

Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable



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ABSTRACT: This study aims to determine the effect of auditor's independence and auditor's ethics on audit quality at public accountant office in Medan city with auditor's experience as moderating variable. The method used in this study is a correlational research that study the relationship of independent variables namely auditor's independence and auditor's ethics with dependent variable namely audit quality and moderation variable namely audit quality. The study population was 186 auditors with sample of 45 auditors determine using purposive sampling technique. The technique of collecting data using a questionnaire. Data of questionnaire was analyzed with Smart PLS. The process is starting with evaluating of the measuring model than continue with the evaluating of the structural model. The result show that the measuring model has been valid and reliable and can be accepted substantially. The evaluating result of structural model show that auditor's independence and auditor's ethics have positive effect but not significant on audit quality. The auditor's experience does not moderate the relationship of auditor's independence and auditor's ethics on audit quality.

KEYWORDS: Auditor's independence, Auditor's ethics, Auditor's experience and Audit quality

1. INTRODUCTION

The financial statements of a company that are reliable and can be accounted for are a necessity for every company today. Therefore, the financial statements become the basis for decision making for investors, government and company management. The production of valid financial statements cannot be separated from the role of the auditor. Auditors have an important role in serving the needs of the public, where auditors play a role in reducing information asymmetry and minimizing managerial losses in financial statements. Auditors must also be able to provide appropriate financial information for investors. Therefore, the auditor is a guarantor for third parties who base their trust on the financial statements. This is also a form of accountability from managers in maintaining the trust and interests of investors. Therefore, it can be concluded that the auditor is a liaison between the company's management and parties outside the company. Because audits are the main mechanism in the business world, auditors are expected to produce quality audits so as to reduce the misalignment that occurs between management and parties outside the company. The discrepancy relates to the quality of the audits performed. De Angelo (1981) defines audit quality as a mechanism markets that allow audits to find anomalies in financial statements and disclose them. So that auditors who can carry out appropriate assessments are expected to produce quality audit results. In addition, auditing is also understood as a systematic and procedural process, regardless of the interests that exist and are recorded to be audit evidence and objective in deciding the extent to which the audit criteria can be met (SNI 19-19001-2005).

The public accounting profession is highly expected by the public to be able to provide an independent and impartial assessment of anyone on the information presented by the company's management in the financial statements (Mulyadi and Puradireja, 1998). There are many cases of companies going bankrupt in their business activities due to low audit quality, one of which is Enron. Audit quality is also influenced by several factors, including auditor independence and auditor ethics. Mojtahezadeh and Aghaei (2005) prove that auditor independence is a determining factor in the public accounting profession. Without independence, the auditor's task of detecting material misstatements will be questioned, because biased reports will make audit quality low. Considering the role of auditors which is very much needed by people in the business world, auditors have an

Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

obligation to be able to maintain their standards of ethical behavior towards the organization where they work, their profession, as well as society, and themselves (Anni, 2004).

In their research, Rahardja and Hanjani (2014) state that one of the factors that influence audit quality is auditor ethics. So to maintain the ethical behavior of auditors, the Indonesian Institute of Accountants has established a professional code of ethics that every auditor is expected to comply with. The ethics of an auditor in carrying out his audit duties is an issue that is often discussed. This happens because along with the occurrence of several ethical violations by accountants, both independent accountants, company internal accountants and government accountants (Anni, 2004). However, in the research of Wahyuningsih, Sri (2017) which states that the Auditor Ethics variable has no effect on Audit Quality. This may occur if an auditor does not get pressure or intervention from any party and has sufficient experience in carrying out his duties.

There are other factors that also affect audit quality, namely experience. Where an auditor must act as an expert in the field of accounting and auditing. In the research of Rahmawati and Winarna (2002) it was concluded that sometimes there are auditors who cannot provide the right assessment because the experience and knowledge they have is only limited to college. In Libby and Frederick (1990) the experience of the auditor will affect the quality of the audit, they found that the more experience the auditor has, the more auditors can produce various allegations in explaining audit findings. This study will focus more on the effect of Auditor Independence, Auditor Ethics on Audit Quality with Auditor Experience as the moderating variable, Olek therefore this study aims to examine whether auditor independence and ethics can affect audit quality, and whether auditor experience can affect the relationship between independence with Audit Quality and whether Auditor Experience can affect the relationship between Audit Ethics and Audit Quality.

