

The Effect of Competency, Independency, and Motivation of Auditor on Audit Quality

(Empirical Study on Public Accounting Firms in Bali)

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Abstract—Audit quality is the probability of an auditor in finding violation and reporting an error or fraud that occurs in the clients accounting system. This study examines the influence of auditor competence, auditor independence, and auditor motivation on audit quality at public accountant office in Bali partially and simultaneously. Data collection in this study using questionnaires with purposive sampling, so that obtained 40 research samples. Respondents in this study are auditors who work at Public Accounting Firm in Bali registered with Indonesian Institute of Certified Public Accountant (IAPI). This study used the analysis technique of multiple linear regression. The result of the research shows that auditor competence has positive and significant effect on audit quality, auditor independence has a positive and significant effect on audit quality, motivation of auditors has a positive and significant effect on audit quality, and simultaneously variables of auditor competence, auditor independence and auditor motivation have a significant effect on audit quality at public accountant office in Bali while adjusted R square is 65,1 % variation of audit quality is influenced by model formed by auditor competence, auditor independence, and auditor motivation.

Keywords—competency, independency, motivation, audit quality

I. INTRODUCTION

Lately, public trust in the public accounting profession and the audit quality produced is being questioned. This is because the occurrence of cases such as Purwantono, Suherman and Surja, which is a partner of Ernst & Young's (EY) public accounting firm in Indonesia, agreed to pay US \$ 1 million (around Rp. 13.3 billion) in fines to American regulators. States, due to being convicted of failing to audit their client's financial statements. The agreement was announced by the US Public Accountant Oversight Board (PCAOB) on Thursday, February 9, 2017, Washington time. Members of the EY network in Indonesia who announced the results of an audit of a telecommunications company in 2011 provided an opinion based on inadequate evidence.

The case in Bali is happened to one of the Public Accountants in Denpasar, namely the Minister of Finance suspended the Public Accountant license for six months. The closing of the permit stated in the Decree No. 325 \ / KM.1 \ /

2007 began to take effect on May 23, 2007. Sanctions on closing of licenses were granted because the Public Accountants breaking the rules of the Public Accountants Professional Standards (SPAP) in the audit of Bali Hai Resort's financial statements and Spa for the 2004 financial year which has the potential to have a significant effect on the Independent Auditor's Report. As long as the license is closing, the Public Accountants is prohibited from providing attestation services including general audits, reviews, performance audits and special audits. Therefore, audit quality is very important and must be considered by auditors in the auditing process.

The objective of an audit of financial statement is for the auditor to form an opinion on the financial statements based on having obtained sufficient appropriate audit evidence about whether the financial statement is free from material misstatement and to report in accordance with the auditor's findings [1]. This IAASB statement means that the responsibility for performing quality audits of financial statements depends on the auditor.

Audit quality of auditor is all the possibilities of an auditor in finding violations and reporting a mistake or fraud that occurs in the client's accounting system. There are many factors that influence audit quality such as size, industry expertise, auditor tenure, audit fees, non-audit services and auditor reputation, auditor specifications. These factors were found to be able to affect audit quality significantly [2]. Beside that there are other factors that affect audit quality directly, namely the competency and independency of auditor.

Audit quality is an audit conducted in accordance with auditing standards generally acceptable that can detect and report material misstatements in the financial statements include disclosure relating either caused by an error / fault or fraud, is able to provide assurance of internal control, and is able to provide going concern warnings. Audit quality is affected by the independency of auditor. The more independent an auditor will increase audit quality [3]. Violation reporting depends on the auditor's urge to disclose the violation. This encouragement will depend on the auditor's independence and the auditor's motivation to disclose the violation.

