

## The Effect of Auditor Independence and Ethics on Audit Quality with Audit Fee as a Moderating Variable in Public Accounting Firms in Medan



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**ABSTRACT:** This study discusses the effect of auditor independence and ethics on audit quality with audit fees as a moderating variable. This analysis used two independent variables: independence and auditor ethics. Audit quality was the dependent variable, while audit fees were the moderating variable. This research was conducted in 4 Public Accounting Firms (KAP) in the Medan City area, using 70 auditors from 21 Public Accounting Firms (KAP). A quantitative method was employed in this research. The sampling technique used was simple random sampling. In this study, data was collected by surveys or the distribution of questionnaires. Primary data was used as a source. The statistical method employed Partial Least Square Analysis with partial statistical test hypothesis testing (t) in the coefficient of determination ( $R^2$ ). SmartPLS program was used in this research. The results of this study indicate that independence has a significant effect on audit quality, partially. Meanwhile, auditor ethics has no significant effect on audit quality, and audit fees cannot be a moderating variable on the effect of independence and auditor ethics on audit quality.

**KEYWORDS:** Independence, Audit Fee, Auditor Ethics and Audit Quality.

### I. INTRODUCTION

Companies require the services of public accountants and associated parties to examine the fairness of the financial statements. The results of the examination will produce a public accountant's opinion which is used by users of the company's external and internal financial statements to measure whether the company's financial management has been running well and following applicable standards. DeAngelo (1981) in Tandiontong (2016:79), audit quality is defined as the market-value probability that the financial statements include material errors that the auditor will discover and disclose. Knechel et.al (2012) in Tandiontong (2016: 242), audit quality is defined as the market-value probability that the financial statements include material errors that the auditor will discover and disclose. Audit quality is a combination of a good systematic examination process that adheres to generally acknowledged standards and high-quality auditor judgment (skepticism and professional consideration) employed by auditors who are competent and independent in implementing the audit process to generate a high-quality audit. Lee, et.al (1999) in Tandiontong (2016: 241), audit quality is the probability that the auditor will not issue an audit report with an unqualified opinion for financial statements, including material errors.

Mulyadi (2002:56), independence is an element of character that underlies the emergence of professional recognition. Agoes (2016: 15) defines independence as requiring a member to, among other things, be honest and forthright without sacrificing the confidentiality of the recipient of services. Mulyadi (2007:145) in Herlina (2014:3), independence is the ability of people to realize what has been said or promised by that person into a reality. Chrisdinawdanty et.al (2016:2), ethics is a critical attitude of every individual or community group in realizing morality, and ethics urges people to act in accordance with morality. Arens et., al (2015: 90), ethics can be broadly defined as a set of moral principles or values. Putra (2012) in Pikirang (2017:721), ethics is a moral principle and action that forms the basis for a person's actions so that what he does is seen by society as a commendable act and increases one's dignity and honor. According to Agoes (2016: 47), audit fees are rewards in the form of money, products, or other forms offered to or received from clients/other parties in exchange for their opinions. Audit fees, according to Arens et al. (2015: 118), are compensation given for recommending or referencing third-party products or services to clients or recommending or referencing client products or services to third parties. According to Fachrudin (2017:147), an audit fee is a type of remuneration paid by the auditor to the client as compensation for the amount of loss incurred during the audit.

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## II. LITERATURE RIEVIEW

Queena et.al (2012) in Sakinah (2014:11) state that independence has a positive effect on audit quality. The higher the independent attitude of an auditor, the better the quality of the audit produced. Sari (2011) in Herlina (2014:9) states that independence requires members to comply with technical and ethical standards. This shows that with high independence, auditors can improve the quality of the audit their produce. Maburri and Winarna (2010) in Fitriani (2013:65) state that audit quality can be achieved if the auditor has good independence and the results of their research find that independence affects audit quality.

Putu and Gede in Chrisdinawdanty et.al (2016:3) state that professional ethics has a positive effect on audit quality. Where the higher the professional ethics upheld by the auditor, the better the audit quality will be. Winda et.al (2014) in Chrisdinawdanty et.al (2016:3) state that professional ethics has a positive effect on audit quality. Professional ethics include standards of behavior for members of the profession that are designed to be practical and realistic, but as idealistic as possible. Hanjani (2014) in Chrisdiwdanty et.al (2016:3) states that professional ethics has a positive effect on audit quality. Where in carrying out his work, an auditor is required to meet the established professional ethics.

