Audit Quality: Re-Testing Auditor’s Competence, Professionalism and Working Experience at Public Accounting Firms in Yogyakarta

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Abstract—Some factors which positively affect audit quality proposed by previous studies are auditor’s competence, professionalism and their working experiences. It remains unclear, however, whether previous findings are generalizable to the contexts where dysfunctional behavior emerges whilst specific cultural values are held. The main objective of this replication study is to extend the scope of previous study results and to provide the basis for further and deeper explanatory studies. A survey was conducted with auditors in Public Accounting Firms in Yogyakarta as regional respondents. Expected positive results from the survey are confirmed in this study. Further implications are also discussed, concerning the positive expectation of individual factors and cultural context’s effects among auditors in preserving audit quality.

Keywords — Audit Quality, Competence, Professionalism, Working experiences, Cultural Context.

I. INTRODUCTION

The discourse of audit quality leads to the role of individual auditors as part of public accounting firms. Auditor’s characteristic contributes to the quality of audit execution (Herbach, 2001). The role of auditors is mainly significant in terms of providing a credible assurance for investors and all stakeholders in making economic decisions based on the client’s financial information (Michas, 2011). Normatively, based on stewardship perspective (Davis, 1997), auditors should not be motivated by individual objectives but should be directed to achieving major objectives of the entire public accounting firm and all related stakeholders, that is maintaining the quality of the audit. However, auditor’s dysfunctional behavior may deteriorate audit quality and may impinge on the profession as well.

Previous studies have suggested some factors influencing audit quality, including competence, professionalism and working experience. Positive results generally are confirmed, but regardless of whether those findings are generalizable to the settings where relatively high violation of professional standards is reported whereas virtuous culture remains exist. Data from Indonesia Financial Services Authority (OJK) shows that during 2003-2012, there were 412 public accounting firms charged with fines, 189 public accounting firms with a written admonition, 45 public accounting with business suspension and the other 3 with business revocation due to some audit practice violations in Indonesia (Suyanto, 2014).

Meanwhile, some areas in Indonesia tend to have strong cultural values which lead to positive working behavior. Social-Oriented psychological ownership in Javanese culture which is called “rumangska handarbeni” for instance, leads to affective organizational commitment and organizational citizenship behavior (Rosari, 2017). A measurement developed by Rosari (2016) is used to translate the construct of psychological ownership in Javanese context, improving the work of Avey et al. (2009). It is confirmed that relatedness to the group and prevention from negative things have a relationship with organizational commitment and citizenship behavior. This, in turns, will lead to more normative behavior and expected to be prevention from dysfunctional behavior in the context of auditors.

Hence, it is important to re-test the effect of some determinants of audit quality in Javanese culture circumstances. As pointed out by Lindsay and Ehrenberg (1993), replication studies are needed to find generalizable research results in different conditions. Several extant studies have suggested that auditor’s competence, professionalism, and working experience have positive effects on audit quality in Indonesia (Imansari, et al., 2016; Agusti and PertiwI, 2013; Saputra et al., 2015) and those effects were re-tested in this study with confirmed expected results.

This research contributes to the literature and audit practices since the effects of some individual auditor characteristics were not confirmed in previous studies but remain positive in this study’s specific context where strong shared values exist. Future explanatory studies can accommodate and observe further the role of cultural value based on this starting point in preserving audit quality through individual auditor’s characteristics.

This study was conducted in the Yogyakarta region, Central Java, Indonesia with auditor samples from some public accounting firms. Theories, literature and previous findings followed by hypotheses will be discussed in the remaining of the paper. Afterwards, discussion of the results and related implications are proposed.
II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. The Effect of Competence toward Audit Quality

The stewardship concept proposed that a steward will place a higher value on pro-organizational behavior than self-serving behavior, hence it tends to be collectivists, pro-organizational, and trustworthy (Davis, 1997). By this point of view, auditors as stewards will serve the interests of both their firms and stakeholders and will not become self-serving to maintain the quality of the audit. Positive individual characteristics of an auditor then, including a high level of competence, will lead to improved audit quality as well.

In Indonesia, research findings from the work of Imansari, et al. (2016) show that competence influences audit quality. This is in line with the result of a previous study by Agusti and Pertiwi (2013), which acknowledge that there is a positive influence between auditor competence on audit quality. However, different results are emerged from the research conducted by Dewi and Budiartha (2015) and Alfiati (2017), explaining that competence does not affect audit quality. Arguments from previous studies that this can happen because the auditors still do not understand and do not carry out their professional services as well under Government Accounting Standards.

