effect of independence on audit quality.

### 4.2.2 Effect of Auditor Competence on Audit Quality

The results of testing the second hypothesis (H2) in this study indicate that competence has an effect on audit quality with a significance of  $0.000 < 0.05$ . The regression coefficient is 0.722 indicating that competence has a positive effect on audit quality. This shows that the more competence an auditor has in conducting an audit, the higher the quality level of the audit he does.

The results of this study provide support for the research of Deli and Syarif (2015), Dewi (2016), Alim, Hapsari and Purwanti (2007), Marsellia, Meiden and Hermawan (2018) and Darayasa and Wisadha (2016) who found that the higher the competency owned by the auditor, the better the resulting audit quality. The ability, expertise and knowledge possessed by a person to complete their duties properly will produce a quality audit report. The results of the fifth study show that there is a positive and significant influence between competences on audit quality.

### 4.2.3 Effect of Interaction of Auditor Independence and Auditor Ethics on Audit Quality

The results of testing the third hypothesis (H3) in this study used the MRA method, where when auditor ethics is included, independence obtains a significance value of  $0.174 > 0.05$  which indicates that independence has no significant effect on audit quality. Meanwhile, auditor ethics has a significance value of  $0.001 < 0.05$ , which means that auditor ethics has a significant effect on audit quality. From these results, it can be seen that auditor ethics is a direct moderator that moderates the relationship between independence and audit quality.

The results of this study provide support for research by Dewi (2016), Alim, Hapsari and Purwanti (2007), Marsellia, Meiden and Hermawan (2018) and Darayasa and Wisadha (2016) who found that auditor ethics are able to moderate the relationship between auditor independence and audit quality. An auditor who is independent and understands auditor ethics well and applies them in his work, the quality of the resulting audit will be higher.

### 4.2.4 Effect of Interaction of Auditor Competence and Auditor Ethics on Audit Quality

The results of testing the fourth hypothesis (H4) in this study used the MRA method, where when auditor ethics is included, independence obtains a significance value of  $0.850 > 0.05$  which indicates that competence has no significant effect on audit quality. Meanwhile, auditor ethics has a significance value of  $0.001 < 0.05$ , which means that auditor ethics has a significant effect on audit quality. From these results, it can be seen that auditor ethics is a direct moderator that moderates the relationship between competence and audit quality.

The results of this study provide support for the research of Dewi (2016), Marsellia, Meiden and Hermawan (2018) and Darayasa and Wisadha (2016) who found that auditor ethics are able to moderate the relationship between auditor competence and audit quality. An auditor who is competent and pays attention to the auditor's ethics in his work, then the resulting auditing will be of higher quality.

## 5. CONCLUSION

Based on the test results, it was found that the three variables had a positive influence on audit quality. The results of this study prove that independence is a determining factor in audit quality. Auditor competence is also a determining factor for audit quality. Auditor ethics is a factor that can strengthen the relationship between independence and competence on audit quality.

Contribution in this field of research there is empirical evidence that independence and competence on audit quality with auditor ethics as a moderating variable. While in the practical field, this research can later be used as a reference for further research and is expected to deepen knowledge in the field of accounting, especially knowledge of the determinants of quality auditing.

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