

## **The Effect of Auditor's Competency and Ethics on Audit Quality in Public Accounting Firm in South Jakarta**

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### **Abstract**

This study aims to determine: (1) the effect of auditor competence on audit quality at KAP (Public Accounting Firm) in South Jakarta. (2) The influence of auditor ethics on audit quality at KAP in South Jakarta. The population of this study are auditors who work at a Public Accounting Firm in South Jakarta. The sample used in this study were 74 respondents. The data in this study were obtained primarily through a questionnaire (questionnaire). The sampling technique used purposive sample. The questionnaire in the Validity Test and Reliability Test, the result is that there are 41 valid and reliable statements with 70 respondents. The classical assumption test used is the normality test, linearity test, multicollinearity test, and heteroscedasticity test. The result is that all variables meet the criteria for the classical assumption test. The results of this study indicate that (1) There is a positive and significant effect of competence on audit quality at KAP in South Jakarta. This is indicated by the value of  $t$  arithmetic  $4.058 > t$  table  $1.996$ , the value of Sig. for the influence of Auditor Competency of  $0.000 < 0.05$ , the coefficient of the influence of Competence (X1) on Audit Quality (Y) is  $0.288$ . (2) There is a positive and significant effect of auditor ethics on audit quality at KAP in South Jakarta. This is indicated by the  $t$  arithmetic value of  $3.965 > t$  table of  $1.996$ , the value of Sig. for the effect of Auditor Ethics (X2) on Audit Quality (Y) is  $0.000 < 0.05$ , the coefficient value of the influence of Auditor Ethics on Audit Quality is  $0.327$ . (3) There is a positive and significant effect jointly on the competence and ethics of auditors on audit quality at KAP in South Jakarta. This is evidenced by the calculated F value of  $13.292$  which means it is greater than F table  $3.13$  and the Sig value. (Significance) of  $0.000 > (less\ than)\ 0.05$ . The value of the coefficient of determination is known. The R value is  $,697$ , if it is presented as  $69.7\%$ , it shows the magnitude of the significant influence value, and the remaining  $30.3\%$  is influenced by other variables outside of this study.

*Keywords: Auditor Competence, Auditor Ethics, Audit Quality, Public Accounting Firm.*

### **1. Introduction**

Audit quality is the main concern of the Auditor in carrying out the examination of the Financial Statements. If the results of audit quality are low, information users such as management and other stakeholders as internal parties, as well as the government and creditors as external parties, will question the reliability of financial statements and the professionalism of the auditors. With low audit quality, it can be assessed as the failure of the independent auditor to detect a material error. Recently, there have been several cases that have brought the Public Accounting Firm (KAP) into a circle of errors, one of which is the case of PT. Sunprima Nusantara Financing (SNP) Finance, 2018.

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The retail network subsidiary of Columbia, which failed to pay Rp.14 trillion against 14 banks, was finally opened to the public, and the Bank trusted SNP Finance due to its debt securities rating. PT. The Indonesian Securities Rating Agency (Pefindo) gave SNP Finance as of March 2018 a rating of id A / Stable (has a strong capacity in Long Term Financial) due to its financial statements that have been audited by a trusted Public Accountant.

The Public Accountants consist of Public Accountant Marlina, Public Accountant Merliyana Syamsul and KAP Satrio Bing, Enny & Deloitte Indonesia (cnnindonesia.com, 26 September 2018). They have audited and provided an opinion on SNP's financial statements and the report is used by Pefindo to rank SNP Finance. Two big names KAP Deloitte Indonesia who uphold professionalism in society are trusted not to commit irregularities, the fact turns out to say otherwise, SNP Finance failed to pay the MTN (Medium Term Note / Medium Term Notes) that had matured. When viewed, the financial statements owned by SNP Finance reflect untruths in the information. For this matter, SNP Finance is subject to administrative sanctions and freezing of business activities by OJK.

From this phenomenon, the auditor has not been able to provide guarantees for high audit quality. High audit quality can be seen from the level of auditor compliance with the procedures and provisions that should be carried out at the time of the audit. The auditor can be required to show high performance to produce a quality audit (Bambang and Walidin, 2005). In conducting an audit there are several factors that influence the auditor to produce a quality audit, one of which is a competent auditor. With competence, the auditor can find errors or procedural errors in the organization and it is very important for the auditor to be able to report these errors in his audit report.

