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THE EFFECT OF INTEGRITY, COMPETENCE, INDEPENDENCE, AND ACCOUNTABILITY ON AUDIT QUALITY

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ABSTRACT

This study investigates the impact of integrity, competence, independence, and accountability on audit quality, employing primary data collected through a questionnaire survey. The study's respondents, comprising auditors from public accounting firms in DKI Jakarta, were selected using a combination of convenience and snowball sampling methods, resulting in a sample of 40 respondents. Data analysis was conducted using a multiple linear regression model with SPSS version 29 software. The findings reveal that all the variables simultaneously have a significant effect on audit quality, with independence and accountability demonstrating positive and significant impacts when analysed individually. In contrast, integrity and competence do not significantly influence audit quality. In conclusion, this study emphasizes the crucial role of fostering independence and accountability in the audit process, while also calling for further exploration of the nuances surrounding integrity and competence within the auditing context.

Keywords: *Integrity, Competence, Independence, Accountability, Audit Quality*

1. INTRODUCTION

Financial statement is an important tool to evaluate a company's financial performance. Many stakeholders rely upon the financial statements to make decisions, with each having their own interests [1]. The internal party of a company might be interested on knowing the financial performance for budgeting purpose that is intended to grow the company furthermore [2]. On the other side, various external parties such as investors and creditors might use a company's financial performance for different purpose. Creditors will use the financial statements with the purpose of measuring the company's ability to repay its debts, while investors might be interested on using the financial statement to make investment decisions.

With each stakeholders having their own interest, a problem arises resulting from the asymmetrical information between the management and the external parties. Management, owing to its daily operational involvement, possesses an inherent information advantage, which leads to external stakeholders questioning the reliability of the financial information they receive. This problem gives rise to the need for an independent third-party service to enhance the credibility of the financial statements, which are the auditors [3].

The main objective of conducting an audit is to attain a reasonable level of confidence that the financial statements of a company do not contain material errors or misstatements according to the accounting standards [4]. The auditor's ability in identifying and rectifying such misstatements plays a pivotal role in determining the overall audit quality [5]. This, in turn, fosters trust among stakeholders and helps in upholding the transparency and credibility of the company's financial disclosures.

However, recent scandals in corporate finance have drawn attention to audit quality. One of which happened in 2018 involving the largest penalty ever imposed by the Public Company Accounting Oversight Board (PCAOB). This case involved a Brazil-based public accounting firm, which was revealed to have knowingly endorsed materially false audit reports for the 2010 financial statements and internal control over financial reporting of one of its clients, a prominent Brazilian airline [6]. The issuance of materially false audit reports and the subsequent attempts to cover up audit violations through document alterations and false testimony raise serious concerns about the integrity of the auditing process. The case also raises concerns regarding auditor independence, as it suggests a potential collaboration between the auditors and third parties, which may have contributed to these violations.

The case involving KAP Purwantono, Suherman & Surja, the Indonesian member firm of the Ernst & Young global network, underscores the vital role of competence and accountability of the auditors in the auditing profession. In 2017, the PCAOB imposed a $1 million civil penalty to the Indonesian member firm of Ernst & Young global. It was revealed that during their audit of an Indonesian telecommunications company, there was insufficient evidence provided by the company to support the accounting for more than 4,000 leases for spaces on cellular tower [7]. The decision to release the audit report without waiting for a completed lease accounting analysis raised serious questions about the competence of the auditing team. The absence of rigorous examination and analysis in the face of material concerns illustrates how competence is pivotal to maintaining the quality of audits.

In the aftermath of the complex audit involving KAP Purwantono, Suherman & Surja and Ernst & Young's Indonesian member firm, the principle of accountability also comes into focus. Shortly before a PCAOB inspection in 2012, members of the engagement team were found to have improperly created a plethora of new audit work papers. Furthermore, the engagement partner, who had previously sought advice from the regional professional practice director, was also implicated in the creation of an improper work paper that was subsequently provided to PCAOB inspectors [7]. This conduct, which disregarded professional standards and regulatory requirements, challenges the auditor accountability.

