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The effect of auditor ethics, auditor independence, and auditor experience on audit quality

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ABSTRACT

Purpose: This study aims to analyze the effect of auditor competence, auditor independence, and auditor professionalism on audit quality at Public Accounting Firms in East Jakarta and Central Jakarta.

Methods: This research is associative with a causal relationship, focusing on auditors at Public Accounting Firms in East and Central Jakarta who are listed in the IAPI Directory. The sample was taken purposively from 100 auditors. Data were collected through a directly delivered questionnaire, and hypothesis testing was conducted using the t-test.

Findings: The results showed that (1) Auditor ethics has a positive effect on audit quality, (2) Auditor independence has a positive effect on audit quality, and (3) Auditor experience has a positive effect on audit quality.

Practical Implications: The results of this study confirm the importance of ethics, independence, and auditor experience in improving audit quality. Best practices for accounting firms are building a strong ethical culture, ensuring work independence, and enhancing auditor experience through continuous training and development to achieve higher-quality audit results.

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Abstrak

Tujuan: Penelitian ini bertujuan untuk menganalisis pengaruh kompetensi auditor, independensi auditor, dan profesionalisme auditor terhadap kualitas audit di Kantor Akuntan Publik di Jakarta Timur dan Jakarta Pusat.

Metode: Penelitian ini adalah asosiatif dengan hubungan kausal, berfokus pada auditor di Kantor Akuntan Publik di Jakarta Timur dan Pusat yang terdaftar dalam Direktori IAPI. Sampel diambil secara purposive dari 100 auditor. Data dikumpulkan melalui kuesioner yang disampaikan langsung, dan pengujian hipotesis dilakukan dengan uji t.

Hasil: Hasil penelitian menunjukkan bahwa: (1) Etika auditor berpengaruh positif terhadap kualitas audit (2) Independensi auditor berpengaruh positif terhadap kualitas audit (3) Pengalaman auditor berpengaruh positif terhadap kualitas audit.

Implikasi Praktis: Hasil penelitian ini menegaskan pentingnya etika, independensi, dan pengalaman auditor dalam meningkatkan kualitas audit. Praktik terbaik bagi firma akuntan adalah membangun budaya etika yang kuat, memastikan independensi dalam pekerjaan, serta meningkatkan pengalaman auditor melalui pelatihan dan pengembangan berkelanjutan, guna mencapai hasil audit yang lebih berkualitas.

Kata Kunci: Etika Auditor, Independensi Auditor, Pengalaman Auditor, Kualitas Audit

1. Introduction

An audit is a systematic, independent, and documented process for obtaining and evaluating evidence objectively to determine the extent to which audit criteria have been met (SNI 19-19011-2005). In this increasingly complex world, companies must be more critical in choosing a Public Accounting Firm (KAP) to audit their financial statements. This is important because the public considers audited financial statements more reliable than unaudited reports. Thus, the public accounting profession plays a vital role in maintaining public trust in the financial information presented by the company. Audit quality is strongly influenced by several factors, especially auditor ethics, independence, and experience possessed by auditors. Audit quality can be defined as the reliability and accuracy of the resulting audit results, which requires auditors to comply with a specific code of ethics and professional principles. Therefore, the public and stakeholders should care about this issue because the quality of financial statements directly impacts the economic decisions made by investors, regulators, and other stakeholders.

Previous studies have shown varying results regarding the effect of auditor ethics on audit quality. Research by Rahayu (2016), Asysyfa and Rahmaita (2018), and Mulyani and Ika (2019) shows that auditor ethics have a positive effect on audit quality. However, recent research conducted by Hardiningsih et al. (2019) underlines the importance of the combination of auditor ethics, independence, and experience in producing high audit quality. This shows that research on the relationship between auditor attitudes and audit quality is still very relevant and should continue to be researched. While previous studies provide valuable insights, there is still a lack of studies that comprehensively combine these three factors in the Indonesian context, particularly in East and Central Jakarta. Another weakness is the lack of studies that directly examine the concrete effects of auditor experience during the audit process. Therefore, there remains a challenge in understanding how each factor interacts and affects audit outcomes holistically.

This study aims to empirically prove the effect of auditor ethics, auditor independence, and auditor experience on audit quality. This research is expected to provide benefits for practitioners in accounting to improve audit quality standards through a better understanding of the factors at play. In addition, the practical contribution of this research is expected to assist companies in choosing the right auditor and increasing public confidence in professionally audited financial statements.

2. Theoretical Background

Attribution theory

According to Fritz Hyde, the founder of attribution theory, it explains human behavior. Attribution theory describes the process of determining the causes and motivations of a person's behavior. This theory refers to how a person explains the reasons behind the behavior of others and themselves. It can be determined by internal aspects such as characteristics, personality, and attitudes or external elements such as certain environmental situations or pressures that influence individual behavior.

