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The Influence of Independency, Competence, Accountability and Audit Firm Size on Audit Quality

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¹ **Abstract**— Audited financial statement is an assurance for users of financial statement for the reliability of the information they use for making business decisions. Audit quality is crucial because it relates to opinions on the fairness of the information in the financial statement. Audit held regarding general standards, fieldwork standards, and audit reporting standards. The implementation of these standards depends on various factors that contribute to the implementation and results of the audit. This study is intended to empirically examine the effect of competence, independence, accountability, and size of public accounting firms on audit quality. This study aims to test the hypothesis; therefore, this research is quantitative. Variables are measured using a 1-5 Likert scale. Hypothesis testing is done using Structural Equation Modeling (SEM), which makes it possible to measure latent variables and hypothesis testing simultaneously. This study provides empirical evidence that auditor's competence and accountability influence audit quality; therefore, Certified Public Accountant (CPA) Firms must continuously improve the auditors' competence and accountability in order to improve audit quality.

Keywords: Audit quality, Independency, Competency, Accountability, Audit Firm Size.

INTRODUCTION

The financial statements are the responsibility of management for corporate governance. The audit is carried out in order to assure users of financial statements for the reliability of the information contained in the financial statements used to make business decisions. Quality audits are essential because they relate to opinions relating to the fairness of the information in financial statements. Audits are organized based on general standards, fieldwork standards, and audit reporting standards. The implementation of this standard depends on various factors that determine audit quality.

This study was developed from previous research conducted by Alim et al. (2007) which found that competence and independence affect audit quality, and Kusmaeni's research (2009), which shows that competence significantly influences audit quality. This study aims to examine the impact of competence, independence, accountability, and size of public accounting firms on audit quality.

By using Structural Equation Modeling (SEM) as research hypothesis test tool, this study proves that audit quality is influenced by the competence and accountability of the auditor and therefore the public accounting firm must constantly improve the competence and accountability of their auditors to improve audit quality.

Stewardship Theory

Stewardship is a way in which someone protects something. The statement comes from the following three thoughts:

1. Stewardship involves a series of guiding principles on one's behavior
2. Stewardship based on behavior implies a series of actions to safeguard and protect something that is the right of others
3. The object of this guarding sequence of behaviors refers to behaviors to maintain resources which for many reasons are important to the interests of others (Contrafatto, 2014)

In the financial sector, stewardship can be defined as a synonym of accountability. There is a demand for "stewardship" for information in the form of financial accounts and reporting because this information is an important component for evaluating and managing economic and financial resources for the benefit of the company owner (O'Connell, 2007)

Audit Quality

Audit quality can be defined as careful and periodic testing of financial reports in assessing consistency, accuracy, and fairness from the use of generally accepted accounting standards (Goldman & Barlev, 1974), So it gives greater assurance of high financial reporting quality (Defond, 2014)

Based on Alim et al. (2007), audit quality can be seen from three dimensions

1. General standards were consisting of statements regarding the criteria of people who are eligible to carry out audit duties (having expertise and training in the audit field, having an independent and skeptical attitude).
2. Field work standards which include questions regarding engagement, planning, supervision, collection and testing of evidence, findings and documentation.
3. Reporting standards consisting of questions concerning measured by employment indicators according to auditing standard, review of working papers and review of reports (Alim, Hapsari, & Purwanti, 2007)

Competence

Competence can be said as a series of careful actions, responsible that is owned by a person as a condition that is considered capable by the community in completing tasks in a particular field (M. P. N. R. Indonesia, 2002)

Auditor competence can be seen from the following dimensions:

1. Component of knowledge. This component includes knowledge, procedures, and experience
2. Psychological characteristics such as the ability to communicate, creativity and the ability to cooperate with others (Mayangsari, 2003)

Independency

Independence can be interpreted as an action that is not easily influenced. Public accountants do not act in the context of meeting the interests of one party. Public accountants should be honest not only to management and the company but also to creditors and other parties who place trust in the work done by public accountants (I. A. Indonesia, 2001)

Accountability

Tan and Alison (1999) explained that accountability could be used by public accounting firms to influence auditor performance. Accountability can be measured from three factors:

1. Task complexity: defined by the characteristics of the task brought in which includes the amount of information to be processed and the number and stages of the steps that must be carried out to complete the task
2. Knowledge: when the complexity of the task increases, accountability can help to improve audit quality if the auditor has adequate knowledge
3. Ability to solve problems: accountability will make auditors who have sufficient ability to solve problems that require great effort to complete the task (Tan & Kao, 1999)