Previous research has various results concerning the impact of integrity, competence, independence, and accountability on audit quality. The research by [8] stated that integrity has a positive and significant impact to audit quality, which is contrary to [9]. Likewise, the research done by [10] stated that competence has a positive and significant effect to audit quality, which is in line with [11] but contrary to [12]. In terms of independence, [13] and [8] stated that independence has a positive and significant impact to audit quality, which is contrary to [14]. Lastly, the research by [15] and [34] stated that accountability has a positive and significant impact to audit quality, but is contrary to [16].This variance highlights the complexity of these factors and underscores the need for further empirical investigation.

This research focuses on auditors working within public accounting firms in DKI Jakarta, providing a specific and localized context for the study. The primary objective of this study is to empirically assess the influence of integrity, competence, independence, and accountability on audit quality. By conducting an empirical analysis, the findings of this study will shed light on the complex relationships among these variables.

The results of this study hold valuable implications for a range of stakeholders, including users of financial statements, public accounting firms, and regulatory bodies, particularly in the context of the Indonesian auditing profession. These findings have the potential to enhance the understanding of the factors that impact audit quality, which can lead to improvements in financial reporting, transparency, and trustworthiness in the Indonesian business landscape. By highlighting the effect of integrity, competence, independence, and accountability, this research may offer valuable insights for both the practice and regulation of auditing in Indonesia.

Agency Theory

The agency theory is a well-established framework in economics and organizational theory. The main idea of this theory is the principal-agent relationship, which is a fundamental concept in corporate governance and financial economics. In this relationship, one party, known as the principal, delegates decision-making authority to another party, the agent, to act on their behalf [17]. This delegation occurs when there is a divergence of interests between the principal and the agent, and the principal lacks the capacity to monitor the agent's actions effectively [18]. The agency problem arises when there is a potential misalignment of interests between management (the agent) and shareholders (the principal) [19]. As a result of information asymmetry, the agency might not always act in the best of principals' interests. Auditors, as independent third parties, play a critical role in mitigating agency problems by providing assurance on the accuracy of financial statements [20]. The extent to which auditors uphold their integrity, competence, independence, and accountability directly affects their ability to fulfil this role effectively.

Signalling Theory

The signalling theory states that in situations where there is a lack of perfect information, individuals or entities may use signals to convey valuable information about their characteristics or actions to others [21]. In essence, these signals act as a means of reducing information asymmetry and building trust [22]. In the context of auditing, auditors play a crucial role in reducing information asymmetry between the agent (management) and the principal (stakeholders) [22]. Management provides signals through the presentation of financial statements, and auditors, as independent third parties, enhance these signals through the application of their integrity, competence, independence, and accountability to provide an opinion regarding the financial statements.

Audit Quality

The complexity inherent in the concept of audit quality has led to a lack of a universally accepted and specific definition for this term. In fact, the definition of audit quality is still debated throughout many literatures. The most commonly used definition of audit quality in the academic literature is the one proposed by [23], which characterizes audit quality as the likelihood of an auditor identifying and reporting significant errors in a client's accounting system. In other words, audit quality is the measure of how well an audit identifies and discloses significant misstatements in financial statements, where the detection component reflects the auditor's competence, while the reporting aspect reflects the ethics and, notably, the independence of the auditor [24]. Furthermore, the findings from [25] suggest that the effectiveness of audit quality proxies is based upon the contexts of interest to researchers and the particular audit deficiencies deemed to be significant in the examined environment. Based on the definitions as mentioned above, it can be concluded that high audit quality signifies the representation of the true financial state in financial statements, free from any fraudulent activity or material misstatements. The higher the audit quality, the more likely it will be able to represent the true condition of a financial statements.

Integrity

Integrity is a fundamental aspect of audit quality and plays a pivotal role in maintaining the trust and credibility of the audit process. Integrity requires auditors to practice fairness, honesty, and adhere to ethical guidelines while upholding the fundamental values and principles of auditing, which consist of independence, objectivity, professional behaviour [26]. Auditor's integrity represents an academic standard that fosters trust and, consequently, leads to compliance with the decisions made [27]. Furthermore, integrity requires that an auditor, among other responsibilities, maintains honesty and transparency while respecting the confidentiality of service recipients. Personal gain should never compromise the trust placed in public services. Auditors with high levels of integrity are more likely to conduct thorough, unbiased, and ethical audits, ultimately contributing to the enhancement of audit quality.