The research about the effect of competence and independence of auditors on the audit quality had used purposive sampling method on Public Accounting Firm (KAP) in Yogyakarta. The total sample is 50 respondents. The data analysis technique used multiple line regression analysis. The result of this research showed that the auditor competence and independence of the significant effect of 35.9% on auditor audit quality [4]. But the research on Public Accounting Firm (KAP) in Jakarta used Structural Equation Modeling (SEM) approach Partial Least Square (PLS). Based on the results of this study concluded the amount of influence competence auditor to audit quality of 14.4%. While the influence of motivation auditor to audit quality amount 33.89% [5].

Based on the results of different studies, the purpose of this study was to determine the effect of competence, independence and motivation of auditor on audit quality partially and simultaneously on Public Accounting Firm (KAP) in Bali.

II. RESEARCH METHODS

A. Research Sample

This study uses primary data obtained by questionnaire. Respondents who became the population in this study were auditors in 9 public accounting firms (KAP) located in Bali and registered at IAPL. While the sampling technique used is purposive sampling technique with the following criteria: 1) auditors working in all active public accounting firms in Denpasar are in accordance with the 2016 Public Accountant Office Directory published by the Indonesian Institute of Certified Public Accountants (IAPI), 2) auditors who have an education level of D3, S1, S2, S3, 3) auditors who have had work experience of at least 2 years, 4) auditors who return questionnaires with complete entries in accordance with the objectives in this study. Based on these criteria, the number of samples obtained was 40 auditors.

B. Research Hypothesis

1) *The Effect of competency on audit quality:* Section 210 auditing standards state that audits must be carried out by one or more people who have sufficient technical expertise and training as an auditor. Competent auditors must be educated and experienced, so that auditors can detect financial statements containing misstatements material. Beside that auditor can reduce the asymmetry information between principal and agent, and they can guarantee the stakeholder's interests. The research about auditor competence on audit quality has been tested in 2012 which amounted to 918 public accountants in Indonesia. Data were collected by sending questionnaires that result 278 sample were selected randomly. However, collected data were 178 ones. Test results proved that auditor's competence positively effect on audit quality [6].

The other research was using 250 respondents from those in Central Government. This study method using exploratory method by conducting a survey on General Inspectorate State Ministries and Non-Ministerial Agencies as the Situs. Hypothesis testing results show that the variable competence of

auditors has a strong relationship. The results showed quality audit directly and significantly affected by the variable competence of auditors amounted to 25.1% [7]. Based on the statement, the hypothesis (H1) developed is auditor competency has a positive effect on audit quality.

2) *The effect of independence on audit quality:* Independent means that public accountants are not easily influenced. Public accountants are not justified in favor of anyone's interests. Public accountants are obliged to be honest not only to management and company owners, but also to creditors and other parties who place trust in the work of public accountants. Beside that auditors must fulfill relevant ethical requirements, including independence provisions, which are related to the audit association of financial statements. Auditor independence protects the auditor's ability to form an audit opinion without being influenced. Independence improves the auditor's ability to maintain its integrity, and acts objectively and maintains an attitude of professional skepticism [8].

Section 220 auditing standards state that auditors must act independently which include independent facts and appearance. There are a number of studies which state that the integrity, honesty and truthfulness is the attitude of the independent auditor. So that policies and procedures are needed to maintain auditor independence and audit quality [9].

The study to 73 public accountant offices which are the members of the Forum of Capital Market Accountants in Indonesia showed that auditor independence significantly influences the audit quality. Furthermore, this study resulted that the improvement of audit quality was influenced by independent and fees of auditor. And indicator of independency is integrity and objectivity [10]. Based on the statement, the hypothesis (H2) developed is auditor independence has a positive effect on audit quality.

3) *The effect of auditor motivation on audit quality:* The motivation is defined as the desire to act. The motivation that would make someone have a high fighting spirit to achieve goals and meet existing standards. In other words, motivation will encourage someone, including the auditor, to achieve, commit to the group and have high initiative and optimism. Improper response or follow-up to audit reports and recommendations produced will reduce the motivation of public accountants to maintain audit quality [11].