Chrisdinawdanty et.al (2016:3) states that when the audit fee is higher, the audit quality produced is also higher because the audit procedures that will be carried out by the auditor are wider, so the audit results produced are reliable and accurate. Agoes (2012:46) in Purba (2013:5) states that audit fees affect audit quality. KAP members are not allowed to get clients by offering fees that can affect the quality of the audit that will be produced. Kurniasih and Rohman (2014) in Chrisdinawdanty et.al (2016:3) state that audit fees have a positive effect on audit quality. Higher fees will improve audit quality because the audit fees obtained in one year and the estimated operational costs required to carry out the audit process can improve audit quality.

## III. METHOD

This research was conducted at the Public Accounting Firm in Medan. This research was conducted from October 2020 to April 2021. According to Sugiyono (2016: 80), population is a generalization area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions. The population in this study were all auditors who work at the Medan Public Accountant Firm. Sugiyono (2016:81) also explains that the sample is part of the number and characteristics possessed by the population. This study used the purposive sampling technique as a sample determination. Purposive sampling is sampling with criteria in the form of certain considerations.

In this study, data were collected using survey methods. The researcher distributed questionnaires to auditors in the Medan area, who will fill them. The data was derived from the results of questionnaires distributed to auditors willing to participate in this study, which was spread to several public accounting firms in Medan. This research employed the Partial Least Squares (PLS) data analysis method, which was processed using SmartPLS 3.0 software. Partial Least Squares (PLS) is a variant-based structural equation modeling (SEM) analysis that can evaluate both the measurement model and the structural model simultaneously. Partial Least Square (PLS) analysis is a multivariate statistical technique that performs comparisons between the dependent variable and the independent variable

## IV. RESULTS AND DISSCUSION

### Descriptive Analysis

Descriptive statistics will provide an overview of the minimum, maximum, average (mean), median, and standard deviation values of the variables used in this study. Table 1 shows the general presentation of variable data from the variables utilized in this study.

**Table 1. Descriptive Statistics**

Indikator:	Korelasi Indikator				File Raw		
	Rata-Rata	Median	Minimum	Maksimum	Standar Deviasi	Kelebihan Kurt...	Skewness
X1	33.643	33.000	25.000	40.000	3.019	0.931	-0.149
X2	32.971	33.000	25.000	40.000	2.782	0.291	-0.360
Y	24.229	25.000	16.000	29.000	2.179	1.894	-0.402
Z	33.471	34.000	26.000	39.000	2.633	0.162	-0.284

Based on the results of the descriptive statistics calculations in Table 1 above, it can be explained as follows:

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1. The Independent Variable has a sample size of 70, with a minimum value of 25 and a maximum value of 40, while the mean value is 33,643, the median value is 33, and the standard deviation value is 3.019.
2. Auditor Ethics Variable has a sample size of 70, with a minimum value of 25 and a maximum value of 40, while the mean value is 32,971, the median value is 33, and the standard deviation value is 2,782.
3. The Audit Quality Variable has a sample size of 70, with a minimum value of 16 and a maximum value of 29, while the mean value is 24,229, the median value is 25, and the standard deviation value is 2.179.
4. The Audit Fee Variable has a sample size of 70, with a minimum value of -39 and a maximum value of 39, while the mean value is 33,471, the median value is 34, and the standard deviation value is 2,633.

### Inner Model Evaluation

Structural model evaluation is conducted to predict the relationship between variables in the study. This evaluation will explain how much the ability of the independent variable in explaining the dependent variable or commonly known as R square. The results of the evaluation of the structural model (inner model) can be seen in Table 2.

