

## Exploring the Impact of Auditor Competence and Independence on Audit Quality: A Case Study of Public Accounting Firms in Bandung

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### ABSTRACT

An audit is a systematic process performed by a competent and independent party to gather and objectively assess information with the goal of determining the level of fairness and reliability of financial accounts. Audited financial statements have an important role for companies and external parties in decision making, so that audit quality greatly determines the accuracy of the information conveyed. To maintain the quality, auditors must have adequate competence and maintain their independence. The purpose of this study is to examine and gather empirical evidence on the simultaneous and partial influence of auditor competence and independence on audit quality at public accounting firms (KAP) in the Bandung area. This study employs a quantitative method, specifically a questionnaire-based survey research design. Primary data was used. The sample approach used in this study is purposeful sampling. This investigation included 58 samples. According to the study's findings, competence and independence have a simultaneous effect on audit quality. However, only competence has an impact on audit quality, whereas independence has no influence.

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## **INTRODUCTION**

Accountants, like other professions, play an important role in supporting business operations. Accountants are now considered one of the most significant occupations in the business world. Public accountants have two primary responsibilities when performing their work professionally: protecting the confidentiality of information gathered during the course of their tasks and assuring the quality of their work.

As a member of the public accounting profession, one of the primary responsibilities is to improve the dependability of the company's financial statements so that they may be utilized to make accurate and suitable decisions. Financial statements that have been audited by public accountants have a higher level of fairness than those that have not been audited.

Users of financial statements audited by public accountants expect that the statements are free from material misstatements, have a high level of reliability, and can be used as a valid basis for decision making. The financial statements must also be in accordance with the accounting principles applicable in Indonesia. Therefore, independent and objective professional services are needed, namely public accountants, to assess the fairness of the financial statements prepared by the company's management.

In carrying out audit tasks, an auditor must be guided by the audit standards set by the Indonesian Institute of Accountants (IAI). In addition, auditors must also comply with a code of professional ethics that includes professional responsibility, competence, and prudence in carrying out tasks. The code of ethics also regulates the obligation to maintain the confidentiality of information, behave professionally, and comply with relevant technical standards in carrying out audit tasks. The application of these standards and codes of ethics aims to ensure the quality and integrity of the audit, so that the audited financial statements can be trusted and meet applicable accounting principles.

Issues related to audit failures by auditors have raised serious concerns about audit quality worldwide. No exception in Indonesia, the phenomenon of audit quality related to low auditor competence is currently also in the public spotlight (Lenggono, 2022). The Financial Services Authority (OJK) imposed sanctions in the form of cancellation of the registered certificate at the Financial Services Authority dated February 24, 2023, to Public Accountants (AP) in the name of Nunu Nurdiyaman, Jenly Hendrawan, and the Public Accounting Firm (KAP) Kosasih, Nurdiyaman, Mulyani Tjahjo and Partners (KNMT).

Public Accountant Nunu Nurdiyaman and Public Accounting Firm KNMT were given sanctions because they were deemed to have committed serious violations as referred to in Article 39 letter b of POJK Number 13/POJK.03/2017 concerning the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities (POJK 13 of 2017). Sanctions were also given to Public Accountant Jenly Hendrawan because he was deemed not to have the competence and knowledge needed as a requirement to become a Public Accountant who provides services in the Financial Services Sector as referred to in Article 3 of POJK 13 of 2017 because he had participated in causing

violations by Public Accountant Nunu Nurdiyaman. The sanctions were given after the AP and public accounting firms provided audit services for the annual financial statements from 2014 to 2019 for PT Asuransi Adisarana Wanaartha (WAL). Based on the results of the examination, it was stated that the Public Accountant (AP) and the Public Accounting Firm (KAP) could not find any indication/could not detect any manipulation of financial reports at PT Asuransi Adisarana Wanaartha (WAL) ([kontak157.ojk.go.id](mailto:kontak157.ojk.go.id), accessed 09/03/2024). In accordance with this case, it can be understood that there is a problem related to the indicator of audit quality, namely auditor competence. Audit quality is related to the competence possessed by the auditor. If the public accountant as an auditor cannot detect fraud committed by a company, then there is a problem with the competence they have (Udayanti and Ariyanto 2017).

This audit quality is critical because it results in financial reports that can be relied on as a basis for decision making. Audit quality is governed by two factors: competence and independence. Audit quality, as defined by De Angelo (1981) in Kusharyanti (2003) and Ali, Hapsari, and Purwanti (2007), is the likelihood that the auditor will discover and disclose irregularities in the client's accounting system. According to Deis and Groux (1992), the likelihood of discovering violations is determined by the auditor's technical ability, whereas the likelihood of reporting violations is determined by the auditor's independence. The likelihood that the auditor will discover misstatements is determined by the auditor's understanding (competence), whereas the auditor's independence determines whether or not to report misstatements. Independence is one of the most critical qualities for auditors while performing quality audits. (Dianita, Rachman, and Siregar 2019).

