Independence, professionalism, professional skepticism

The relation toward the resulted audit quality

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Abstract

Purpose – The purpose of this paper is to obtain empirical evidence of the relationship of independence, professionalism and skepticism with the quality of audit produced.

Design/methodology/approach – This research was conducted with questionnaires distributed to all auditors working in KAP Surabaya and Sidoarjo. The population in this study was all auditors working in KAP 45 Surabaya and KAP 1 Sidoarjo. Hypothesis testing was performed by using the partial least square test with the help of SmartPLS software version 3.0.

Findings – The results from this study found that auditor independence is positively related to audit quality but is not significant. Variable auditor professionalism is positively related to audit quality and proved significant, while the skepticism variable of auditor professionalism is positively related to audit quality and is significant.

Originality/value – The results of this study indicate that auditor independence, professionalism and skepticism are positively related to audit quality.

Keywords Independence, Professionalism, Audit quality, Skepticism

Paper type Research paper

Introduction

Information relating to the delivery of financial statements must have two main characteristics, namely, relevant and reliable. To achieve these criteria, the financial statements generated by a company's internal accountant require further examination. It will be performed by a public accountant or external auditor. One of the benefits of services achieved by public accountants is to provide information on more accurate and reliable financial statements for economic decision making. The financial statements of companies that have been audited by public accountants are reasonably more reliable than unaudited corporate financial statements.

In audited financial statements, the probability of errors can be minimized, but not all errors will be detected. Errors resulting from audited financial statements affect the quality of the resulting audit. Hence, researchers wish to determine those factors that may affect audit quality. These factors are auditor independence, professional auditor attitude and professional auditor skepticism.

Independence is the mental attitude of an auditor who is free from the influence of others or is not easily influenced. Auditor professionalism is also one of the important factors of the auditor. According to Baotham (2007), professional auditors refer to professional abilities and attitudes. Professional skepticism is that the auditor should have vigilance from the outset because the prospective client can deceive the auditor to manipulate the financial statements (Tuanakotta, 2015).

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Nizarul (2007) and Futi and Juliarsa (2015) stated that independence is significantly related to audit quality. According to Ussahawanitchakit and Lim-U-Sanno (2008), auditor professionalism has a significant positive impact on audit quality. However, research conducted by Futri and Juliarsa indicates that professionalism has no relation to audit quality. Anugerah and Akbar (2014) stated that there is a relationship between auditor professional skepticism and the quality of the resulting audit. However, according to Widagdo (2002), professional skepticism included in the quality audit attribute is not related to client satisfaction.

This study contributes to empirical evidence of the independence, professionalism and skepticism of audit quality. The population in this study is all auditors working in KAP 45 Surabaya and KAP 1 Sidoarjo. The results of this study indicate that auditor independence is positively related to audit quality but not significant. Variable auditor professionalism is positively related to audit quality and proved significant. Variable skepticism of auditor professionalism is positively related to audit quality and is significant.

The next section of this paper will provide a review of the literature and hypotheses on how the relationship of independence, professionalism and auditor skepticism affects the quality of the resulting audit. The next section includes the method of research, result, and discussion. The final section provides conclusions and suggestions for further research.

Literature review

Audit concept

Arens and Loebbecke (2011) stated that auditing is an examination conducted by an independent party on the financial statements that have been prepared by the client management to accumulate or collect evidence and then to evaluate the evidence in order to assess the fairness of the financial statements. The general purpose of the audit is to express an opinion on the fairness of financial statements in all material respects, financial position and results of operations and cash flows in accordance with generally accepted accounting principles (Boynton and Johnson, 2006).

According to Agoes (2012), management assertion is a management representative of the fairness of financial statements. Auditing Standards Board classifies six financial statement assertions, namely, existence or occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure. Agoes (2012) divided the audit phase into four areas: preliminary survey, review and testing of management control system, detailed testing and report development.

Audit quality

According to DeAngelo (1981), audit quality is the probability or possibility that an auditor finds and reports an infringement in the client's accounting system. Deis and Giroux (1992) explained that audit quality is the auditor's ability to find material misstatements in the company's financial statements and depends on the competence of the auditor, while the willingness to report the findings of the material misstatement depends on the auditor's professional independence.

Deis and Giroux (1992) also conducted research and suggested four attributes that are considered to have a relationship with audit quality, namely: the length of time the auditor has conducted audit examinations (tenure or length of service) – the lower the audit quality; the number of the audited parties – the greater the number of audited parties, the better will be the quality of the audit because the auditor will try to improve its reputation; the financial health of the audited parties – the better their financial condition then there is a greater tendency of the audited parties to influence the auditor not to follow the standard; and review by a third party – audit quality will increase if the auditor knows that the results of his work will be reviewed by a third party.