Virtue ethics theory

The Greek philosopher Aristotle proposed virtue ethics theory, focusing on individual character. Virtue theory is the basis for hypothesizing that auditors' behavior will affect their performance because it is related to the character of individuals committed to their profession. The relationship between an auditor's commitment to organizational goals and successful performance shows that success and performance in a field of work are determined mainly by professionalism, so professionalism must be supported by commitment to the organization.

Hypotheses

The effect of auditor ethics on audit quality

Auditors need to consider ethics to make fair decisions, reflecting the truth and actual conditions. Principles related to ethical behavior, such as honesty and integrity, are essential for auditors. This assessment is crucial because it demonstrates the need to measure auditors' understanding of applicable ethics. Professional accountants follow guidelines such as the Indonesian Accountants Code of Ethics, which provide direction and enable auditors to make responsible decisions. Research by Titin Rahayu (2016), Putri Asysyfa and Rahmaita (2018), and Mulyani and Ika (2019) found that auditor ethics affect audit quality, in line with research by Pancawati Hardiningsih et al. (2019) and Amos O. Arowoshegbe et al. (2017) which shows a positive and significant effect of auditor ethics on audit quality. Based on this, the researcher proposes a hypothesis.

H1: Auditor ethics has a positive effect on audit quality

The Effect of Auditor Independence on Audit Quality

According to Mulyadi (2011: 26), independence is a mental attitude free from influence and independent of other parties, reflecting the honesty and objectivity of the auditor in formulating his opinion. The auditor's independent attitude, which is impartial and has no personal interest, is critical to ensure that interested parties do not influence audit quality. Research by Maharany et al. (2016), Irwanti Bunga Nurjanah (2016), and Zayol Patrick I et al. (2017) show that auditor independence affects audit quality. These results align with Aprilia Puspitasari et al. (2019)

research, which found that independence has a positive and significant effect on audit quality. By having a highly independent attitude, auditors can produce quality audits based on objective findings without the influence of other parties. Based on this explanation, the researcher proposes a hypothesis.

H2: Auditor independence has a positive effect on audit quality.

The Effect of Work Experience on Audit Quality

The experience of public accountants increases as the number of audits and the complexity of financial transactions increase, increasing their knowledge in accounting and auditing. The longer the auditor's tenure and experience, the better the audit quality. Graham (1985) and Shapero et al. (2003) noted that audit failures are usually caused by omitting essential audit procedures, not inadequate ones. Research by Putu Delsi Nia Sarca and Ni Ketut Rahmini (2019) and Titin Rahayu (2016) shows that work experience has a positive effect on the quality of examination results; the more experience the auditor has, the higher the quality of the results. Based on this explanation, the researcher proposes a hypothesis.

H3: Auditor experience has a positive effect on audit quality.

3. Methods

This research design adopts an associative strategy to analyze the causal relationship between Auditor Ethics, Auditor Independence, and Auditor Experience on Audit Quality. This study focuses on the population of Public Accounting Firms (KAP) located in East Jakarta and Central Jakarta, with 76 KAPs. This data was taken from the Financial Services Authority (OJK).

samples and procedures

In this study, primary data was used to reflect the perception or opinion of auditors as respondents to various questions in the questionnaire. This questionnaire measures independent variables such as ethics, independence, and auditor experience, and the dependent variable, audit quality. The sample selection process was carried out using the purposive sampling method, with the following criteria: (1) KAP in East Jakarta and Central Jakarta registered with the Ministry of Finance of the Republic of Indonesia (Kemenkeu RI) and the Financial Services Authority (OJK). (2) Auditors with positions as Senior Auditors / Managers / Partners / Supervisors with a minimum of 1 year of experience because the data obtained from KAP requires auditors with high knowledge, understanding, and experience. So, 100 data can be used as sample data.

Data analysis techniques

In this study, data analysis using multiple linear regression with SPSS software version 25, starting with descriptive statistical tests to identify the characteristics of the collected data. Furthermore, the study meets the classical assumption test, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. After that, a hypothesis test is conducted using the T-test to evaluate the effect of auditor ethics, auditor independence, and auditor experience on audit quality, as well as a determination coefficient test to measure the impact of these variables compared to other variables outside this study. Thus, the multiple regression analysis model in this study is described as follows:

$$\text{Audit quality} = \alpha + \beta_1\text{Ethics} + \beta_2\text{Independence} + \beta_3\text{Experience} + e$$

4. Results and Discussion

Descriptive statistical test

Table 1 presents data on the auditor ethics variable, where the minimum value obtained is 26.00, and the maximum value reaches 40.00. The average total answer for this variable is 33.64, with a standard deviation of 3.60.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Auditor Ethics	100	26,00	40,00	33,64	3,60
Auditor Independence	100	24,00	40,00	32,77	3,74
Auditor Experience	100	24,00	40,00	30,44	3,31
Audit Quality	100	27,00	40,00	33,03	3,79