Accountability can be defined as an attitude that is responsible for implementing a predetermined standard to fulfill other obligations and responsibilities (DeZoort, Harrison, & Taylor, 2006)

Audit Firm Size

The size of a public accounting firm is something related to the capabilities of the accounting firm concerned. The greater the public accounting firm, the more likely the resources will be (Sawan & Alsaqqa, 2013). Therefore the size of the public accountant firm can be seen from several measurements including the use of the size of the number of employees working in the accounting firm concerned and the number of CPAs in the audit firm (Krishnan & Schauer, 2000)

Kusharyanti (2003) explained that to audit influential factors is knowledge. Therefore the first hypothesis in this study is

H₁: Competence will be positively related to audit quality

Alim et al. (2007), explained that audit quality has a significant effect on independence. This is related to the client's behavior towards the auditor. Clients who want audit results according to their needs, will treat the auditor better. But when dealing with these situations, the auditor must be firm. Therefore the second hypothesis in this study is

H₂: Independency will be positively related to audit quality

Tan and Alison (1999), explain that accountability is something that can affect the auditor's performance. Therefore the third hypothesis in this study is

H₃: Accountability will be positively related to audit quality

Krishnan and Schauer (2000) explain that the size of a public accounting firm can reflect audit quality. Krishnan and Schauer (2000) explained that the greater the size of a public accounting firm, the greater the tendency to comply with generally accepted accounting principles. Therefore the fourth hypothesis in this study is

H4: Audit Firm Size will be positively related to audit quality

METHOD

The approach used to test the research hypothesis is a Quantitative Approach by using the Structural Equation Modeling (SEM) method. This method is the second generation after the Regression method. The SEM method has several advantages, including that it can be used for research with variables that cannot be measured directly (latent variables) with smaller errors compared to the Regression method.

This study uses survey data collection methods with questionnaires distributed in the form of questions as a data collection tool to obtain an overview of the research variables while the data used in this study is primary data (Bungin & Sos, 2010). Questionnaires were distributed to 40 public accounting firms in Surabaya. The questionnaire that was processed was 179 sheets out of 205 questionnaires distributed. Variable measurement in this study uses 1-5 Likert scale.

Operational Definitions

Operational definitions used in each variable in this study are as follows:

a. Competence

Competency variables in this study are measured in the following three dimensions:

1. Expertise: to carry out audit tasks, it requires knowledge (general and specific knowledge) of knowledge about auditing and accounting and understanding of the client industry (Kusharyanti, 2003)
2. Experience: the more experienced the auditor will have a better understanding of the financial statements so that decisions can be made better. Moreover, experienced auditors will be able to classify errors based on audit objectives and structures that form the basis of the accounting system. (Kusharyanti, 2003)
3. Communications: communication is the process of conveying information from one party to another. Good communication can produce good quality work because information about a series of jobs must be conveyed clearly (Robbins, 2009)

b. Independency

This study refers to the explanation of Lavin (1976) that independence is influenced by three things including Audit Tenure, Client Pressure and Non-Audit Service (Lavin, 1976)

c. Accountability

This study refers to the explanation of Tan and Alison (1999) which explains that accountability can be measured using three factors including the complexity of the task, knowledge, and ability to solve problems (Tan & Kao, 1999)

d. Audit Firm Size

This study refers to the explanation of Khishnan and Schauer (2000) that the size of the accounting firm's size in this study is measured in two dimensions: the number of CPAs working in the audit firm concerned and the number of employees in the accounting firm concerned (Krishnan & Schauer, 2000)

e. Audit Quality

This study refers to the explanation of Alim et al. (2007) that audit quality variables in this study using three dimensions including General Standards, Field Work Standards, and audit reporting standards (Alim et al., 2007)

Sample and Population

The population in this study is an auditor who works in a public accounting firm in Surabaya. While the sample in this study is an auditor, who works in a public accounting firm in Surabaya with a minimum of two years work period. The reason for choosing the sample in this study is because auditors who have adequate experience and knowledge will have an important role in the audit implementation process