Audit quality and auditor independence

According to Mulyadi (2006), independence means being free from the influence of others, not dependent on others and honest in considering facts and the existence of objective considerations in formulating and expressing his opinion. The independence of public accountants is the main basis of public trust in the public accounting profession and is also one of the most important factors for assessing the quality of audit services.

Auditor independence is one of the important factors in producing a quality audit. Supriyono (1988) expressed the opinion that if the auditor loses its independence, then the resulting audit report is not in accordance with the facts and so cannot be used as a basis for decision making. The greater the independence of the auditor, the better the audit quality will be. Based on the above exposure, the research hypothesis can be formulated as follows:

H1. The auditor independence is positively and significantly related to the resulting audit quality.

Auditor professionalism and audit quality

According to Pramono (2007), professional attitudes and actions are a demand in various fields in each profession, including the profession of auditors. Meanwhile, according to Arens (2009), professionalism is the responsibility of behaving to a greater degree than the responsibility given to the auditor and more than to comply with laws (written) and community (unwritten) rules. As a professional individual, the auditor acknowledges responsibility for the client's management and organization and toward peers including to behave, even if it is a personal sacrifice.

A public accountant who has a highly professional attitude will consider material but not the right information or information about the right financial statements because this is closely related to the type of opinion that will be given by the auditor. The higher the professionalism of an auditor, the better the Quality Audit generated in the financial statements will be. Based on the above exposure, the research hypothesis can be formulated as follows:

H2. Auditor professionalism has a positive and significant impact on the resulting audit quality.

Auditor professional skepticism and audit quality

According to Rai and gusti (2008), professional skepticism is a curiosity attitude of an auditor, an attitude that includes constant questioning and critical evaluation of the audit evidence. In the application, the auditor should not be satisfied with a less convincing answer even though the answer is based on the honesty of the client's management. Hall and Singleton (2007) stated that professional skepticism is the application of an attitude that always questions and critically assesses audit evidence. An auditor must possess the attitude of professional skepticism because the skepticism or curiosity of the auditor may improve the quality of the audit. Given a high sense of auditor curiosity, the auditor will have the ability to evaluate audit evidence so as to find violations of the client's financial statements and any fraud committed by the client's management. Based on the exposure explained, the research hypothesis can be formulated as follows:

H3. The auditor's professional skepticism attitude is positively and significantly related to the quality of the audit resulted.

Research method

Research type

The type of the research studied was quantitative, with associative research methods and survey approach.

Variable identification

This study uses dependent and independent variables. The dependent variable is the quality of the resulting audit; the independent variable is the attitude of auditor independence, auditor professionalism and auditor professional skepticism. The quality of the audit in this study adopted the questionnaire from the research conducted by Indah on points 1 to 6.

Furthermore, for points 7 to 14, questionnaires in this study adopted research conducted by Perdany and Suranta. At point 15, the questionnaire question in this study was adopted from research by Rusyanti.

Furthermore, Auditor Independence measurements in this study adopted some previous research questionnaires, namely, Trisnaningsih study on questions 1 through 11, while the questions on points 12 through 15 adopted the research conducted by Perdany and Suranta. Next, the measurement of Auditor Professionalism in this study was adopted from the research conducted by Herawati and Susanto.

Finally, the measurement of Professional Skepticism of Auditors in this study was adopted from research by Rusyantis for questions 1 through 6, and research by Adrian for questions 7 to 10. The statements are presented using the Likert scale with scores of 1 to 5, showing the level of agreement with each statement. Point 1 indicates strong disagreement until point 5 shows strong agreement.

Data type and data source

This study uses quantitative data types from primary data sources in the form of questionnaires that were completed by auditors who work in Public Accounting Firms in Surabaya and in Sidoarjo, i.e. Surabaya's KAP in an amount of 45 KAPs, and KAP in Sidoarjo, which is in amount of 1 KAP. The sampling procedure is done by convenience sampling, a technique of determining the research sample that is not done randomly, but appoints a KAP which is expected to provide information related to this research. Primary data in this research are personal respondent characteristics such as respondent's name, place of work (KAP), gender, education level, age, position, duration of work in KAP and questionnaire answers for auditor independence, auditor professionalism, professional auditor skepticism and audit quality.

Data analysis method

Outer model measurement. Outer models are often known as outer relations or measurement models defining how each indicator block relates to other variables. In this research, the outer model measurement is used with the loading factor value for each indicator and used to test the validity of the construct and the reliability of the instrument. This study used the value of outer loading of 0.50.