Marlin Rusvitaniady (2014) stated that competence influences audit quality because auditors always increase their knowledge of auditing and supporting science, so they are considered to have high competence. In addition to being competent in carrying out audits, auditors must also have ethics in carrying out audits. Ethics in auditing is a systematic process of obtaining and objectively evaluating evidence regarding economic activity assertions, with the aim of determining the degree of correspondence between these assertions and communicating the results to interested parties. According to (Lubis, 2010), ethics is a high moral commitment as outlined in the form of special rules. These rules are the rules of the game in carrying out or carrying out the profession, which is usually called a code of ethics.

The code of ethics must be fulfilled and adhered to by every profession that provides services to the community and is a tool of trust for the wider community. Ethics is considered something of high value in everyday life as well as in the auditing process. When conducting auditing, auditors are required to be able to work and act in accordance with existing ethics and rules. Every profession that provides services to the community must have a code of ethics, which is a set of moral principles that govern professional behavior. Without professional ethics, there will be no accountants, because the function of accountants is as a provider of information for the business decision-making process by business people. Agoes.S (2004) in Trihapsari and Anisykurlillah (2016).

In the book of Code of Ethics for the Professional Public Accountant Section A, there are 5 principles of general application of the code of ethics, namely Integrity, objectivity, professional competence and prudence, confidentiality, and professional behavior. The Public Accounting Firm (KAP) as a business entity that has obtained permission from the Minister of Finance as a forum for public accountants in providing their services should be able to give confidence to the public for the opinions, they have given in the audit report. So that the quality of the audit either from the audit of financial statements or audit from good company operational standards can be achieved.

## **2. Methods**

The author conducted research on KAP located in South Jakarta. The research time was carried out for 1 (one) month, starting from July to August 2020 by distributing online questionnaires to auditors working at KAP South Jakarta via google form.

## **Population and Sample**

According to Sugiyono (1997:57) the definition of population is a generalization area consisting of objects or subjects that become certain quantities and characteristics determined by researchers to be studied and made a summary. Meanwhile, according to Namawi (1985: 141) states that the population is the totality of all possible values, both the results of counting or quantitative and qualitative measurements rather than certain characteristics regarding all objects that are collected completely. The population in this study are external auditors in general, especially those who work at the South Jakarta Public Accounting Firm. The research sample is part of the population taken as a data source and can represent the entire population. The sampling technique used in this research is purposive sampling. Sugiyono (2016, p. 24) says that "purpose sampling is a data sampling technique with certain considerations.

The research was only used as 6 KAPs for several reasons, including: because the questionnaire that was used as a sample was a questionnaire that was responded to by respondents via the google form, the reason the researcher used the method of distributing questionnaires through the google form was because of environmental conditions that were being affected by the Covid 19 pandemic, so several KAP (which became the research sample) suggested distributing questionnaires via online to reduce face-to-face contact, then there were several KAPs that did not accept the research questionnaires for their own reasons. One of them is that the auditor who works at the KAP is doing Work From Home (WFH) or working from home and another reason is that the KAP does not accept research during the Covid 19 Pandemic.

The number of questionnaires submitted was 90 copies. However, the data that were responded to by 6 KAPs through the google form were 74 or 82% of all the questionnaires answered. Based on gender, 52 respondents or 70% were male and 22 or 30% were female. For the age category, age <25 years are 12 respondents or 16%, age 26-35 years are 35 respondents or 47%, for age 36-35 years are 24 respondents or 32% and age > 55 years are 3 respondents or 4% . For the education category, D3 was 5 respondents or 7%, for S1 education was 67 respondents or 91% and S2 was 2 respondents or 3%. For the position category, for Partners there are 4 respondents or 5%, senior auditors are 32 respondents or 43%, junior auditors are 37 respondents or 37% and others are 1 respondent or 1%. For the category of length of work, < 1 year as many as 7 respondents or 9%, between 1-5 years as many as 36 respondents or 49%, between 6-10 years as many as 25 respondents or 34% and for length of work > 10 years as many as 6 respondents or equal to 8%. From the categories that have been determined by the researcher as above, the answers to the questions or statements that the researchers have made in the questionnaire will appear.