There is the study that is purpose to analyze the influence of motivation to audit quality. The study was conducted across partner, manager and supervisor working in 10 public accounting firm in South Jakarta Indonesia. The sampling technique using random sampling is the selection of a random public accounting firm. The results showed that the partial auditor motivation has a positive and significant impact on audit quality [12]. Based on the statement, the hypothesis (H3) developed is auditor motivation has a positive effect on audit quality.

4) *The effect of competence, independence and motivation of auditors on audit quality:* Audit quality is the probability that an auditor finds and reports about a violation in his client's accounting system. Audit quality include seven criteria, namely skills, experience, ethical value, mindset, the reliability of auditing methods, the effectiveness of the utilized tools and the technical supports [10]. Competence is needed by the auditor to achieve reasonable considerations made in achieving audit quality. The competent auditor has deeper knowledge and give better judgment to achieve audit quality [13]. Auditors who have high independence will tend to give opinions objectively. Competent and independent auditor will have the motivation to produce good audit quality. With high motivation, the auditor can report in the audited report if there is a violation in the financial statements of his client. Quality financial reporting is affected by many factors including the independence, competence and motivation of internal auditors. The competence and independence of the internal auditor primarily affects the quality of financial reporting on the provincial government in Jakarta [14]. Based on the statement, the hypothesis (H4) developed is competence, independence and motivation auditors simultaneously affect audit quality.

C. Data Analysis Technique

This study uses multiple linear regression analysis techniques to examine the effect of independent variables on the dependent variable. In this study the independent variables are competence, independence, and auditor motivation, while the dependent variable is audit quality, so the model of multiple linear regression equations becomes:

$$Y = \alpha + \beta_1 X_1 - \beta_2 X_2 + \beta_3 X_3 + e \tag{1}$$

III. RESULT AND DISCUSSION

A. Analysis Result

The following table results of multiple linear regression analysis to examine partially the influence of auditor competence variables (X1), auditor independence (X2), and auditor motivation (X3) on audit quality (Y):

TABLE I. RESULT OF MULTIPLE LINER REGRESSION

Model		Unstandardized Coefficient		Standardized Coefficient			T	Sig.
		B	Std. Error	Beta				
1	(Constant)	-3.175	2.507				-1.266	.214
	X1	.205	.066	.317	3.130	.003		
	X2	.167	.048	.348	3.490	.001		
	X3	.409	.083	.487	4.916	.000		

^a Dependent Variable: Y

From table 1, the regression equation used in this study is:

$$Y = -3,175 + 0,205X1 + 0,167X2 + 0,409X3 \tag{2}$$

Based on table 1 also shows the results of the partial test (t test) as follows: (1) The constant coefficient (Constant) is -3.175 which means that if the auditor's competency variables,

auditor independence, and auditor's motivation are constant at zero then the audit quality (Y) is equal to -3.17; (2) The auditor's competence coefficient (X1) of 0.205 indicates that competence has a significant positive influence on audit quality which is interpreted if competence increases by 1, then audit quality will increase by 0.205 assuming other variables are constant. This shows that the higher the competence possessed the better the audit quality produced by the auditor; (3) The auditor's independence coefficient (X2) of 0.167 indicates that independence has a significant positive effect on audit quality which means that if independence increases by 1, then audit quality will increase by 0.167 assuming other variables are constant. This shows that the higher the auditor's independence, the better the audit quality produced by the auditor; (4) The auditor's motivation coefficient (X3) is 0.409 which indicates that the auditor's motivation has a significant positive effect on audit quality which means that if the auditor's motivation increases by 1, then the audit quality will increase by 0.409 assuming other variables are constant. This shows that the higher the auditor's motivation, the better the audit quality produced by the auditor.