1.1 Research Problem

1. The existence of independence but not followed by audit quality
2. The existence of ethic but not followed by audit quality
3. The existence of experience but not followed by audit quality
4. The existence of experience but not followed by audit quality

1.2 Objectives Of The Research

1. To test and analyze the impact of independence on audit quality in public accounting office in Medan.
2. To test and analyze the impact of ethic on audit quality in public accounting office in Medan.
3. To test and analyze the influence of experience in moderating independence on quality audit in public accounting office in Medan.
4. To test and analyze the influence of experience in moderating ethic on quality audit in public accounting office in Medan.

1.3 Research Design

This study uses primary data obtained by distributing questionnaires to public accounting firms in the city of Medan and filled in directly by auditors who are still working there. The research approach uses quantitative methods, the type of research is associative and the nature of the research is correlational research. The sampling technique is purposive sampling.

2. LITERATURE REVIEW

2.1 Audit Quality

2.1.1 Definition of Audit quality

According to Arens et al (2011: 105) "Audit quality means how to tell an audit detects and report material misstatements in financial statements. The detection aspect is a reflection of auditor competence, while reporting is a reflection of ethics or auditor integrity, particularly independence." Good and reliable audit quality is the basis for decision making for users of financial statements in making important decisions. According to Otley and Pierce (1995) the impact of declining audit quality can reduce public confidence in the accounting profession, reduce the credibility of public accountants on the results of the audits they do. In the end, the result of a decline in audit quality can kill the profession itself and will lead to excessive government interference with the profession itself.

2.1.2 Indicators of Audit quality

1. Compliance with audit standards.
2. Quality of inspection report results.

Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

2.2 Auditor's Independence

2.2.1 Definition of Auditor's Independence

According to Mulyadi (2012), auditor independence is an auditor's character who is free from influence and pressure from anyone where this independence means that the existence of honesty in the auditor is aware of the auditor's impartiality in giving his opinion. Arens (2006) defines independence in auditing as the use of an unbiased perspective in conducting audit tests, evaluating the results of these tests, and reporting audit findings. With the ability of an auditor to maintain his independence even though he is under pressure from any party, it is hoped that the assessment made by an auditor is not biased so that the results of the audit he does can be accounted for.

2.2.2 Indicators of Auditor's Independence

1. Independent programming
2. Independence of work implementation
3. Reporting independence.
4. length of engagement with the client.

2.3 Auditor's Ethic

2.3.1 Definition of Auditor's Ethic

In Maryani and Ludigdo (2001) ethics is defined as a set of rules or norms or guidelines that regulate human behavior, both what must be done and what must be abandoned which is embraced by a group of people or society or profession. Auditors must be able to maintain their ethical behavior towards institutions and the community in accordance with the applicable code of ethics so as to provide appropriate assessments and be trusted by the community. With the ability of an auditor to implement and comply with the applicable code of ethics, the quality of the audit results carried out and the auditor profession gain trust in the community.

2.3.2 Indicators of Auditor's Ethic

1. Rewards received
2. Organizational
3. Family environment
4. emotional quotient

2.4 Auditor's Experience

2.4.1 Definition of Auditor's Experience

An auditor is required not only to have sufficient knowledge but also to have experience gained during performing his audit duties. The experience of public accountants will continue to increase along with the increasing number of audits carried out and the complexity of the audited financial transactions so that they will increase and expand their knowledge in the field of accounting and auditing (Christiawan, 2002). Thus, the longer the work period and the experience possessed by the auditor, it can be identified that the resulting audit quality will also increase (Alim et al, 2007).

2.4.2 Indicators of Auditor's Experience

1. spiritual quotient
2. duration of audit assignment.

3. METHODOLOGY

3.1 Research Approach

The approach used in this study is a quantitative approach. Sugiyono (2016:7) explains that this method is a scientific/scientific method because it has met scientific principles, namely concrete/empirical, objective, measurable, rational, and systematic.