The existence of empirical findings in some parts of Indonesia regions with no correlation between competence and audit quality as explained above tends to deviate from the stewardship concept because the competence level of the auditors will not affect the quality, likely being caused by a self-serving behavior. Still, it is not clear whether the argument is empirically confirmed for other regions in Indonesia. Various environments existing in Indonesia may affect organizational culture and individual auditors. One of the cultural contexts in Indonesia is a Javanese environment with some of its positive shared values. Javanese concept reveals, for example, social-oriented psychological ownership which will lead to affective organizational commitment (Rosari, 2017). These conditions consequently support the notion from the stewardship theory proposing that individuals as stewards will be more pro-organizational in their behavior.

These arguments then may explain a consistent condition for the relationship between auditor’s competence and audit quality in Javanese environment. The auditors which in this case are stewards will provide higher quality in their audit works with their higher competence in the effort to serve the firms and all of the stakeholders.

From the explanation above, we argue that consistently, in Javanese environment, the quality of audit is increased when the level of auditor’s competence is high. Thus, based on these arguments and previous studies, we proposed the first hypothesis as follows:

H1: Competence has a positive effect on audit quality.

B. The Effect of Professionalism on Audit Quality.

Professionalism is an important aspect of audit works, especially for individual auditors. Based on the stewardship theory, auditors as the stewards will serve their best for the interests of the organization and related stakeholders (Davis, 1997). In this case, auditors would be motivated to achieve the interest of the entire public accounting firm and not to maintain their interest, so they would keep their professionalism as well.

Based on the results of research conducted in Indonesia concerning the aspect of auditor’s professionalism and its effect on audit quality, previous work from Agusti and Pertiwi (2013) acknowledges that professionalism influences audit quality positively. In contrast, the results of the study by Futri and Juliarsa (2014) shows that professionalism does not influence audit quality. There is a different context in these two studies. While the research from Agusti and Pertiwi (2013) was conducted in Sumatra, the research from Futri and Juliarsa (2014) was located in the Bali region. However, there is no discourse in the two studies on whether there is a possibility of cultural context affecting the result.

Since there is a concept of social-oriented psychological ownership in Javanese context, there may be a contribution of the environment surrounding the public accounting firm in influencing the auditors who work in the firm, as what is confirmed by an empirical survey concerning this shared values among Javanese workers (Rosari, 2017). An auditor in improving audit quality needs to act professionally in the audit process. The more professional the auditor is, the better the quality of the audit executed will be. With the increase in quality, public trust is increasing towards accountant services. Auditors in Javanese environment with positive social-oriented ownership are argued to have positive organizational commitment. In this context, the linear relationship between professionalism and audit quality thereby remains consistent. Thus, based on these arguments, the second hypothesis formulated is as follows:

H2: Professionalism has a positive effect on audit quality.

C. The Effect of Working experience on Audit Quality.

Referring to the stewardship concept, a steward will tend to preserve pro-organizational behavior (Davis, 1997). It means that, instead of maintaining their self-interest, a steward will place a high priority for serving organization and stakeholder’s interests. This notion, hence, will support the quality of the audit since auditors lead to serving the public. In terms of serving period, a longer period would reflect an auditor’s increasing experience. Therefore, the longer the serving period and the higher the experience are, the more commit auditor will be in serving stakeholders interest.

In Indonesia context, the results of studies conducted by Saputra, et al (2015) and Imansari, et al (2016) reveal that working experience influences audit quality. Meanwhile, the research results of Futri and Juliarsa (2014) and Septyaningtyas (2017) show that working experience
does not affect audit quality. An argument deriving from these research states that the inconsistency may result from some factors including auditor's low experience, a shorter period of audit works and less complex assignment.

However, the test of such an argument has not yet fully confirmed. In this context, various locations of research would probably lead to differences in observing the effect of working experience on audit quality. Cultural context is likely an important factor as well, which may have an impact on this difference. In Javanese cultural values, where the concept of social-oriented ownership positively influencing commitment exists, the more experienced auditors are, the higher the commitment they will have. This, in turns, will lead to improved audit quality gathered from deeper learning processes. Hence, based on these arguments in Javanese context, we formulated the third hypothesis as follows:

H3: Working experience has a positive effect on audit quality.

III. RESEARCH METHODS

A. Data Collection

The object of this research was the auditors working at public accounting firms located in Yogyakarta. The subject of this research was 8 Public Accountant Firms in the Yogyakarta region with the number of respondents amounting 37 respondents. Data used were primary data, obtained directly from the research object through the distribution of the questionnaires. Sampling was done using a purposive sampling technique with the following criteria: a) having a minimum one year of working experience, b) working in the position of junior auditor or senior auditor, and c) working in public accounting firms located only in Yogyakarta.