## **Hypothesis Test**

Hypothesis Testing is a method of making decisions based on data analysis, both from controlled experiments and from observations (uncontrolled). Hypothesis testing is divided into 2 types, namely:

### **Multiple Linear Regression Test**

#### **a. Partially Significant Test (T Test)**

The t-test is known as the partial test, which is to test how the influence of each independent variable individually (partial) on the dependent variable or by looking at the column-significance in each t-count, the t-test process is identical to the F-test.

#### **b. Simultaneous Significant Test / Anova Test Model (F Test)**

The F test is known as the simultaneous test or the Model test / Anova test, which is a test to see how all the independent variables affect the dependent variable together. Or to test whether our regression model is good/significant or not good/insignificant.

### **Coefficient of Determination**

The coefficient of determination ( $R^2$ ) is used to measure the extent to which the regression model is able to explain the variation in the dependent variable Y. The coefficient of determination is between zero and one ( $0 < R^2 < 1$ ).

## **3. Results and Discussion**

### **Overview of KAP**

The general description of the KAP is the history of the establishment of the KAP which is the sample of the researchers in this study which will be explained below.

#### *KAP Syarief Basir & Partners*

Russell Bedford SBR was founded in 1994. Since its inception, Russell Bedford SBR's professional team has continued to dedicate expertise and experience to developing and improving client company performance in various areas, including improving methods and technology, quality of service, and approach taken to understand client needs. . Russell Bedford SBR also maintains a strong commitment to excellence and integrity by positioning itself as a partner in client success.

#### *KAP Aidil Yuzar, SE.Ak, CPA*

Public Accounting Firm Aidil Yuzar, SE.Ak, CPA is an individual KAP that was established in 2012. Founded by Aidil Yuzar, SE.Ak, CPA Public Accountant who is very professional as an audit practitioner for more than 22 years. Solid and broad experience has been gained since working for 18 years in two "Big Four" Public Accounting Firms namely Prasetio, Utomo & Co - Arthur Andersen and Purwantono, Suherman & Surja - Ernst & Young (EY). Various audit assignments and other services have been carried out for State-Owned Enterprises, Public Companies, Banks, Hospitals, Foundations and Domestic Private Companies / PMDN and Foreign Private Companies (PMA). They have special expertise for auditing conventional and Islamic banks.

#### *KAP Heliantono & Partners*

Heliantono Public Accounting Firm was founded in 1996 by several senior partners from the largest professional services firm in Indonesia at that time. The company consists of selected professionals dealing in accounting, tax, management consulting and auditing services. On the other hand, Heliantono always provides better value or high-quality services that are better than the price.

#### *KAP Doli, Bambang, Sulistiyanto, Dadang & Ali*

KAP Doli, Bambang, Sulistiyanto, Dadang & Ali are registered public accountants which were merged from several Public Accounting Firms in 2000. Currently we have 20 accountant partners, thousands of professional staff who have deep experience as auditors, taxation, systems & information technology, cash flow management and has a strong commitment to developing Human Resources (HR). Public Accountants Doli, Bambang, Sulistiyanto, Dadang & Ali are registered members of BKR International, headquartered in New York, USA, which was ranked #5 in the 2010 IAB World Survey of the Leading Association of Independent Companies.

#### *KAP Yanuar & Riza*

KAP Yanuar & Riza, is a business development of KAP Drs. Yanuar Mulyana, which was established in 1994. In 2009, Riza Risaman was licensed as an Indonesian Public Accountant (CPA Indonesia) and joined the Company as a Partner. Effective June 2010 the Company's name was changed to Public Accounting Firm (KAP) Yanuar & Riza.

*KAP Liasta, Nirwan, Syafruddin & Partners*

For KAP Liasta, Nirwan, Syafruddin & Partners, the author has not received information about the history, nor the field of business he runs, either information from the KAP or information from the website owned by KAP Liasta, Syafruddin & Partners.