3.2 Types of Research

This research is assosiative research that determine the relationship of two or more variables

3.3 Nature of Research

The nature of this research is correlational research The type of research used in this research is correlational research. According to Juliansyah Noor (2011: 40), correlational research is research that studies the relationship between two or more variables, namely the extent to which variations in one variable are related to variations in other variables. The degree of relationship between variables is expressed in an index called the correlation coefficient. The correlation coefficient is a quantity obtained through statistical calculations based on a collection of measurement data from each variable. Correlation study aims

Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

to test the hypothesis, carried out by measuring a number of variables and calculating the correlation coefficient between these variables, in order to determine which variables are correlated.

3.4 Population and Sample

3.4.1 Population

According to Dr. Juliansyah Noor (2011: 147), population is used to mention all elements / members of an area that is the target of research or is the whole of the object of research. The population of this study is all auditors who are still working at KAP, namely partners, senior and junior auditors, managers and supervisors who are registered at the 2019 Indonesian Institute of Certified Public Accountants (IAPI) Directory in North Sumatra. There are 20 Public Accounting Firms in Medan City, North Sumatra registered in the IAPI.

3.4.2 Sample

According to Dr. Juliansyah Noor (2011: 148), sampling is the process of selecting a sufficient number of elements from the population so that research on the sample and an understanding of its properties or characteristics will enable us to generalize these traits or characteristics to population elements. Sampling in this study was carried out non-probability, where non-probability is a sampling technique where each member of the population does not have the same opportunity or opportunity as a sample (Dr. Juliansyah Noor, 2011:156), in this study the researcher uses the purposive sampling method, where someone sampled based on special considerations.

Table 1: Sample

No	Public Accountant Office	Respondent
1.	Darwin meliala	10 respondent
2.	Syamsul Bahri	10 respondent
3.	Joachim Poltak Lian	10 respondent
4.	Katio	5 respondent
5.	Selamat Sinuraya	5 respondent
6.	Hadiawan	5 respondent
TOTAL		45 respondent

3.5 Method of Data Analysis

3.5.1 Model Feasibility Test (Partial Least Square) PLS

This study uses partial regression analysis (Partial Keast Square / PLS) to test the five hypotheses proposed in this study. Each hypothesis will be analyzed using SmartPLS 3.0 software to test the relationship between variables. Jogianto (2009: 11) data analysis was carried out using the Partial Least Square (PLS) method. PLS is a multivariate statistical technique that makes comparisons between multiple dependent variables and multiple independent variables. PLS is a variant-based SEM statistical method designed to solve multiple regression when specific data problems occur, such as small study sample sizes, missing data and multicollinearity.

Data analysis using the PLS technique can be carried out in two stages, namely:

1. The first stage is to test the measurement model that tests the validity and construct reliability of each indicator.
2. The second stage is to conduct a structural model test which aims to determine whether there is an influence between variables/correlation between the constructs measured by using the t test of the PLS itself.

3.5.2 Measurement (Outer) Model

3.5.2.1 Convergent Validity Test

To determine the level of validity, convergent validity is used, namely by correlating the item score (component score) with the construct score which then produces the loading factor value. The loading factor value is said to be high if the indicator has a correlation of more than 0.70 with the construct being measured.

Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

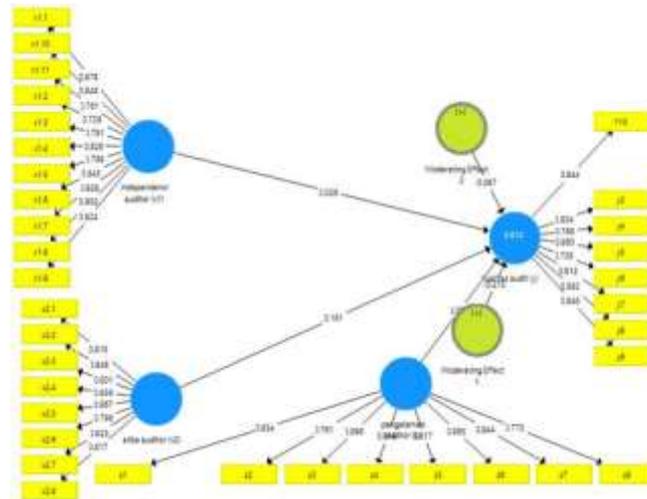


Figure 1: Convergent Validity Test

3.5.2.2 Discriminant Validity Test

Another method to assess discriminant validity is to use the Fornell-Lacker Criterion, by comparing the square root value of the Average Variance Extracted (AVE) of each construct with the correlations between other constructs in the model. If the value of the square root of the Average Variance Extracted (AVE) of each construct is greater than the value of the correlation between constructs and other constructs in the model, then the model is said to have a good discriminant validity value (Fornell and Larcker, 1981).