B. Research Variable and the measurement

The dependent variable was audit quality. Audit quality is the possibility of auditors to find and report fraud.

TABLE 1

<table>
<thead>
<tr>
<th>Variables</th>
<th>Validity</th>
<th>Reliability</th>
<th>Multicollinearity</th>
<th>Normality</th>
<th>Heteroscedasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>Cronbach's Alpha</td>
<td>Tolerance</td>
<td>VIF</td>
<td>Asymp Sig. (2-tailed)</td>
</tr>
<tr>
<td>Competence</td>
<td>0.000</td>
<td>0.937</td>
<td>0.930</td>
<td>1.075</td>
<td>0.326</td>
</tr>
<tr>
<td>Professionalism</td>
<td>0.000</td>
<td>0.982</td>
<td>0.818</td>
<td>1.298</td>
<td>0.492</td>
</tr>
<tr>
<td>Working experiences</td>
<td>0.000</td>
<td>0.964</td>
<td>0.062</td>
<td>16.330</td>
<td>1.390</td>
</tr>
<tr>
<td>Audit Quality</td>
<td>0.000</td>
<td>0.926</td>
<td>0.818</td>
<td>1.075</td>
<td>0.237</td>
</tr>
<tr>
<td>Requirement to be approved</td>
<td>&lt; 0,05</td>
<td>&gt; 0,6</td>
<td>&gt; 0,10</td>
<td>&lt; 10</td>
<td>&gt; 0,05</td>
</tr>
</tbody>
</table>

From the above data, it can be concluded that all of the questions were valid; all variables were reliable; no correlation existed between the independent variables; the data for regression model were normally distributed, and; heteroscedasticity did not occur.

or violations on the client's accounting system using established accounting standards and audit standards. Measurement of the audit quality variable used instruments adopted from Febriyanti (2014), including the quality of the process, quality of the results and follow-up of audit results.

The independent variable was competence, professionalism, and working experience. Auditor competence is the auditor's ability to apply his knowledge and experience in conducting audits so that auditors can conduct audits carefully, intuitively and objectively (Triarini and Latrini, 2016). Measurement of the competence variable used instruments adopted from Sukriah et al. (2009), including personal quality, general knowledge, and special skills.

According to Iskandar and Indarto (2015), professionalism is the attitude or behavior of a person in carrying out his profession. Professionalism is one of the main requirements for anyone who wants to become an auditor besides having adequate expertise and discipline and being consistent in carrying out work as an auditor. Measurement of the professionalism variable employed instruments used by Tjaradwinata (2013), including responsibility, public interest, integrity, objectivity and independence, circumspection, and the scope and nature of services.

According to the Professional Standards of Public Accountants, auditors are required to have sufficient working experience in the profession they are engaged in and are required to fulfil technical qualifications and experience in the industrial fields their clients are involved in. Measurement of the working experience variable used instruments adopted from Sukriah et al. (2009), covering the duration of work as an auditor, and the number of inspection tasks.

C. Data Analysis and Discussion

Table 1 shows the results of the validity test, reliability test and classical assumption test.
D. Hypothesis 1 Testing Results

TABLE 2.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.945*</td>
<td>0.893</td>
<td>0.883</td>
<td>1.343</td>
</tr>
</tbody>
</table>

The results showed an R-value of 0.945, indicating that there was a strong correlation between the dependent variable with the independent variables. Furthermore, the Adjusted R-square value was 0.883, showing that the audit quality variable could be explained by the three independent variables.

TABLE 3.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>497.436</td>
<td>3</td>
<td>165.812</td>
<td>91.989</td>
<td>.000*</td>
</tr>
<tr>
<td>Residual</td>
<td>59.483</td>
<td>33</td>
<td>1.803</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>556.919</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The F-test obtained an F-value of 91.989 with a significance value of 0.000 (<0.05). These results showed that the regression model can be used to predict audit quality.

TABLE 4.

