

# The Effect of Competence and Independence Of Auditors on the Auditquality

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## ABSTRACT

This study aims to determine the effect of the competence and independence of auditors. This research is motivated by a large public accounting firm (KAP) were suspended in this case because of poor competence and independence of the auditors that affect audit quality that occurs on Public Accountants.

Competence and independence of auditors that will either result in a good quality audit. Probability auditors found materiality misstatement depends on the quality of the auditor's understanding (competence) while reporting misstatements depends on auditor independence. Audit quality is a probability that the auditor will discover and report irregularities in the client's accounting system.

The unit of analysis in this study is a Public Accounting Firm (KAP) in Yogyakarta. The population in this study were all auditors working in KAP. Sampling was done by using purposive sampling method, and the total sample of 50 respondents. The primary data collection method used was a questionnaire method. The data analysis technique used in this study is the technique of multiple line regression analysis.

Results of research conducted showed that the competence and independence of the significant effect of 35.9% on audit quality.

**Keywords:** Competence, Independence, audit quality

## I. Introduction

The audit profession has become the public spotlight in recent years. Starting from the case of Enron in the U.S. until the case of Telkom in Indonesia increasingly questioned the credibility of auditors. Cases of non-recognition of the Telkom by SEC in which the SEC would have a special reason why they do not acknowledge the existence of KAP EP (Nizarul Alim M., et al, 2007). This is related to the competence and independence of the auditor is still in doubt by the SEC, where competence and independence are two characteristics at once to be possessed by the auditor (Nizarul Alim M., et al, 2007).

An auditors are in a dilemma situation, on one hand should be an independent auditor that's gives an opinion for the fairness of the financial statements relating to the interests of many parties, but on the other hand he also must be able to meet the demands of the clients to pay a fee for his services that are satisfied with their job and continue to use his services in the future. A unique position that which puts the auditor in the dilemma situations that can affect the quality of their job.

Based on the background above, the researchers wanted to know how big the influence for the competence and auditor independence on the audit quality.

## II. The Theory and Hypotheses

### 2.1 Competence

Lee and Stone (1995) defines competence as: The expertise that can be used explicitly enough to conduct audits objectively.

According to Spencer and Spencer (1993: 9) stated the competence as:

*“an underlying characteristic's of an individual which is causally related to criterion – referenced effective and or superior performance in a job or situation”*

Based on the description above, it can be deduced that the competence of the auditor is that the auditor with sufficient knowledge, experienced and explicit can do the audit with objectively, carefully and thoroughly.

## 2.2 The independence

The independence by Arens et al. (2008: 111) means taking an unbiased viewpoint.

Frankel et al (2002) : *“The Securities and Exchange Commission (SEC) defines independence as a mental state of objectivity and lack of bias”*.

The independence means that the public accountant can't easily be affected by the public, because he carries out the work to the public interest. Public accountants are not justified favoring the interests of anyone. The auditor is obliged to be honest not only to the management and owners of the company, but also to creditors and other parties who put confidence in the work of public accountants. Independent mental attitude includes independent infact and the appearance (IAI 2001).

## 2.3 The Audit Quality

According to De Angelo (1981) Audit quality is defined as follows:

"The audit quality is the probability that the auditor will discover and report irregularities in the client's accounting system. The probability of finding material misstatement the auditor depends on the quality of the auditor's understanding (competency) while reporting misstatements depends on auditor independence".

According to Dopouch and Simon in producing quality audit:

"The audit quality is proxied by reputable public accounting firm."

And according to Francis and Wilson while in producing the audit quality:

"The audit quality proxied by the reputation (name brand) and the number of client-owned public accounting firm."

Of the three statements above, it can be concluded that the combined probability of the audit quality as an auditor is to be able to find and report the fraud occurring in the client's accounting system where audit quality is proxied by the number of clients and the reputation of the firm owned. Probability auditors to report irregularities that occurred in the accounting system clients depend on the auditor independence.

## 2.4 The framework

### 2.4.1 The Influence of competence on the audit quality

The influence on the audit quality competency is determined by two factors: competence and independence (AAA) Financial Accounting Standards Committee, (2000).

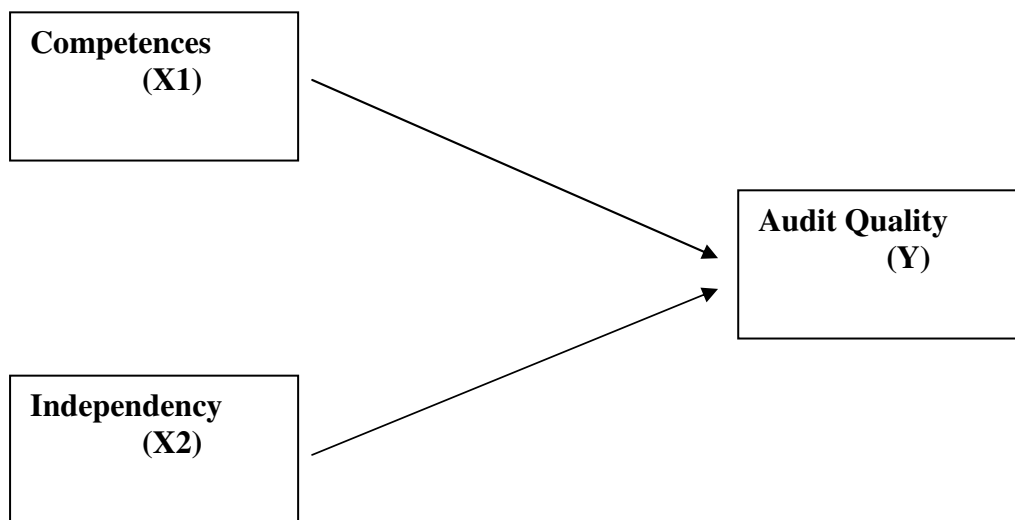
Nizarul M. Alim (2007) states that: The competence significantly affects audit quality. This means that the audit quality can be achieved if the auditor has a good competence in which competency is composed of two dimensions of experience and knowledge.