Source: Data processed with SPSS Version 25, 2022

Furthermore, the descriptive statistical analysis for the auditor independence variable shows a minimum answer of 24.00 and a maximum of 40.00, with an average total answer of 32.77 and a standard deviation of 3.74. In addition, for the auditor experience variable, the minimum value achieved is 24.00, and the maximum is also 40.00, while the average total answer obtained is 30.44, with a standard deviation of 3.31. Finally, the analysis for the audit quality variable shows that the minimum value is 27.00 and a maximum of 40.00, with an average total answer of 33.03 and a standard deviation of 3.79.

Hypotheses testing

Table 2 presents the regression coefficient values for each variable in this study, which allows the following regression equation to be formulated:

$$Y = 5.350 + 0.061 \text{ Auditor Ethics} + 0.251 \text{ Auditor Independence} + 0.572 \text{ Auditor Experience}.$$

This equation shows that the constant value of 5.350 indicates that if the variables Auditor Ethics, Auditor Independence, and Auditor Experience are considered constant or have a zero value, audit quality is predicted to increase by 5.350 units or 535.0%. The regression coefficient for the Auditor Ethics variable of 0.061 means that every one-unit increase in Auditor Ethics will increase audit quality by 0.061 units or 6.1%, assuming other variables remain constant. Meanwhile, the coefficient for the Auditor Independence variable of 0.251 indicates that a one-unit increase in Auditor Independence will impact increasing audit quality by 0.251 units or 25.1%. Finally, the regression coefficient for the Auditor Experience variable 0.572 indicates that every one-unit increase in Auditor Experience will increase audit quality by 0.572 units or 57.2%, assuming the other variables do not change. The results of the T-test covering Ethics, Independence, and Auditor Experience on Audit Quality show that the Auditor Ethics variable has a significance value of less than 0.05 and a t-count value more significant than the t-table ($0.000 < 0.05$ and $3.715 > 1.985$),

Table 2. Hypotheses testing

Model	Unstandardized Coefficients	Standardized Coefficients		T	Sig.
	B	Std. Error	Beta		
(constant)	5,350	3,516	–	1,522	1,522
Auditor Ethics	0,061	0,097	0,058	3,715	0,628
Auditor Independence	0,251	0,092	0,248	4,661	2,722
Auditor Experience	0,572	0,095	0,500	7,291	6,000
	R		0,650		
	Adjusted R Square		0.405		

So it can be concluded that ethics has a positive effect on audit quality. Likewise, the Auditor Independence variable also shows a significance value of less than 0.05 and a t-count value that exceeds the t-table ($0.000 < 0.05$ and $4.661 > 1.985$), indicating that independence positively affects audit quality. In addition, the Auditor Experience variable also shows similar results, with a significance value below 0.05 and a t-count greater than the t-table ($0.000 < 0.05$ and $7.291 > 1.985$), so it can be concluded that experience also has a positive effect on audit quality. Table 2 shows that the adjusted R square coefficient value is 0.405 or 40.5%, which means that the variables of Auditor Ethics, Auditor Independence, and Auditor Experience can explain 40.5% of the variation in audit quality. In addition, the correlation coefficient (R) in Table 2 is 0.650, indicating that the relationship between the independent variables and the dependent variable is relatively strong because the correlation coefficient value is above 0.05.

5. Conclusion

This study shows that auditor ethics applied by auditors in Public Accounting Firms in East Jakarta and Central Jakarta have a positive and significant influence on audit quality. This finding aligns with the theory of virtue ethics, which emphasizes that auditors' commitment to ethical behavior can improve their performance in carrying out audit tasks. In addition, auditor independence contributes significantly to audit quality, where independent auditors are better able to produce high-quality audits. Experience also plays a vital role because more experienced auditors tend to gain higher public trust in the quality of their audits.

On the other hand, this study also faced several limitations, primarily related to the number of questionnaires successfully collected, namely 88 questionnaires offline and 12 online. The process of distributing and collecting these questionnaires was hampered by the COVID-19 pandemic, which made it challenging to access Public Accounting Firms and forced some auditors to work from home, resulting in reduced participation. For further research, researchers should add variations to the independent variables, such as audit expertise, accounting knowledge, and considerations, which can affect audit quality. In addition, regulators are expected to increase supervision of audit practices in Public Accounting Firms to improve audit results. Auditors are also advised to pay more attention to aspects of ethics, independence, and

their experience to enhance the quality of the audits produced. Further researchers are advised to expand the research population and explore the material of the variables to be studied to obtain more representative and relevant results

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