Validity test. The method for assessing validity is to compare the square root of average variance extracted (AVE) value of each construct with the correlation between the other constructs in the model. If the AVE root value of each construct is greater than the correlation value of the construct with the other constructs in the model, it is said to have a good discriminant validity value.

Reliability test. This research uses a reliability test with composite reliability technique that measures a construct. It can be evaluated with two kinds of internal consistency and Cronbach's α (Ghozali, 2006) to determine whether measuring device is done through a coefficient of reliability. If the reliability coefficient is greater than 0.60, then the whole statement is declared reliable.

Inner model measurement. Testing and measurement that have been described are a form of the outer model measurement. After the measurement of the outer model is done, then the inner model measurement must be conducted for the influence level of the relationship between variables, and the influence level of the overall relationship of

variables in the system built. The purpose of inner model measurement is to test the relationship between variables in the study that used value adjusted R^2.

Hypothesis test. The design of the hypothesis test is based on the purpose of research, that is, *t*-test hypothesis to assess the independent variable relationship separately. The model used in this research is the causality model or the relationship between research variables. This research uses SmartPLS software version 3.0 as the data analysis method. Partial least square (PLS) is a structural equation analysis or structural equation model (SEM) based on variants that can simultaneously perform the testing of measurement models as well as structural models.

Result and discussion

Result

Subject and object research general description. From 45 KAPs in Surabaya and 1 KAP in Sidoarjo, only 19 KAPs were willing to be the questionnaire respondents with a total of 190 questionnaires distributed and as many as 123 returned questionnaires. Details of the questionnaire data processed are presented in Table I.

Hypothesis verification and model analysis. This research uses SEM with PLS analysis model to test the proposed hypothesis. PLS analysis was tested using SmartPLS 3.0 for windows software.

Outer model measurement estimation. Outer model measurements in this study were conducted by measuring the reflection indicator that was assessed based on correlation between item score or component score which was estimated with the value of an outer loading factor. The minimum limit value of the outer loading factor of a viable indicator used to reflect a variable is 0.5.

Based on Table II, all proxies have an outer loading factor value greater than 0.5. The results indicate that the whole proxy has been eligible to serve as an indicator that can reflect each of the related variables. The results from Table II indicate that the second iteration is an iteration to determine the indicator used as a reflective indicator of each variable.

Validity and variable reliability test. Discriminant validity is measured by comparing the average root value of AVE per construct with the correlation between other constructs in the model. The AVE value must be greater than 0.30 or have a *p*-value smaller than the significance level (0.05).

Based on Table III, all variables have discriminant validity values above 0.30 and *p*-value is smaller than the significance level of 0.05. These results indicate that all variables are valid and can provide conviction. Variable reliability was tested by using the composite reliability technique. To determine whether or not a reliable measuring instrument is performed through a reliability coefficient, it must be greater than 0.70.

Based on Table IV, all variables have composite reliability values greater than 0.70, thus indicating that all variables in the study are reliable for use in further analysis tests.

Inner model measurement estimation. Inner model testing was conducted to measure the overall relationship of variables in this study. The overall relationship of the variables in this study was measured by the R^2 adjusted (Adjusted R^2) value of each endogenous variable, which in this research is audit quality.

Description	Amount	Percentage
Distributed questionnaires	190	100
Returned questionnaires	123	64.73
Valid questionnaires	123	100
Invalid questionnaires	0	0

Table I. Questionnaire data collecting process description

Variable	Indicator	Outer loading value	Conclusion
Auditor Independence	PP1	0.74	Significant
	PP2	0.787	Significant
	PP3	0.649	Significant
	II3	0.865	Significant
	II4	0.557	Significant
Auditor Professionalism	AP2	0.805	Significant
	AP3	0.72	Significant
	KS2	0.656	Significant
	KS3	0.826	Significant
	KM1	0.825	Significant
	KM2	0.692	Significant
	KM3	0.562	Significant
Auditor Skepticism	SP1	0.676	Significant
	SP2	0.775	Significant
	SP3	0.78	Significant
	SP4	0.72	Significant
	SP5	0.759	Significant
	SP6	0.752	Significant
	SP7	0.768	Significant
	SP8	0.712	Significant
	SP9	0.78	Significant
	SP10	0.765	Significant
Audit Quality	KA3	0.786	Significant
	KA4	0.674	Significant
	KA5	0.753	Significant
	KA6	0.746	Significant
	KA8	0.804	Significant
	KA9	0.745	Significant
	KA10	0.732	Significant
	KA11	0.573	Significant
	KA12	0.728	Significant
	KA13	0.632	Significant
	KA15	0.586	Significant