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>3.951</td>
<td>1.659</td>
<td></td>
<td>2.381</td>
<td>.023</td>
</tr>
<tr>
<td>Competence</td>
<td>.184</td>
<td>.054</td>
<td>.284</td>
<td>3.390</td>
<td>.002</td>
</tr>
<tr>
<td>Professionalism</td>
<td>.065</td>
<td>.023</td>
<td>.330</td>
<td>2.800</td>
<td>.008</td>
</tr>
<tr>
<td>Working experience</td>
<td>.304</td>
<td>.080</td>
<td>.417</td>
<td>3.813</td>
<td>.001</td>
</tr>
</tbody>
</table>

The Competence variable showed a coefficient regression of 0.184 and t-value of 3.390 with a significance value of 0.002 (less than 0.05). These results indicate that H1 was accepted and had a positive correlation, meaning that competence affects audit quality. Auditors must have competence because auditor's experiences and knowledge will upgrade audit quality. An experienced auditor will be easier to make decisions. Besides, auditors with good competence will be able to find and eliminate material misstatement and manipulation in financial statements. The higher auditor competence will lead to better audit quality. The results related to the stewardship theory and the results of this research are consistent with the results of studies by Imansari, et al (2016), Agusti and Pertiwi (2013).

E. Hypothesis 2 Testing Result

The Professionalism variable had a coefficient regression of 0.065 and t-value of 2.800 with a significance value of .008 (< 0.05). These results suggest that H2 was accepted and had a positive correlation, meaning that professionalism affects audit quality. Professionalism is the auditor's attitude in carrying out his profession. The higher the auditor upholds the value of professionalism, the better audit quality will be. The results related to the stewardship theory and the results of this research are consistent with the results of studies by Agusti and Pertiwi (2013) and Pramesti and Wiratmaja (2017).

F. Hypothesis 3 testing Result

The Working experience showed a coefficient regression amounted to 0.304 and t-value of 3.813 with a significance value of 0.001 (< 0.05). That is, H3 was accepted and had a positive correlation, indicating that working experience affects audit quality. Experiences acquired through long working period influenced audit quality. The results related to the stewardship theory and the results of this research are consistent with the results of studies by Sukriah et al. (2009), Wulandari et al. (2014), Saputra et al. (2015), Imansari et al. (2016), and Rahayu and Suryono (2016).

IV. CONCLUSION, LIMITATIONS AND SUGGESTIONS

The objective of this research is to replicate previous studies concerning the effects of some factors on audit quality. Since, in practice, there are various audit environments, including the location where the public accounting firm is operated which can affect individual auditor and ultimately lead to audit quality, it is needed to re-test such effects to obtain more generalizable results. Questionable results come from previous inconsistent findings of whether competence, professionalism and working experience have a positive effect audit quality positively or have no effect at all. The high level of dysfunctional behavior from auditors in Indonesia and large numbers of public accounting firms having consequences due to some violations is reported by OJK data (Suyanto, 2014). This portrays the condition of the auditors which indicates that positive characteristics including competence, professionalism and experience of an auditor have no direct and positive effect on behavior.

The results of this survey which was executed in Yogyakarta, Indonesia, confirm a consistent positive effect of competence, professionalism, and working experience on audit quality. The results corroborate previous findings in terms of testing some variables which were still inconsistent. The cultural context in one region in Indonesia shows the specific concept of social-oriented psychological ownership which positively influences behavior. A survey of Javanese workers conducted by Rosari (2016) acknowledges how a cultural concept namely social-oriented psychological ownership or in Javanese called “rumangsaka handarbeni” positively influences the organizational commitment of workers. Specifically for this environment, the positive effects of some variables tested here remain consistent.

Therefore, the results from this survey are consistent with the stewardship theory (Davis, 1997) postulating that stewards will be directed to achieving main objectives of the
entire firm and all related stakeholders, and in this context, an auditor was confirmed to be maintaining public’s interest in serving audit quality by preserving competence, professionalism and their qualified working experience. This is relevant to the notion from Michas (2011) about the significant role of auditors in assuring investors and relevant stakeholders who make economic decisions based on the client’s financial information.

The findings of this research will extend the scope of previous results and provide the basis for further and deeper explanatory studies. As it is important to observe factors affecting audit quality due to high number of dysfunctional behavior from auditors and some tests of these variable’s effects in previous studies are not repetitively confirmed due to differences in cultural context, this survey’s finding will be a starting point to explore further the role of culture in the relationship between some variables and audit quality in various contexts. Besides, if the Javanese environment concept brought to this study along with the effects of some variables on audit quality can be corroborated by future studies, then the practical implications will be more considerable.

Nevertheless, this research has some limitations. Respondents of the survey are auditors from some public accounting firms in Yogyakarta with limited numbers. The response rate still becomes a significant challenge. Future studies should explore more on various cultural contexts and numerous samples, together with some different research executions of another research approach or methods.

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