Competence

Auditor is a profession that requires specific competence that can be achieved through formal educations, certifications, trainings, and experience [12]. Among these, technical proficiency plays a crucial role, as characterized by a profound mastery of accounting principles, auditing standards, and relevant regulatory frameworks. Those components enhance auditors to effectively perform audit procedures on the financial statements, enabling the identification of potential discrepancies or irregularities. An auditor's professional competence pertains to their practical and adept application of acquired knowledge and accumulated experience in the execution of the auditing process with objectivity, precision, and diligence [28]. Furthermore, industry-specific knowledge is also an important aspect of competence, ensuring that auditors possess a profound understanding of the industry or sector within which the audited entity operates [11]. This sector-specific knowledge enables auditors to recognize the unique risks and challenges facing their clients. In the dynamic landscape of auditing, an auditor should also have a commitment to perpetual learning and dedication to staying up to date with the evolving accounting standards and regulations [29]. Competent auditors engage in continual professional development and education to maintain their knowledge.

Independence

Auditor's independence can be described as the impartial mental stance that an auditor maintains while making decisions during the course of performing audit procedures [30]. Auditors are expected to maintain independence both in fact and in appearance to reinforce confidence in the financial statements they assess [31]. Independence in fact is the actual state of being free from any influences or conflicts of interest that could compromise an auditor's objectivity [31]. It requires auditors to maintain a commitment to honesty and impartiality, which is free of any external pressures that might impact their judgment. Independence in appearance is equally important, as it pertains to the perception of independence held by external parties [31]. Auditors must also be perceived as independent by clients, shareholders, and other stakeholders. This aspect is crucial in upholding public trust and confidence in the audit process. When an auditor lacks independence, their judgement will not be based upon the actual situation. As a result, compromised independence leads to a decline in audit quality and creates opportunities for increased manipulation of earnings and other fraudulent activities. [32].

Accountability

Accountability stands as a crucial feature in auditors, emphasizing the necessity for them to remain responsible, transparent, and subject to scrutiny. It is a form of psychological motivator that compels individuals to provide an account for all their actions and decisions within their surroundings [33]. Accountability is also crucial in maintaining the public's trust and confidence in the auditing profession. Clients and stakeholders rely on the assurance that auditors will fulfil their responsibilities diligently and ethically. Fostering this trust depends on the auditors' willingness to be held accountable for their actions and decisions [14]. Auditor's accountability includes ensuring the accuracy and reliability of financial statements, as well as the adherence to professional standards and regulations. Accountability mechanisms often involve external reviews, inspections, and evaluations to ensure that auditors conduct their work according to the professional standards [15].

The challenge of assessing audit quality arises from the absence of a comprehensive definition regarding the key elements that influence it. This study primarily focuses on the professional attributes of auditors and the factors influencing audit quality. It is evident that audit quality is fundamentally shaped by the attributes of auditors themselves, including their training, ethical values such as honesty, integrity, fairness, practical experience, and their adherence to professional review standards. Many previous studies suggest that the skills, personal characteristics, staff qualifications, and training provided to audit personnel are the most crucial determinants that impact the quality of audits. Notably, the specific attributes of auditors such as competence, integrity, independence, and accountability are strongly linked to auditors and directly impact the quality of audits. The research held by [8] and [28] stated that integrity has a positive and significant effect on audit quality. Thus, the first hypothesis is developed as follow:
H_1: Integrity has a significant and positive effect on audit quality

The study held by [10] stated that there is a positive and significant effect between auditor's competence and audit quality, which is in line with [11]. Therefore, the second hypothesis in this research is developed as follow:
H_2: Competence has a significant and positive effect on audit quality

According to the research held by [13] and [8], independence has a significant and positive effect on audit quality. Hence, the third hypothesis is developed as follow:
H_3: Independence has a significant and positive effect on audit quality

The research held by [15] stated that accountability has a significant and positive effect on audit quality, which is in line with [34]. Based on those recent studies, the fourth hypothesis is developed as follow:
H_4: Accountability has a significant and positive effect on audit quality