Equations

Structural models in this study are as follows

$$\begin{aligned}
 X_1 &= \lambda_{X_{11}} \xi_1 + \delta_1 & X_7 &= \lambda_{X_{73}} \xi_3 + \delta_7 \\
 X_2 &= \lambda_{X_{21}} \xi_1 + \delta_2 & X_8 &= \lambda_{X_{83}} \xi_3 + \delta_8 \\
 X_3 &= \lambda_{X_{31}} \xi_2 + \delta_3 & X_9 &= \lambda_{X_{93}} \xi_3 + \delta_9 \\
 X_4 &= \lambda_{X_{42}} \xi_2 + \delta_4 & X_{10} &= \lambda_{X_{104}} \xi_4 + \delta_{10} \\
 X_5 &= \lambda_{X_{52}} \xi_2 + \delta_5 & X_6 &= \lambda_{X_{62}} \xi_2 + \delta_6 \\
 & & X_{12} &= \lambda_{X_{124}} \xi_4 + \delta_{11}
 \end{aligned}$$

$$\begin{aligned}
 Y_1 &= \lambda_{y_{11}} \eta_1 + \varepsilon_1 & Y_2 &= \lambda_{y_{21}} \eta_1 + \varepsilon_2 \\
 & & Y_3 &= \lambda_{y_{31}} \eta_1 + \varepsilon_3
 \end{aligned}$$

$$\eta_1 = \gamma_{11} \xi_1 + \gamma_{12} \xi_2 + \gamma_{13} \xi_3 + \gamma_{14} \xi_4 + \zeta_1$$

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Where :

- X_1 = Expertise
- X_2 = Experience
- X_3 = Communication
- X_4 = Audit Tenure
- X_5 = Client Pressure
- X_6 = Non Audit Service
- X_7 = Motivasi penyelesaian masalah
- X_8 = Review Tension
- X_9 = Problem Solving Ability
- X_{10} = Number of partner
- X_{11} = Number of auditor staff
- Y_1 = General Standard
- Y_2 = Working Field Standard
- Y_3 = Reporting Standard
- ξ_1 = Competence
- ξ_2 = Independence
- ξ_3 = Accountability
- ξ_4 = Audit Firm Size
- δ = Delta (error)
- η_1 = Audit Quality

RESULT AND DISCUSSION

The statistical results in this study indicate that competence and accountability have a significant impact on audit quality with P-value valued at 0.002, while the independence and size of the accounting firm are not proven to significantly influence audit quality, as shown in Appendix Table 1 and Table 2.

a. *Influence Competence to Audit Quality*

The influence of competence on audit quality is positive with the magnitude of the influence of 0.781. The effect generated from competency on audit quality is significant because P-value is 0.002, which is smaller than 0.05, which means that the hypothesis H_1 is received while H_0 rejected. Therefore the hypothesis that states that competence has a positive impact on audit quality is proven to be true

b. *Influence Independence to Audit Quality*

The influence of independence on audit quality is positive, with a magnitude of 0.156. Impact The independence of audit quality is not significant because the value of P-value is 0.138, which is greater than the error rate used in the study of 0.05. Therefore, H_0 accepted, and H_1 rejected. Therefore the hypothesis which states that independence has a significant positive effect on audit quality is not proven true

c. *Influence Accountability to Audit Quality*

The effect of accountability on audit quality is positive, with a magnitude of influence of 0.723. Influence of accountability for audit quality is significant because P-value is 0.002, which is smaller than the standard 0.005 error, which means H_1 accepted and H_0 rejected. Therefore the hypothesis which states that accountability is significantly positive on audit quality is proven to be true.

d. *Influence Audit Firm Size to Audit Quality*

The effect of the size of the accountant's office on audit quality is positive, with a magnitude of 0.140. The effect of the size of the public accounting firm on audit quality is not significant because the P-value is 0.713, which is greater than the standard error 0.05, which means H_0 accepted and H_1 rejected. Therefore the hypothesis which states that the size of a public accounting firm has a significant positive relationship is not proven true

CONCLUSION

This study aims to examine whether the variables of competence, independence, accountability, and size of public accounting firms have an influence on audit quality. The results obtained are not entirely in accordance with previous studies. This study provides empirical evidence that competency and accountability have a significant positive effect on audit quality while the independence and size of public accounting firms have a positive but insignificant effect. This study provides empirical evidence that audit quality is influenced by the competence and accountability of auditors therefore public accounting firms should continue to carry out education and training to improve the competence and accountability of their auditors in order to maintain audit quality.

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