Table II.
Last iteration outer loading factor result

Variable	Original sample (*O*)	*p*-values
Auditor independence	0.529	0
Auditor professionalism	0.537	0
Professional auditor skepticism	0.562	0
Audit quality	0.503	0

Table III.
Discriminant validity measurement result

Variable	Original sample (*O*)	*p*-values
Auditor independence	0.846	0
Auditor professionalism	0.889	0
Professional auditor skepticism	0.927	0
Audit quality	0.917	0

Table IV.
Composite reliability measurement result

Adjusted R^2 score of 50.7 percent in Table V indicates that audit quality variables generated by auditors can be explained by 50.7 percent by auditor independence variables, auditor professionalism and professional auditor skepticism. The remaining 40.3 percent of audit quality variables generated by the auditor are influenced by the variables not tested in this study.

Hypothesis verification. Auditor independence relationship to audit quality generated in this study was calculated using the *t*-test which was analyzed by using PLS model with significance levels of 1, 5 or 10 percent.

In Table VI, *p*-values of $0.340 > 0.1$ indicate that the independence variable is not significant to the quality of audit produced. The regression coefficient (original sample) of 0.084 with a positive sign indicates a unidirectional relationship between auditor independence and audit quality generated by the auditor. If the auditor's independence increases once, the audit quality will increase by 0.084 times.

In Table VII, the *p*-values of $0.017 < 0.05$ indicate that the auditor professionalism variable is significant to the quality of the resulting audit. The regression coefficient (original sample) of 0.228 with positive sign indicates a unidirectional relationship between auditor professionalism and audit quality generated by the auditor. If auditor professionalism increases once, the audit quality will increase by 0.228 times.

In Table VIII, the *p*-values of $0.000 < 0.05$ indicate that the auditor's professionalism skepticism variable is significant to the quality of the resulting audit. The regression coefficient (original sample) of 0.534 with a marked positive sign indicates a unidirectional relationship between auditor professionalism skepticism and audit quality generated by the auditor. If the auditor's professionalism skepticism increases once, the audit quality will increase by 0.534 times.

Table V. R^2 adjusted value (adjusted R^2)

Endogenous variable	R^2 adjusted value (Adjusted R^2) (%)
Audit quality	50.70

Table VI. *t*-test result of auditor independence relationship toward resulting audit quality

Relation between variables	Original sample (O)	Sample mean	SD	*t*-statistics	*p*-values
Independence→Audit quality	0.084	0.112	0.088	0.955	0.34

Table VII. *t*-test result of the auditor professionalism relation toward resulting audit quality

Relation between variables	Original sample (*O*)	Sample mean	SD	*t*-statistics	*p*-values
Independence→Audit quality	0.228	0.232	0.095	2.399	0.017

Table VIII. *t*-test result of the auditor skepticism relation toward resulting audit quality

Relation between variables	Original sample (*O*)	Sample mean	SD	*t*-statistics	*p*-values
Independence→Audit quality	0.534	0.524	0.089	6	0

Discussion

Auditor independence relation toward resulting audit quality

The result of the research using a statistical test shows p-values of $0.340 > 0.1$ and regression coefficient of 0.084, which means that the auditor independence variables are positively correlated but not significant to the audit quality produced, so *H1* is rejected. This indicates that the independence of the auditor does not guarantee whether it will result in a quality audit. The result of this research is supported by Widagdo (2002), who stated that one of the audit quality attributes, the independence of the auditor, is not related to client satisfaction. Meanwhile, according to Prihartini *et al.* (2015) and Futri and Juliarsa, the independence of the auditor is not related to the quality of the resulting audit.

Auditor professionalism relation toward resulting audit quality

The result of this research by using statistical test shows p-values of $0.017 < 0.05$ and regression coefficient equal to 0.228 which means that the variable of auditor professionalism correlates positively and is significant to the audit quality yielded, so *H2* is accepted. An auditor who adheres to his profession can improve the auditor's professionalism so that the resulting audit quality is certainly increased. Then, the result of the work that has been completed provides the inner satisfaction as a professional auditor. In this case, the professional devotion of the auditor will require an audit work to be completed promptly. The result of this study is in accordance with Ussahawanitchakit and Lim-U-Sanno (2008), who showed that the variables of professionalism have a significant positive impact on audit quality. Also, Lesmana and Machdar (2015) stated that professionalism is significantly related individually to audit quality.