Table 2: Average Variance Extracted (AVE)

Variable	AVE
Auditor's Ethic	0,682
Auditor's Independence	0,660
Audit Quality	0,677
Moderating Effect 1	1,000
Moderating Effect 2	1,000
Auditor's Experience	0,681

From the table above, it can be seen that the AVE value of all constructs is above 0.5. Thus it can be concluded that the conditions for convergent validity have been met.

3.5.2.3 Reliability Test

Meanwhile, for reliability testing, the alpha coefficient or Cronbach's alpha is used with the condition that the Cronbach alpha value > 0.6 and Composite reliability with the condition that Composite reliability > 0.7.

Table 3 : Cronbach Alpha and Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Auditor's Ethic	0,934	0,945
Auditor's Independence	0,948	0,955
Kualitas Audit	0,931	0,943
Moderating Effect 1	1,000	1,000
Moderating Effect 2	1,000	1,000
Auditor's Experience	0,935	0,925

Based on the table above, it can be seen that the Cronbach's alpha value is above 0.7 and Composite Reliability 0.6-0.7 indicates a high reliability of the measuring instrument with the meaning that the gauges of each construct are highly correlated.

Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

3.5.3 Structural (Inner)Model

3.5.3.1 Variance Inflation Factor

SmartPLS uses Variance Inflation Factor (VIF) to evaluate collinearity. Multicollinearity is a phenomenon in which two or more independent variables or exogenous constructs are highly correlated, causing poor predictive ability of the model (Sekaran and Bougie, 2016). The following is a table of VIF . values

Table 4 : Variance Inflation Factor

	Auditor Ethic(X2)	AI(X1)	ME 1	ME 2	AQ (Y)	AE (Z)
Auditor Ethic(X2)					1,799	
IA (X1)					2,034	
ME 1					3,027	
ME 2					2,390	
AQ (Y)						
AE (Z)					1,769	

From the table above, it can be seen that the VIF value in each construct is less than 5, which can be concluded that there is no collinearity between constructs (Sarsted et al, 2017).

3.5.3.2 Cross-validated Redundancy (Q²)

Cross-validated redundancy or Q square test is used to assess predictive relevance. If the value of Q² > 0 indicates that the model has accurate predictive relevance for certain constructs, whereas if the value of Q² < 0 indicates that the model lacks predictive relevance (Sarstedt et al, 2017). From the results of the analysis using SmartPLS, the value of Q² = 0.413 which can be concluded that the model has accurate predictive relevance.

3.5.3.3 Path Coefficient Test

Path coefficient test is used to show how strong the effect or influence between constructs is. The following table of path coefficients

Table 5: Path Coefficient Test Results

Variable	Audit Quality (Y)
Auditor's Independence*Auditor's experience → Audit Quality	-0,213
Auditor's Ethic* Auditor's Experience→Audit Quality	-0,067
Auditor's Ethic → Audit Quality	0,181
Auditor's Independence → Audit Quality	0,026
Pengalaman Auditor's Experience → Audit Quality	0,396

From the table above, it can be concluded that auditor independence moderated by auditor experience on auditor quality has a value of -0.213, meaning that auditor independence moderated by audit experience has a negative effect on audit quality. Likewise, the auditor ethics variable moderated by audit experience on audit quality has a value of -0.067, which means that auditor ethics moderated by auditor experience has a negative effect on audit quality. While the variables of auditor independence and auditor ethics have a positive influence on audit quality, namely 0.026 and 0.181.

