

AN EMPIRICAL STUDY ON QUALITY OF PUBLIC ACCOUNTING FIRMS IN PALEMBANG

MUHAMMAD ICHSAN SIREGAR¹

ichsansiregar@fe.unsri.ac.id

ANISA LISTYA²

listya_anisa@fe.unsri.ac.id

RUTH SAMANTHA HAMZAH³

ruth_samantha@fe.unsri.ac.id

NUR KHAMISAH⁴

nurkhamisah08@fe.unsri.ac.id

ABDULLAH SAGGAF⁵

abdullahsaggaf@fe.unsri.ac.id

ABSTRACT

The purpose of the study is to analyse the influence of quality of auditors in particular the competency and independency toward audit quality on Public Accounting Firms across Palembang, Indonesia. This is a quantitative study which employed classic assumption and multiple regression as the analysis method. The samples were obtained by purposive sampling method. We used terms of competency and independency to represent the quality of auditors as independent variables. Further, we identify the association of these independent variables toward audit quality. The result shows that competency and independency simultaneously affect audit quality. Furthermore, it was revealed that competency partially affects audit quality and independency has no significant effect toward audit quality in contrast.

Keywords: *Competency, Independency, Audit Quality*

INTRODUCTION

Recently, it has been tumultuous years for entity in service sector, particularly Public Accounting Firms (PAFs). As a result, there is an increase of high profile cases of misstatements of financial reporting involving Public Accountant (PAs) and PAFs, some of whom are shown in Table 1. For example, Purwanto, Sungkoro, and Surja (PAF of Ernst and Young Global Limited) were found guilty of breaking the regulation of capital market and professional code of ethics of public accountant in case of the financial statement of PT Hanson

¹ Universitas Sriwijaya

² Universitas Sriwijaya

³ Universitas Sriwijaya

⁴ Universitas Sriwijaya

⁵ Universitas Sriwijaya

Internasional Tbk for exceeding their revenues since 2016 (CNBC Indonesia, January 2019). The investigation resulted on temporary suspension of their licences for a year. In a similar case, the Ministry of Finance had issued a twelve months suspension to Kasner Sirumpea and Tanubrata, Sutanto, Fahmi, Bambang & Partners due to the financial reporting misstatement of PT Garuda Indonesia Tbk in 2018 (CNBC Indonesia, January 2019). The misstatement of financial reporting was related to the cooperation agreement with PT Mahata Aero Teknologi in providing onboard connectivity services. Another notable example is an overstatement of financial statement of PT Tiga Pilar Sejahtera Food Tbk (AISA) that had been audited by Amir Abadi Jusuf, Aryanto, Mawar, and Partners (RSM International affiliation), which is still under investigation. According to periodic report of Finance Professions Supervisory Center (*Pusat Pembinaan Profesi Keuangan*, abbreviated as P2PK) of Indonesian Ministry of Finance in second quartal of 2019, financial report manipulation is still commonplace in Indonesia, which is seen from five major cases resulting on license suspension of PAFs since early June 2019.

Table 1.
List of Infringements of PAFs on Financial Reporting

PAFs	Public Accountant	Issue	Solution
Purwanto, Sungkoro, and Surja (Member of Ernst and Young Global Limited/EY)	Sherly Jakom	Breaking the capital market laws and professional code of ethics of public accountant in case of the financial statement of PT Hanson Internasional Tbk for exceeding their revenues 2016.	Temporary suspension of PA's licence for a year.
Tanubrata, Sutanto, Fahmi, Bambang & Partners	Kasner Sirumpea	The misstatement of financial reporting related to the cooperation agreement with PT Mahata Aero Teknologi in providing the connectivity services.	12 months suspension to PA and PAF.
Amir Abadi Jusuf, Aryanto, Mawar, and Partners (RSM International affiliation)	Didik Wahyudiyanto	Over statement of financial statement of PT Tiga Pilar Sejahtera Food Tbk (AISA).	Under investigation.

Source: *cnbcindonesia.com*

According to the Periodic Report of P2PK in second quartal of 2019, three PAFs were given recommendation, with further eight were issued warning. Moreover, two PAFs are in Muhammad Ichsan Siregar, Anisa Listya, Ruth Samanta Hamzah, Nur Khamisah, Abdullah Sagaf

state of business restriction and another two PAFs have been in a restriction of service. It is reported in the Periodic Report that the number of cases in 2019 is lower than the prior years. Another important thing to note is that in case of a report manipulation, the public accountant should also be held accountable as much as that of the PAFs. There are some noteworthy issues in the late of June 2019, where multiple PA's have been issued warning, services restriction, and suspended licence. Lack of regulations (and loopholes in the existing ones) in financial reporting is cited as a factor that leads to the cases of misreporting and manipulations mentioned earlier.

According to De Angelo (1981), audit quality is possibility of an auditor to discover and to report the material misstatement on financial statement of a client. A study from Fransiska (2014) on case reveals that competency has no effect toward audit quality. Furthermore, Indah (2010) and Alim (2007) states that independency affects audit quality. In contrast, Samuelson, et al (2006) and Effendy (2010) found that independency has no effect to audit quality.