**Result**

Hypothesis testing is done to prove the hypothesis based on existing research. This test includes Multiple Linear Regression Test including T Test and F Test and Determination Test whose test results and explanations can be seen below:

**F Test Results**

The F statistical test basically shows whether all the independent variables included in the model have a joint effect on the dependent variable. (Ghozali, 2011). The test criteria is to compare the calculated F with the F table which can be known by calculating df1 where the total number of variables is  $- 1 / (k-1)$ , the result is  $df1 = 3-1 = 2$  and  $df2$  where the amount of data is - with a limit of df (degree of freedom) or the Degree of Freedom is divided into 2, namely:  $df (n1) = k-1$   $df (n2) = nk$

k = Number of Variables

n = Number of samples

$df(n1) = 3-1 = 2(n1) =$  Denominator

$df (n2) = 70-3 = 67 (n1) =$  numerator

The F table value is 2; 67, this value can be seen in the F table 0.05 and the value is 3.13. And the results of the F test can be seen in Table 1 below:

**Table 1. Multiple Linear Regression Test Results (F Test)**

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	398,583	6	66,431	13,292	,000 <sup>b</sup>
Residual	314,860	63	4,998		
Total	713,443	69			

*Source: SPSS Processed Data Output v.25*

From the results of the F test above, it is known that the calculated F value is 13.292 which means it is greater than F table 3.13 and the Sig value. (Significance) of 0.000 > (less than) 0.05. So it can be concluded that the null hypothesis is rejected and the alternative hypothesis is accepted which means that the X1 (Competency) and X2 (Ethics) variables simultaneously or together have a significant effect on Audit Quality (Y). The output of this ANOVA gives a real or significant effect of each variable together, as evidenced by the significance value of 0.000 which is smaller than the probability value of 0.05.

**Partial Test Results**

T test is used to partially test each variable. The results of the t test can be seen in the coefficients table in the sig (significance) column. If the probability value sign. <0.05, it can be said that there is an influence between the independent variables on the frontal variable partially. However, if the probability of t value or significance is greater than (>) 0.05, it can be said that there is no significant effect between each independent variable on the dependent variable.

Ho is accepted if t count < t table for a = 5% / 0.05

Ha is accepted if t count > t table for a = 5% / 0.05

T table is obtained from:

$df = (n - k)$

k = Number of Variables

n = Number of samples

$df = (70-3) df= 67$

T table of  $df 67 = 1.996$

Hypothesis Testing H1, H2 and H3 with T Test:

**Table 2. Multiple Linear Regression Test Results (T Test)**

Model	Coefficients <sup>a</sup>			t	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
1 (Constant)	15,363	5,082		3,023	,004
Kompetensi	,288	,071	,408	4,058	,000
Etika	,327	,082	,399	3,965	,000

Source: SPSS Processed Data Output v.25

Regression Equation:

$$Y = a + b_1X_1 + b_2X_2$$

Y : Predicted Value of Dependent Variable

a : Constant

b : Regression Coefficient

$$Y = 15.363 + 0.288X_1 + 0.327X_2$$

*First Hypothesis Testing (H1)*

From the table above, it can be seen that the coefficient of the influence of Competence (X1) on Audit Quality (Y) is 0.288 and the Sig value is known. for the effect of Auditor Competency of  $0.000 < 0.05$  and the value of t count  $4.058 > t$  table 1.996, so it can be concluded that H1 is accepted which means there is an influence of Competence (X1) on Audit Quality (Y). With the increase in the X1 variable, the Y variable will increase by 0.288.

*Second Hypothesis Testing (H2)*

From the table above, it can be seen that the coefficient of the influence of Auditor Ethics on Audit Quality is 0.327 and the Sig value is known. for the effect of Auditor Ethics (X2) on Audit Quality (Y) is  $0.000 < 0.05$  and the t value is  $3.965 > t$  table 1.996, so it can be concluded that H2 is

accepted which means that there is an effect of Auditor Ethics (X2) on Audit Quality (Y ). With the increase in the X2 variable, the Y variable will increase by 0.327.

*Third Hypothesis Testing (H3)*

From the results of the F test in Table 4.13, it is known that the calculated F value is 13.292, which is greater than F table 3.13 and the Sig value. (Significance) of 0.000 > (less than) 0.05. It can be concluded that, Variable X1 (Competency) and Variable X2 (Ethics) simultaneously have a significant effect on Audit Quality (Y).

**Coefficient of Determination Test Results (R2)**

The coefficient of determination in linear regression is often interpreted as how big the ability of all independent variables is as in explaining the variance of the dependent variable. Simply put, the coefficient of determination is calculated by squaring the Correlation Coefficient (R). And the results of the coefficient of determination can be seen in Table 4.15 below.