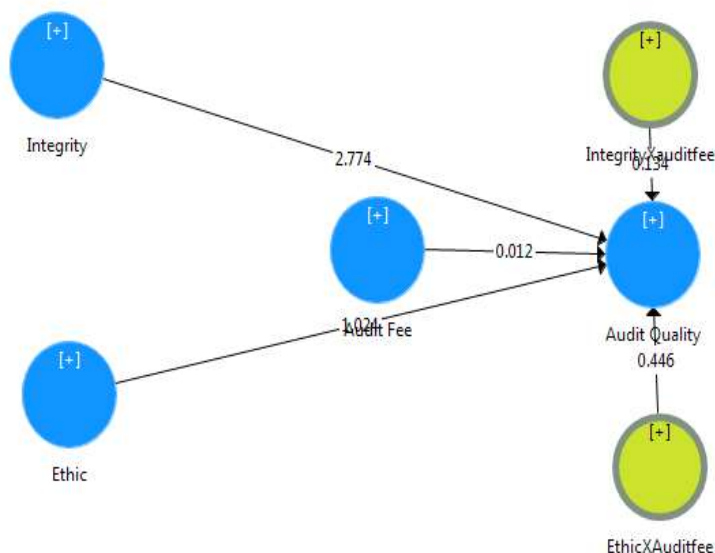
**Table 2. R Square**

R Square			
Matriks	R Square	Adjusted R Square	
	R Square	Adjusted R Sq...	
Audit Quality	0.103	0.033	

Based on Table 2 above, it shows that the value of R square is 0.103 or 10.3%. This value indicates that the ability of the independent variable, namely independence, auditor ethics, independent interaction with free audit, and interaction between auditor ethics and free audit in explaining the dependent variable, namely audit quality is 10.3%. While the remaining 89.7% is explained by other variables not examined in this study.

### Hypothesis Testing Results

The following are the results of the path coefficients of the research variables



**Figure 1. Path Coefficient Results**

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**Table 3. Hypothesis Testing Results**

**Koefisien Jalur**

	Mean, STDEV, T-Values, P-Valu...	Keyakinan Interval	Keyakinan Interval Bias-Dikor...	Sampel	
	Sampel Asli (O)	Rata-rata Sam...	Standar Devias...	T Statistik (  O/...)	P Values
Audit Fee -> A...	-0.002	-0.026	0.130	0.012	0.990
Ethic -> Audit ...	0.136	0.115	0.133	1.024	0.307
EthicXAuditfee ...	0.048	0.076	0.107	0.446	0.656
Integrity -> Au...	0.288	0.287	0.104	2.774	0.006
IntegrityXAudit...	0.017	0.028	0.126	0.134	0.893

Based on Table 3 above, the analysis equation in this study is as follows:

$$\text{Audit Quality} = -0,288\text{Independence} + 0,136\text{Auditor Ethics} - 0,002\text{Audit Fee} + 0,017\text{Independence} * \text{Audit Fee} + 0,048\text{Auditor Ethics} * \text{Audit Fee}$$

Based on the results of hypothesis testing and the above equation, it can be explained as follows:

- 1. The Effect of Independence on Audit Quality**  
 From the results of hypothesis testing, the T statistic value of 2.774 is greater than 1.96 ( $2.774 > 1.96$ ) and the P-value of 0.006 is smaller than 0.05 ( $0.006 < 0.05$ ). The original sample value is positive at 0.288 which indicates that the direction of the relationship between independence and audit quality is positive. The original sample value of 0.228 means that if the independence has increased by 1 unit, then the audit quality will increase by 0.228. Based on the results of testing the hypothesis, H<sub>1</sub> is accepted, which means that independence has an effect on audit quality at public accounting firms in the city of Medan
- 2. The Effect of Auditor Ethics on Audit Quality.**  
 From the results of hypothesis testing, the T statistic value of 1.204 is smaller than 1.96 ( $1.204 < 1.96$ ) and the P-value of 0.307 is greater than 0.05 ( $0.307 > 0.05$ ). The original sample value is positive at 0.136 which indicates that the direction of the relationship between auditor ethics and audit quality is positive. The original sample value of 0.136 means that if the auditor's ethics has increased by 1 unit, then the audit quality will increase by 0.136. Based on the results of testing the hypothesis, H<sub>2</sub> is rejected, which means that auditor ethics has no effect on audit quality at public accounting firms in the city of Medan.
- 3. The Effect of Independence on Audit Quality with Free Audit as Moderating Variable**  
 From the results of hypothesis testing, the T statistic value of 0.134 is smaller than 1.96 ( $0.134 < 1.96$ ) and the P-value of 0.796 is greater than 0.05 ( $0.796 > 0.05$ ). The original sample value is positive at 0.893 which indicates that the audit fee strengthens the influence of independence on audit quality. The original sample value of 0.017 means that if the free audit has increased by 1 unit, it can strengthen the influence of independence on audit quality by 0.017. Based on the results of testing the hypothesis, H<sub>3</sub> is rejected, which means that the influence of independence on audit quality is not moderated by audit fees at public accounting firms in the city of Medan.  
 The effect of audit fees on audit quality has a T statistic of 0.012 which is smaller than 1.96 ( $0.012 < 1.96$ ) and a P value of 0.990 is greater than 0.05 ( $0.990 > 0.05$ ), thus indicating that the audit fee does not affect audit quality. These results indicate that the type of moderation that occurs is a potential moderator or homologizer moderator because the interaction effect of audit fees as a moderating variable with independence on audit quality and the effect of audit fees on audit quality are both insignificant.
- 4. The Effect of Auditor Ethics on Audit Quality with Audit Fees as a Moderating Variable**  
 From the results of hypothesis testing, the T statistic value of 0.446 is smaller than 1.96 ( $0.446 < 1.96$ ) and the P-value of 0.656 is greater than 0.05 ( $0.656 > 0.05$ ). The original sample value is positive at 0.048 which indicates that the audit fee strengthens the influence of audit ethics on audit quality. The original sample value of 0.048 means that if the audit fee has increased by 1 unit, it can increase the influence of auditor ethics on audit quality by 0.048. Based on the results of testing the hypothesis, H<sub>4</sub> is rejected, which means that the influence of auditor ethics on audit quality is not moderated by audit fees at public accounting firms in the city of Medan.  
 The effect of audit fees on audit quality has a T statistic of 0.012 which is smaller than 1.96 ( $0.012 < 1.96$ ) and a P value of 0.990 is greater than 0.05 ( $0.990 > 0.05$ ), thus indicating that the audit fee does not affect audit quality. These results indicate that the type of moderation that occurs is a potential moderator or homologizer moderator because the effect of the interaction of audit fees as a moderating variable with auditor ethics on audit quality and the effect of audit fees on audit quality are both

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insignificant.

### **The effect of independence on audit quality**

The results of this study support Queena et al. (2012)'s theory in Sakinah (2014:11), which states that independence has a positive effect on the quality of the resulting audit. It can be inferred that an auditor must maintain his independence in order to improve audit quality as well as the public's and client's trust in the auditor so that his independence affects the quality of the resulting audit.

### **The effect of auditor ethics on audit quality**

The results of this study are in line with Putu and Gede in Chrisdinawdanty et.al (2016: 3), stating that professional ethics has a positive effect on audit quality. It can be concluded that the auditor must still adhere to the established principles of professional ethics so that the auditor's ethics have a positive impact on the quality of the resulting audit.

### **The effect of independence on audit quality with audit fees as a moderating variable**

The results of this study are not in line with the theory of Chrisdinawdanty et.al (2016: 3) which states that when the audit fee is higher, the audit quality produced is also higher. It can be concluded that audit fees do not affect audit quality. This is because an auditor should complete his duties with good audit quality results regardless of the audit fees given by the client.

### **The effect of auditor ethics on audit quality with audit fees as a moderating variable**

Based on the results of SmartPLS statistics, auditor ethics has no effect on audit quality with audit fees as a moderating variable. The results of this study are not in line with research by Mulyadi (2002) in Nandari and Latrina (2015) if the public accounting profession applies high quality standards to the implementation of audit work, public trust in quality is higher, so the amount of audit fees will follow the professionalism of an auditor.

This shows that the auditor's ethics is still maintained by the auditor in the implementation of audit examination procedures, not a decrease in the quality of the audit produced by the auditor. And the audit fee also does not affect the effect of auditor ethics on audit quality, so the amount of audit fee received by the auditor is not a benchmark in audit quality.

## **CONCLUSIONS**

Based on the results of research and discussion that have been presented in the preceding chapter, the following conclusions can be drawn in this study:

1. Independence affects audit quality in public accounting firms in Medan.
2. Auditor ethics has no effect on audit quality in public accounting firms in Medan.
3. The effect of independence on audit quality is not moderated by audit fees in public accounting firms in Medan.
4. The effect of auditor ethics on audit quality is not moderated by audit fees in public accounting firms in Medan

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