In this contribution, the scope of the study is private independent auditors in Palembang, South Sumatera Province, Indonesia, which is different to the public auditors in studies mentioned earlier. The private auditors have different characteristics than that of the public counterparts, hence we examine them in terms of competency and independency to represent the quality of auditors and associate it to the audit quality on the PAFs.

LITERATURE REVIEW

1. Agency Theory

In Jensen and Meckling (1976), agency theory is defined as a contract between agents to conduct services by delegating decision making authority to one of an agent. In general, it acts as an assuming agent as the party is solely motivated by personal interest and delegating decision making process for a company to manager or agent. However, decision taken by managers does not merely depends on the interest of stakeholders. The main purpose of agency theory is to minimize costs due to the asymmetrical information and uncertainty which may occur in midst of the agreement by designing contractual agreement at the beginning.

2. Accounting Behavior Theory

Accounting Behavior is an accounting sub-dicipline which involves aspects of humans behavior regarding to economic decisions (Lubis, 2010). Major contributors to behavioral science are psychology, sociology, and combination of both namely social psychology, which describe humans behavior as a whole. The link between this theory to our study is humans behavior may be affecting decision making of an auditors in audit process according to their competency and independency as basic principals of auditors.

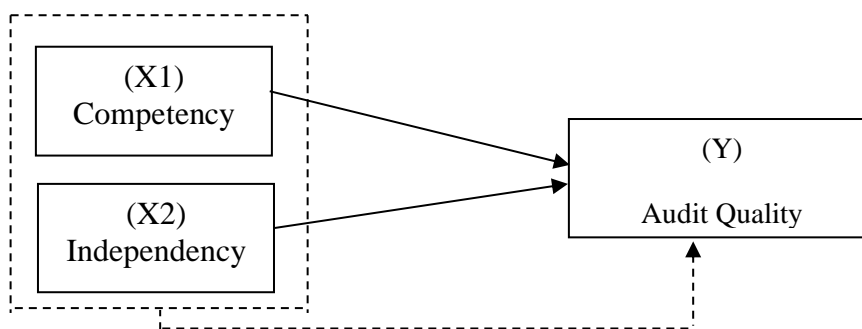
3. Theoretical Framework

According to the earlier explanation, we established a conceptual framework as given bellow: A competent auditor formerly known as an expert on bookkeeping. Nevertheless, at this era, auditors are expected to have substantial professional competence on various fields which associated to audit tasks. A competent auditor is meant to be adequately-equipped in terms of his/her expertise, knowledge, and experience as substantial competences in accomplishing their audit process (Fransiska, 2014; Zarefar, 2016; Furiady and Kurnia; 2015). **H1: Competency has effect on audit quality.**

The ability in finding material misstatement on financial statement of a company is based on the competency of an auditor. On the other hand, the will in revealing the misstatement is called independency. Mautz and Sharaf (1961) state that independency is an essential standard of audit to show the credibility of financial statement under the responsibility of a management. Thus, a less independent auditor would tend to state an untrustworthy opinion that impacts nothing to a company (Indah, 2010; Alim, 2007). **H2: Independency has effect on audit quality.**

Image 1.

Quality of Auditor to Audit Quality Framework



METHOD, DATA, AND ANALYSIS

1. Analysis Data Method

This is a quantitative study which collected the data by distributing questionnaires to samples. This study attained all PAs who worked at PAFs in Palembang, Indonesia. Sixty-six PAs were identified as samples by employing stratified random sampling method. Validity and reliability tests were conducted prior to data analysis to ensure legitimacy of the data set.

2. Hypothesis Testing

We employed multiple regression analysis to test the hypothesis with the formulation as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

whereas:

- Y : Audit Quality
- α : Constant

β_1, β_2 : Regression coefficient of X1 and X2
 X1 : Competency
 X2 : Independency
 e : Standard Error

Table 2.
Indicators of Variables

Variable	Indicator	Number of Question
Audit Quality (Y) <i>Carcello et al. (1992)</i>	1. Team leader involvement	1
	2. Having an auditor certification	2
	3. Having an understanding of SPAP (Professional Standards of Public Accountant)	3
	4. Having an understanding of audit planning cycle	4
	5. Having an understanding of audit completion cycle	5
	6. Having an understanding of audit completion cycle	6
	7. Having an understanding of job description	7
	8. Having an understanding of the scope of work activity	8
	9. Having high standard of ethics	9
Competency (X1) <i>Bonner dan Lewis (1990) dan Libby (1995)</i>	1. Having accounting and auditing knowledge	1
	2. Able to accomplish audit cases	2
	3. Accomplishing related education and training	3
Independency (X2) <i>Mautz dan Sharaf (1980)</i>	1. Independent on arranging the audit program	1
	2. Independent investigation	2
	3. Independent reporting	3