### 2.4.2 The effect of independence on the audit quality

Nizarul M. Alim (2007) states that: that the independence significantly affects the audit quality.

Figure  
 M. Nizarul Alim (2007)  
 (AAA Financial Accounting Standard Committee 2000).

1.1



### 2.5 Hypothesis

Based on the framework above, the hypotheses in this research are: Competence and Independence influence the audit quality

### III. The Methodology of the research

The method of this research is that aims to explain the causality of phenomena in the form of influence between variables (Mustafa et al., 2007). Analysis of the data in this research will be performed using simple linear regression analysis, and Pearson correlation coefficient of determination.

#### 3.1 Hypothesis Testing

Each hypothesis is described as follows:

Ho:  $\beta_1=0$  (the competence and independence of the auditor have no significant effect on the audit quality).

Ha:  $\beta_1 \neq 0$  (the competence and independence of the auditor have a significant effect on the audit quality).

### IV. Analysis

The calculation results using SPSS regression equation can be seen in the following table:

**Table 4.1 Double equality linear regression**

		Coefficients <sup>a</sup>				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	10,578	3,867		2,735	,009
	Kompetensi (X1)	,366	,170	,282	2,159	,036
	Independensi (X2)	,918	,287	,418	3,200	,002

a. Dependent Variable: Kualitas Audit (Y)

The results of the calculation above show that the value of constants (a) is 10.578, b1 and b2 are 0.366 and 0.918. That is, it can be formed into a multiple linear regression equation as follows:

$$Y = 10.578 + 0.366 X_1 + 0.918 X_2$$

The equation above can be interpreted as follows:

$a = 10.578$  means: if two independent variables (competence and independence) is zero (0), then the audit quality variables (Y) will be valued at 10.578.

$b_1 = 0.366$  means: if competence (X1) increases by one, while independence (X2) is constant, then the quality of the audits (Y) will increase by .366.

$b_2 = 0.918$  means: if independence (X2) increased, while competence is constant, then the quality of the audits (Y) will be increased by .918.

**Table 4.2 The analyst result for the simulant correlation**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599 <sup>a</sup>	.359	.332	3,69651

a. Predictors: (Constant), Independensi (X2), Kompetensi (X1)

Based on the output table above, obtained the information that the value of the correlation coefficient (R) obtained between the competence and independence of the audit quality is equal to 0.599. Correlation value is positive, which shows that the relationship between the two is unidirectional. Where the higher competence and independence, it will be followed by the higher audit quality. Based on the interpretation of Guilford, 1994, the correlation value of 0.599 included into the category of relationship is strong enough, in the range from 0.400 to  $0.700 \geq$  intervals.

**Table 4.3 The analyst result for the determination correlation**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599 <sup>a</sup>	.359	.332	3,69651

a. Predictors: (Constant), Independensi (X2), Kompetensi (X1)

From the output table above, it can be seen that the value of the correlation coefficient (R) obtained between the competence and independence of the audit quality is equal to 0.599, thus the coefficient of determination can be calculated as follows:

$$\begin{aligned}
 KD &= r^2 \times 100\% \\
 &= (0.599)^2 \times 100\% \\
 &= 35.9\%
 \end{aligned}$$

Based on the calculation above shows that the value of the coefficient of determination (R-Square) amounted to 35.9%. This shows that the competence and independence are jointly contributing effect on audit quality by 35.9%, while the remaining  $100\% - 35.9\% = 64.1$  is the influence of other variables not examined.

Simultaneous hypothesis testing is done to prove that the conjecture whether the two independent variables studied have a significant influence on the dependent variable.

The formulation of the hypothesis is as follows:

$H_0: \beta_1 = \beta_2 = 0$ , meaning that the competence and independence together did not have a significant impact on audit quality.

$H_a: \beta_1 \neq \beta_2 \neq 0$ , meaning that the competence and independence together have a significant impact on audit quality.

Significance level ( $\alpha$ ): 0.05

Criteria test: reject  $H_0$  if the value of t count > t-table,  $H_a$  than

Value of F-test statistic can be seen from the table the following output:

## 5. Conclusion

A significant difference between the competence and independence of the auditors on audit quality. The higher the competence and independence of the auditor, the higher the quality of the resulting audit.

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