While the F test to find out all the independent variables included in the model has a joint effect on the dependent variable tested at a significant level of 0.05. Here are the results of the F test:

TABLE II. RESULT OF F-TEST

Model		Sum of Square	Df	Mean Square	F	Sig.
1	Regression	740.432	3	246.811	25.28	.000 ^b
	Residual	351.392	36	9.761		
	Total	1091.824	39			

^a Dependent Variable: Y
^b Predictors: (Constant) X3, X2, X1

Table 2 shows that all independent variables, namely competence, independence, and auditor motivation simultaneously have a significant effect on audit quality variables.

TABLE III. RESULTS OF DETERMINATION COEFFICIENTS

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824 ^a	.678	.651	3.12424

^a Dependent Variable: Y
^b Predictors: (Constant) X3, X2, X1

Table 3 shows that the value of Adjusted R Square is 0.651 or 65.1%, this means that 65.1% of the variation in audit quality is influenced by the model formed by auditor competence, auditor independence, and auditor motivation, while the remaining 34.9% explained by other factors not explained in this study.

B. Discussion

1) *Effect of competence on audit quality:* Based on the results in table 1 shows that auditor competence (X1) has a positive regression coefficient of 0.205 and a significance level of 0.003 is smaller than 0.05. Based on the test results, H1 is accepted, which means auditor competence (X1) has a significant positive effect on audit quality (Y). The results of this study are the same as the research are 18 Public Accountant Firm in South Jakarta with the number of respondents as many as 97 respondents. The competence of auditor has a positive and significant impact on audit quality at Public Accountant Firm in South Jakarta [15].

2) *Effect of independence on audit quality:* Based on the results in table I shows that auditor independence (X2) has a positive regression coefficient of 0.167 and the significance level is 0.001 less than 0.05. Based on the test results, H2 is accepted, which means auditor independence (X2) has a significant positive effect on audit quality (Y). This research result is the same as the research conducted to inspectorate work achievement of shout Sulawesi which shows that independence has a significant positive effect on audit quality [16].

3) *Effect of auditor motivation on audit quality:* Based on the results of Table I shows that auditor motivations (X3) have a positive regression coefficient of 0.409 and the significance level is 0.000 less than 0.05. Based on the test results, H3 is accepted, which means auditor motivation (X3) has a significant positive effect on audit quality (Y). The results of this research are the same as the research to 10 public accounting firm in South Jakarta Indonesia. The research showed that the motivation of auditor has a positive and significant impact on audit quality [12].

4) *Effect of auditor motivation on audit quality:* Based on the results in table II shows that the F test value of 25,286 and a significance level of 0,000 smaller than 0.05 so that H4 is accepted, meaning that all independent variables, namely competence, independence, and auditor motivation simultaneously have a significant effect on audit quality variables. While in table 3 shows the value of Adjusted R Square is 0.651 or 65.1%, this means that 65.1% of the variation in audit quality is influenced by models formed by auditor competence, auditor independence, and auditor motivation.

The results of this study indicate that competence is needed by the auditor to achieve reasonable considerations made in achieving audit quality. Auditors who have high independence will tend to give opinions objectively. With high motivation, the auditor can report in the audited report if there is a violation in the financial statements of his client. The results of this research are supported at the public accounting firm in the City of Medan that indicated competence, independence and motivation had a significant effect on audit quality [17].

IV. CONCLUSION

The conclusion of this study is: (1) Auditor competence has a positive and significant effect on audit quality in a Public Accounting Firm in Bali, which means that H1 is accepted; (2) Independence of auditor has a positive and significant effect on audit quality in a Public Accounting Firm in Bali, which means that H2 is accepted; (3) Auditor motivation has a positive and significant effect on audit quality in a Public Accounting Firm in Bali, which means that H3 is accepted; (4) Simultaneously, auditor competency, auditor independence and auditor motivation have a significant effect on audit quality with adjusted R square value is 0.651 or 65.1% meaning 65.1% variation in audit quality is influenced by the model formed by auditor competence, independence auditor, and auditor motivation.

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