Auditor professional skepticism relation toward resulting audit quality

The result of the research using a statistical test shows p-values of $0.000 < 0.05$ and regression coefficient equal to 0.534 which means that the professional skepticism variable of auditor correlates positively and is significant to the audit quality that resulted, so *H3* is accepted. Auditor's curiosity or skepticism will improve the quality of the audit. The greater the skepticism of the auditor, the better he is placed to obtain evidence related to the examination of the client's financial statements. The professional skepticism of the auditor has the potential to assist the auditor in finding all forms of violations committed by the client in financial reporting. The result of this study is supported by Anugerah and Akbar (2014), indicating that professional competence and skepticism are significantly related to audit quality.

Conclusion

The results of this study indicate that the independence of auditors correlates positively but not significantly to the quality of audit generated. Hence, the independence of the auditor does not guarantee whether it will result in a quality audit. Auditor professionalism attitude is positive and significant to the quality of audit result. The professionalism of auditor skepticism is positively and significantly related to the quality of the resulting audit. Professionalism has an influence on audit quality. It becomes very important for an auditor to remember that the level of auditor professionalism is indispensable while undertaking an audit. An auditor with professional skepticism will seek additional evidence from the client's company if the auditor feels that the evidence he has obtained has not been convincing enough. The higher level of vigilance possessed by the auditor, the higher the attitude of professional skepticism owned by the auditor, so as to produce quality audit results.

The limitations in this study show that there are invalid indicators in the variable attitude auditor independence, auditor professionalism attitude and audit quality. In addition, only 41.30 percent of KAPs completed or returned the questionnaire so that its power of testing is less convincing. Also, there are other variables that have a relationship with audit quality but

were not tested in this research, in amount of 40.3 percent. Suggestions for further research are that the researcher is expected to replace the invalid indicator into a valid indicator and include other variables outside the variables in this study.

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Appendix

Gender as the respondent characteristic

Number	Gender	Respondent	Percentage
1	Pria	71	57.73
2	Wanita	52	42.27
	Total	123	100

Education as the respondent characteristic

Number	Education	Respondent	Percentage
1	D3	14	11.38
2	S1	102	82.92
3	S2	7	5.70
4	S3	0	0
	Total	123	100

Auditor position as the respondent characteristic

Number	Auditor position	Respondent	Percentage
1	Partner	3	2.43
2	Senior auditor	29	23.58
3	Junior auditor	88	71.55
4	Others	3	2.44
	Total	123	100

Length of service as the respondent characteristic

Number	Length of service	Respondent	Percentage
1	1 to 5 years	98	79.67
2	5 to 10 years	13	10.57
3	> 10 years	12	9.76
	Total	123	100

Iteration 1 outer loading factor estimation result

Variable	Indicator	Outer loading value	Conclusion
Auditor independence	PP1	0.543	Significant
	PP2	0.58	Significant
	PP3	0.528	Significant
	II1	0.265972222	Not significant
	II2	0.164583333	Not significant
	II3	0.561111111	Significant
	II4	0.354166667	Significant
	PL1	−0.247	Not significant
	PL2	−0.154	Not significant
	PL3	−0.2	Not significant
	PL4	0.34375	Not significant
	GP1	−0.238	Not significant
	GP2	−0.481	Not significant
	GE1	0.293	Not significant
	GE2	−0.531	Significant
Auditor professionalism	AP1	0.493	Not significant
	AP2	0.695	Significant
	AP3	0.693	Significant
	KS1	0.388	Not significant
	KS2	0.598	Significant
	KS3	0.79	Significant
	KM1	0.731	Significant

Table AI.

(*continued*)

	KM2	0.657	Significant
	KM3	0.554	Significant
	KP1	0.528	Significant
	KP2	0.493	Not significant
	KP3	0.483	Not significant
	HA1	0.572	Significant
	HA2	0.503	Significant
	HA3	0.467	Not significant
Skepticism	SP1	0.678	Significant
	SP2	0.774	Significant
	SP3	0.779	Significant
	SP4	0.723	Significant
	SP5	0.759	Significant
	SP6	0.753	Significant
	SP7	0.769	Significant
	SP8	0.709	Significant
	SP9	0.781	Significant
	SP10	0.763	Significant
Audit quality	KA1	0.015	Not significant
	KA2	0.455	Not significant
	KA3	0.776	Significant
	KA4	0.66	Significant
	KA5	0.754	Significant
	KA6	0.756	Significant
	KA7	0.409	Not significant
	KA8	0.807	Significant
	KA9	0.742	Significant
	KA10	0.725	Significant
	KA11	0.552	Significant
	KA12	0.719	Significant
	KA13	0.627	Significant
	KA14	−0.196	Not significant
	KA15	0.573	Significant

Table AI.

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