RESULT AND DISCUSSION

1. Result

a. Testing Research Instruments

i. Validity Test

Significance testing was performed with criteria using r-tables at a significance level of 0.05 using 2- tailed test. If positive and r-values are larger than that in table, the item can be declared valid. Conversely, if r count is larger than its value in the r table, the item can be declared invalid. Based on the validity test, all questions for variables have valid status. It is known that the value of r-count is equal to (Corrected Item-Total Correction) > r-table is 0.2423.

ii. Reliability Test

Table 3.
Reliability Statistics for Independent Variabels

Cronbach's Alpha	N of Items	Cronbach's Alpha	N of Items
.746	6	.776	9

Based on Table 3. And 4., the alpha value of the instruments for each variable is greater than the Cronbach's Alpha level of 0.6. Therefore, it is concluded that the instruments used in the variables are reliable.

b. Hypotesis Testing

The analysis of the data was conducted by using Multiple Linear Regression Test. The model interpretation or the testing result was interpreted in accordance with the theories of the data. By applying this method, the coefficient of the competency (X1) and independency (X2) towards audit quality (Y) is in Table 3.

Table 4.
t-Test (Coefficients^a)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12.626	3.261		3.871	.000
Total_X1	1.628	.285	.619	5.713	.000
Total_X2	.280	.247	.123	1.133	.262

Hypothesis testing from this study was obtained using the t-test. Based on the Table 3., if the value of arithmetic > t-table and sig < 0.05, the variable persistently influences the dependent. The test results show that H1 is accepted, hence it has effect on audit quality. In contrast, H2 is rejected, which means that it has no effect on audit quality.

Table 5.
F-Test (ANOVA^a)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	231.295	2	115.647	29.088	.000 ^b
	Residual	250.478	63	3.976		

Total	481.773	65		
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a. Dependent Variable: Total_Y

b. Predictors: (Constant), Total_X2, Total_X1

Based on the Table 5., if the value of arithmetic > F-table and sig < 0.05, both independent variables persistently influences the dependent simultaneously. The test results show that F-test 29.088 > 0.02 and Sig < 0.05, which implies to a significant effect of variable competency (X1) and independency (X2) on the audit quality Y.

Table 6.
Determination of Coefficient Test

Model Summary ^b		
Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.464	1.994	1.534

Based on Table 6., adjusted-R2 of 0.464. It is stated that 46.4% of the variation in audit quality variables can be explained by the auditor competency and auditor independency. On the other hand, the remaining 53.6% of the variation is influenced by other factors outside the model that has been studied.

2. Discussion

The hypothesis test in this study reveals that the first hypothesis, namely the audit quality is strongly influenced by the competency of auditor, is valid. Further, the significance test (confidence level of 0.05) shows that the probability value is smaller than α (0,000 < 0.05), which confirms this fact. This finding agrees with Ghafran and O'Sullivan (2017), where auditor competency has an effect on audit quality. However, the statistical analysis were not able in supporting the second hypothesis, namely the relationship between independency of auditor and the audit quality. The results of this study indicate an inconsistency with research conducted by Agusti and Pertiwi (2013), which states that auditor independency has a significant affect audit quality. The result suggests other underlying factors, for example criteria and degree of the independence of the audit which could be specific for the scope, might be responsible for its lack of effect in this regard. Furthermore, we suggest more rigorous criteria to be used in the future studies, such as including additional indicators related to independence in fact it is given strict sanctions if not independent, including being deprived of the right to examine.

CONCLUSION

This study aims to determine the effect of auditor competency and auditor independency on audit quality. Respondents in this study were 66 auditors working in Public Accounting Firms in Palembang, Indonesia. Data used in this study were collected through a

questionnaire method. By using the classic assumption test, and hypothesis testing using multiple linear regression test, t test and F test, it can be concluded that auditor competency influences the audit quality. However, the independency of auditor has no effect on audit quality, which is not in agreement with other finding with roughly similar case in the literature. We suggest more focused follow-up study in this aspect, with particular interest on why the independency of auditor has so low impact on the audit quality.

LIMITATION

Some limitations of this study are given as follows:

1. This study only examined the auditor independence and auditor competency. As mentioned in the discussion section, there are still other factors that may affect audit quality.
2. Questionnaires are only distributed at PAFs in Palembang, Indonesia.
3. This study uses the method of collecting data through questionnaires left at the PAFs according to agreed upon so that the data obtained is based on perceptions of respondents only. Therefore, the result is subject to honesty and altruism of the respondents. In further studies, we suggest that confirmation and double check of results, if possible, are necessary to achieve more reliable information.

Based on the limitations in this study, so the advice that can be given by researchers is:

1. Future studies should include key dependent variables that could really affect audit quality.
2. The extent of questionnaire distribution has to be improved in the future studies, so that the results of researchers have broader generalization capabilities.
3. Further research can be complemented by making deeper observations not only using questionnaires.
4. The population and sample of this study need to be expanded so that the results of the study reflect the reality.

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