2. RESEARCH METHODS

The data employed in this research constitutes primary data, wherein information was collected through questionnaires completed by auditors working in public accounting firms (KAP) located within the DKI Jakarta region. A total of 40 respondents participated in this research by completing the questionnaires. The questionnaires are given to the samples through the convenience sampling and snowball sampling method. The questionnaire responses are represented in a Likert scale, ranging from 1 to 5, where a value of 1 indicates strong disagreement, and 5 signifies strong agreement with the questions presented in the questionnaire. The questionnaire consisted of six statements pertaining to the integrity variable, five statements for the competence variable, four statements for the independence variable, five statements for the accountability variable, and eight statements for the audit quality variable. The data collected via the questionnaires will be analysed using IBM SPSS Statistics version 29. Hypothesis are tested using the multiple linear regression analysis method.

3. RESULTS AND DISCUSSIONS

Before conducting the regression analysis, all the statements in the questionnaire were tested for validity and reliability. The validity test involved comparing the Corrected Item-Total Correlation values with the critical values in Pearson's Correlation table. All statements in the questionnaire exhibited Corrected Item-Total Correlation values exceeding the critical values in the Pearson's Correlation table, affirming their validity. The reliability test was conducted by calculating the Cronbach's Alpha for each variable. All variables in this research exhibited Cronbach's Alpha values exceeding 0.7, indicating their reliability.

The data taken from the 40 respondents that has filled the questionnaire underwent a preliminary classical assumption test prior to the regression test. The classical assumption test consists of normality test, multicollinearity test, and heteroscedasticity test. The outcomes of the classical assumption test were evaluated in the following manner:

Table 1. The Results of Preliminary Tests
Source: Data Processed using SPSS v.29

	Normality Test		
Asymp. Sig. (2-tailed)	Unstandardized Residual: 0.200		0.200 > 0.05 Normal
	Heteroscedasticity Test		
Integrity	Sig: 0.944		0.944 > 0.05 No Heteroscedasticity
Competence	Sig: 0.851		0.851 > 0.05 No Heteroscedasticity
Independence	Sig: 0.770		0.770 > 0.05 No Heteroscedasticity
Accountability	Sig: 0.582		0.582 > 0.05 No Heteroscedasticity
	Multicollinearity Test		
Integrity	Tolerance: 0.236	VIF: 4.229	Tol. 0.236 > 0.1 & VIF 4.229 < 10 No Multicollinearity
Competence	Tolerance: 0.312	VIF: 3.201	Tol. 0.312 > 0.1 & VIF 3.201 < 10 No Multicollinearity
Independence	Tolerance: 0.181	VIF: 5.511	Tol. 0.181 > 0.1 & VIF 5.511 < 10 No Multicollinearity
Accountability	Tolerance: 0.512	VIF: 1.954	Tol. 0.512 > 0.1 & VIF 1.954 < 10 No Multicollinearity

From the table above, it can be concluded that the data used in this research are qualified for the regression test. The results of the regression test are showed in the table below:

Table 2 Coefficient of Determination Test
Source: Data Processed using SPSS v.29

Model	R Square	Adjusted R Square
1	0.813	0.791

Based on the table above, the adjusted R square value is 0.791. This value signifies that approximately 79.1% of the variance in the audit quality variable can be explained by the combined influence of the variables investigated in this study, namely integrity, competence, independence, and accountability. Meanwhile, the remaining 20.9% of the variance is influenced by other external factors not accounted for within this model.

Table 3 Simultaneous Significance Test
Source: Data Processed using SPSS v.29

Variable	F-Statistic	F-Table	Sig.
Integrity, Competence, Independence, and Accountability	37.919	2.87	<0.001

The F-test results reveal that the F-Statistic in this model is 37.919, with a significance level of less than 0.001. The F-Statistic value exceeds the critical F-table value of 2.87, and the significance level, which is less than 0.001, is below the significance threshold of 0.05. These results affirm that the necessary criteria for statistical significance have been satisfied. Consequently, it can be inferred that the regression model is well-suited for predicting audit quality. This implies that the independent variables in this model, namely integrity, competence, independence, and accountability simultaneously have a significant influence on audit quality.