3.5.3.4 Goodness Of Fit Test

The Goodness Of Fit test is used to see how much audit quality variable can be explained by auditor independence, auditor ethics and auditor experience. The goodness of fit test uses the Rsquare value obtained from the calculation results using SmartPLS 3.0. The Rsquare value of the audit quality variable is 0.674 which means that the audit quality variable can be explained by the auditor independence variable, auditor ethics and auditor experience moderating variable by 67.4% and the remaining 32.6% is explained by other variables not proposed in this study.

3.5.3.5 T-statistic test

T-statistic test is used to see whether the independent variable with the dependent has a significant or insignificant effect. The following is a table of the T-statistic test

Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

Table 6 : T-statistic test

Variabel	Original Sample	Sample Mean	Standart Deviation	T-statistic
AI*AE→AQ	- 0,213	-0,218	0,180	1,183
AEt*AE→AQ	- 0,067	-0,074	0,192	0,352
AEt→AQ	0,181	0,184	0,137	1,322
AI→AQ	0,026	0,047	0,125	0,211
AE→AQ	0,396	0,382	0,204	1,937

From the t-statistic test table, a relationship can have a significant effect or not if the t-statistic value is > 1.96, with a significance of 5%. Based on the table above, it can be seen that the t-statistic value for the auditor independence variable moderated by the auditor's experience on audit quality has a value of 1.183 where this value is smaller than 1.96. Therefore, the auditor's independence variable moderated by the experience of the auditor has no significant effect on audit quality. The auditor ethics variable moderated by the auditor's experience on audit quality has a t-statistic value of 0.352, this value is below the value of 1.96. Therefore, the audit ethics variable moderated by audit experience on audit quality has no significant effect on audit quality. The auditor's ethics variable on audit quality has a t-statistic value of 1.322 where this value is below 1.96. Therefore, auditor ethics has no significant effect on audit quality. The t-statistic value between auditor independence and audit quality is 0.211 where auditor independence has no significant effect on audit quality. However, the auditor's experience variable on audit quality has a t-statistic value of 1.937 which means that the auditor's experience has no significant effect on audit quality.

3.6 Hypothesis Test Result

- Hypothesis 1 : From the results of the analysis using SmartPLS shows that the t-statistic value of auditor independence on audit quality is 0.211 where this value is below 1.96. While the path coefficient value of auditor independence on audit quality is 0.026. So it can be concluded that auditor independence has no significant effect on audit quality.
- Hypothesis 2 : From the results of the analysis using SmartPLS shows that the t-statistic value of auditor ethics on audit quality is 1.322. And the path coefficient of the auditor's ethics variable on audit quality is 0.181. So it can be concluded that the auditor's ethics variable has no significant effect on audit quality.
- Hypothesis 3 : From the results of the analysis using SmartPLS, it can be seen that the t-statistic value of the auditor independence variable moderated by the auditor's experience on audit quality is 1.183. The path coefficient value of the auditor independence variable moderated by the auditor's experience on audit quality is -0.213. So it can be concluded that auditor experience does not strengthen or weaken the relationship between auditor independence and auditor quality or it can be concluded that there is no moderating relationship between auditor experience and auditor independence on audit quality.
- Hypothesis 4 : From the results of the analysis using SmartPLS, the t-statistic value of auditor experience which moderates auditor ethics on audit quality is 0.352 with the path coefficient value of auditor experience moderating auditor ethics on audit quality is -0.067. So it can be concluded that auditor experience cannot strengthen or weaken auditor ethics on audit quality or it can be said that auditor experience cannot moderate auditor independence on audit quality.

4. CONCLUSION AND SUGGESTION

Based on the results of the analysis and discussion described in the previous chapter, the researchers drew the following conclusions:

- From the results of the analysis using SmartPLS, it can be concluded that auditor independence has a positive but not significant effect on audit quality.
- From the results of the analysis using SmartPLS, it can be concluded that auditor ethics has a positive but not significant effect on audit quality.
- From the results of the analysis using SmartPLS, it can be concluded that the experience of the auditor is not able to moderate the independence of the auditor on audit quality.
- From the results of the analysis using SmartPLS, it can be concluded that the experience of the auditor cannot moderate the relationship between auditor ethics and audit quality.

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Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

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Analysis of the Effect of Auditor Independence, and Auditor Ethics on Audit Quality at a Public Accounting Firm in Medan City with Auditor Experience as a Moderating Variable

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