**Table 3. Coefficient of Determination Test Results**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,697 <sup>a</sup>	,485	,470	2,34094

Source: SPSS v.25. Processed Data Output

From the results of the Coefficient of Determination Test, it is known in the table above that the R value is 0.697, if it is represented by 69.7%, it shows the magnitude of the significant influence value. So it can be concluded that the influence of Auditor Competency and Ethics Variables on Audit Quality is quite significant, namely 69.7%. And the rest of 69.7% that is equal to 30.3% is influenced by other variables outside this study. While the value of R Square is .485, if it is represented at 48.5%, it shows the strength of the value of the influence of the 3 variables in this study. And the rest of 48.5% that is equal to 51.5% is influenced by other variables outside of this study.

**Discussion**

Departing from the phenomenon of KAP Deloitte Indonesia, which upholds professionalism in the community, it is believed that it will not deviate. It turned out that the facts said otherwise, SNP Finance failed to pay the MTN (Medium Term Notes) that had matured. When viewed, the financial statements owned by SNP Finance reflect untruths in the information.

*The Effect of Auditor Competence on Audit Quality*

The results of statistical testing in this study support the first hypothesis which states that "There is a positive and significant influence on auditor competence on audit quality at KAP in South Jakarta". This is evidenced by the t arithmetic value of 4.058 which is greater than the t table of 1.996 (4.058 > 1.996) and the significance obtained at the significance value obtained is 0.000 < 0.05 so that H1 is accepted. These results can be seen from the distribution of respondents' answers where almost all of the answers are agreeing and strongly agree. That at the time of carrying out the audit, the auditor must have adequate competence so that the higher the competence value possessed by the auditor, the higher the audit quality. Auditors who have adequate knowledge and experience will find it easier to keep up with increasingly complex developments in their client's audit environment. As is often mentioned in the third general standard (SA section 230 in IAI, 2001) that in carrying out an audit of the preparation of the report, the auditor is required to use professional skills, which means

that each auditor has an obligation to maintain, maintain professional knowledge and expertise to ensure that the client or employer benefit from competent professional services based on the latest developments in practice and techniques.

*The Effect of Auditor Ethics on Audit Quality*

The results of this study support the second hypothesis which states that "There is a positive and significant effect of auditor ethics on audit quality at KAP in South Jakarta". This is evidenced by the value of 3.965 which is greater than t table of 1.996 ( $3.965 > 1.966$ ) and the significance value obtained is  $0.000 < 0.05$ , meaning that the higher the ethical value possessed by the auditor, the higher the audit quality.

*Effect of Competence and Ethics of Auditors on Audit Quality Simultaneously*

From the results of the F test in Table 4.13, it is known that the calculated F value is 13.292, which is greater than F table 3.13 and the Sig value. (Significance) of  $0.000 >$  (less than)  $0.05$ . It can be concluded that, Variable X1 (Competency) and Variable X2 (Ethics) simultaneously have a significant effect on Audit Quality (Y). And the value of the Coefficient of Determination is known in Table 4.15 above, the R value is ,697, if it is presented at 69.7%, it shows the magnitude of the significant effect. So, it can be concluded that the influence of the Competence and Ethics of Auditors on Audit Quality is quite significant. Auditor competence, and auditor ethics together have a positive effect on audit quality. Auditor competence is the experience and knowledge of the auditor in performing an audit task. Auditors who have high competence can carry out audit tasks correctly and in accordance with established audit standards. It can be concluded that the higher the competence of an auditor, the higher the quality of the audit results produced.

#### **4. Conclusion**

From this research and from all the tests that have been carried out, it can be concluded that: Competence has a significant effect on audit quality. This shows that competence (expertise) supported by personal quality, expertise and knowledge possessed by an auditor is the basic capital needed by an auditor in the audit process, so as to improve audit quality. Ethics affects audit quality. This shows that the auditor performing his duties has complied with the principles of ethical behavior and complied with his professional behavior, will improve audit quality. Auditor competence and ethics have a simultaneous (together) effect on audit quality. If the auditor has high Auditor Competence and Ethics, the audit quality will be even better.

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