Table 4 Partial Significance Test
Source: Data Processed using SPSS v.29

Variable	T-Statistic	T-Table	Significant Value
Integrity	-1.432	2,03	.161
Competence	-1.973	2,03	.056
Independence	5.129	2,03	<.001
Accountability	4.906	2,03	<.001

The results of the partial T-Test provide valuable insights into the individual effects of each independent variables on audit quality. Specifically, when examining the variables' effects on audit quality, the following observations can be made:

1) Integrity has a T-Statistic value of -1.432, this value falls below the T-Table Value of 2.03. The significance value of 0.161 also exceeds the 0.05 threshold, indicating that it has no significant effect on audit quality. Furthermore, the negative T-value of -1.432 implies a negative effect on audit quality. Therefore, it can be concluded that integrity does not have a significant effect on audit quality with a negative relationship.
2) Competence exhibits a T-Statistic value of -1.973, which is lower than the T-table value of 2.03. The significance value of 0.056 is higher than the 0.05 threshold. This indicates that competence does not have a significant effect on audit quality. The negative T-value of -1.973 suggests a negative influence on audit quality. It can be concluded that competence does not have a significant effect on audit quality and has a negative relationship with it.
3) The T-Statistic value of independence 5.129 exceeds the T-Table value of 2.03, with a significance level of <0.001 that is lower than 0.05. This indicates that independence significantly impact audit quality with a positive relationship from the T-Statistics value.
4) The T-Statistic value of accountability 4.906 exceeds the T-Table value of 2.03, with a significance level of <0.001 that is lower than 0.05. This indicates that accountability significantly impact audit quality with a positive relationship from the T-Statistics value.

4. CONCLUSIONS AND SUGGESTIONS

In conclusion, this research examined the influence of integrity, competence, independence, and accountability on audit quality. The F-test result showed that integrity, competence, independence, and accountability simultaneously have a significant effect on audit quality. However, when considering the individual effects of these variables, integrity and competence do not have significant effects and exhibit a negative relationship on audit quality. In contrast, independence and accountability both have significant and positive effects on audit quality.

These findings emphasize the importance of fostering independence and accountability within the audit process to enhance audit quality, while highlighting the need for further investigation into the dynamics of integrity and competence within the context of audit quality.

This study offers a fresh perspective on the relationship between integrity and competence and their impact on audit quality. While the effect was not significant, the presence of a negative correlation raises intriguing questions. This negative relationship may be attributed to several factors. It is possible that the measures used to assess integrity and competence in the questionnaire did not capture the full spectrum of these attributes. Additionally, the nature of the audit process, which requires adherence to professional standards, may mitigate the individual impact of these qualities. Auditors are generally expected to uphold high levels of integrity and competence as a prerequisite for their role, making it challenging to isolate their individual effects on audit quality.

On the other hand, the results demonstrate the significant and positive impacts of independence and accountability on audit quality. Independence ensures objectivity and impartiality in the audit process. The positive influence of independence underscores the importance of regulatory measures that safeguard auditor independence, as well as the need for ongoing training and awareness programs to reinforce this critical aspect of audit quality. Accountability, as a driver of responsibility and diligence, also plays an important role in enhancing audit quality. The positive effect of accountability highlights the importance of establishing clear lines of responsibility within audit teams and firms.

These findings carry several practical implications for the audit profession. Regulatory bodies and auditing firms should continue to emphasize and reinforce auditor independence through stringent guidelines and ethical training. Fostering a culture of independence within audit teams is essential to maintain objectivity and ensure that auditors are not influenced by client interests. Alongside, the significant role of accountability in improving audit quality suggests the need for clearly defined roles, responsibilities, and reporting mechanisms within audit teams. This can help enhance diligence and ensure that auditors are accountable for their actions and decisions. Finally, the non-significant results for integrity and competence, despite their negative influence, imply that further research is needed to better understand these attributes better within the audit context. Future studies could explore the specific dimensions of integrity and competence that are most relevant to audit quality, as well as potential mediating factors that may influence their impact.

The study's results also indicate that integrity, competence, independence, and accountability, may not have covered all potential influences on audit quality. The limited scope of the research suggests that there are other factors that have yet to be explored. To address this gap, further studies are recommended to delve deeper into these unexamined elements. This broader exploration should lead to a more comprehensive understanding of audit quality.

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