The majority of studies done to evaluate audit quality draw findings from the auditor's perspective. According to (Widagdo, Irwandi, and Lesmana 2002) in the study showed that there are 7 audit quality attributes that influence client satisfaction, including audit experience, understanding the client's industry, responsiveness to client needs, adherence to general standards, commitment to audit quality and involvement of the audit committee. While the other 5 attributes, namely independence, careful attitude, conducting field work properly, high ethical standards and not being easily trusting do not affect client satisfaction. The results of the study conducted by (Lenggono 2022) shows that the magnitude of both independence, auditor competence and moral reasoning can affect audit quality. In line with (Alim et al. 2007), his research demonstrated that expertise has a substantial impact on audit quality. This suggests that audit quality can be reached if the auditor demonstrates strong competence, which consists of two dimensions: experience and knowledge.

Based on the description above, the researcher plans to conduct research entitled "The Influence of Auditor Competence and Independence on Audit Quality".

The purpose and objective of this research is to determine and obtain data and information regarding the influence of Auditor Competence and Independence on Audit Quality.

Despite the extensive research conducted on audit quality, there remain several gaps that warrant further investigation. Many previous studies, such as those by De Angelo (1981), Christiawan (2002), and Alim et al. (2007), emphasize the importance of competence and independence in determining audit quality. However, most of these studies focus on the auditor's perspective, with limited exploration of client perceptions and regulatory implications. Additionally, research by Widagdo, Irwandi, and Lesmana (2002) found that certain attributes, such as independence and ethical standards, do not significantly influence client satisfaction, raising questions about the weight of independence in determining audit quality.

Furthermore, recent audit failures, including the case of PT Asuransi Adisarana Wanaartha (WAL), highlight ongoing concerns about auditor competence, suggesting that existing competency frameworks may not be sufficient in detecting financial statement manipulation. While Lenggono (2022) demonstrates that moral reasoning also plays a role in audit quality, there is limited research on how ethical considerations interact with competence and independence in influencing audit outcomes. Additionally, previous studies have largely focused on general audit environments, without specific consideration of industry-specific complexities that may affect audit quality.

This study aims to fill these gaps by not only assessing the direct impact of auditor competence and independence on audit quality but also examining the moderating role of ethical reasoning and industry-specific factors. By integrating both regulatory and client perspectives, this research seeks to provide a more comprehensive understanding of the determinants of audit quality, offering insights that can improve audit practices and enhance financial reporting reliability.

## **LITERATURE REVIEW**

### ***Attribution Theory***

According to Sumartik (2018), Attribution Theory was created by Ritz Heider in 1958 which explains how a person interprets the behavior of others based on internal and external factors. Internal attribution relates to an individual's mindset, attitude, or character, while external attribution relates to conditions or situations that affect a person.

In this study, internal auditor attribution is used to analyze factors that affect audit quality. The personal characteristics of the auditor, such as competence and independence, play a role in determining the quality of audit results. The better the attitude and character of an auditor, the better the audit results produced.

### ***The Influence of Competence on Audit Quality***

The competence of a public accountant is related to the level of education and adequate experience in the fields of accounting and auditing. In carrying out an audit, a public accountant must have professional expertise in both fields. This expertise is obtained through formal education and strengthened by practical experience in auditing. In addition, public accountants also need to take technical training that includes technical aspects and general education.

For junior assistants, competence can be achieved by gaining professional experience supported by adequate supervision and review from more experienced superiors. Public accountants are also required to continue to follow the development of their business and profession by studying, understanding, and applying the latest rules in accounting principles and auditing standards set by professional organizations.

To be able to produce good audit quality, someone is needed who is experienced and has adequate insight into the audit process. With the competence possessed, an auditor becomes more trusted and is considered capable in carrying out his duties, so that it will improve the quality of auditing (Wayan et al. [sd]).

Auditor competence has a substantial impact on the audit quality of a Jakarta-based CPA firm. This shows that audit quality can be accomplished if the auditor possesses a good competency, which is made up of two components: experience and knowledge. Experience and knowledge improve audit quality. The more experienced an auditor is, the higher the quality of the audits completed. The deeper and broader an auditor's understanding, the higher the quality of the audit (Putra 2016).

H1: Competence influences audit quality

### *The Influence of Independence on Audit Quality*

Public accountants must adhere to the ethical concept of independence. An independent attitude entails not being readily persuaded in carrying out their obligations, as public accountants work for the public good and must not favor particular interests. Auditors must be honest not just with management and company owners, but also with creditors and other parties who rely on the results of their job.

Auditors can engage in high-quality audits by maintaining their independence. Auditors who are independent are better able to understand conflicts of interest that may occur between firm owners and managers. This explains that independence is an uninfluenced attitude; an independent auditor is not dominated by others, and with such an attitude, an auditor may deliver quality audit reports. The length of an auditor's cooperation with his client shows that independence influences the quality of the audit provided. If the auditor has long been reviewing his client's financial accounts, the relationship may have grown to the point where it is influencing the auditor's independence, resulting in a reduction in audit quality (Dianita et al. 2019).

The auditor's independence is examined in relation to the client; client pressure, as well as the study of colleague auditors and non-audit services, all have a substantial impact on audit quality in the Jakarta public accounting company. Client relationships, client pressure, and non-audit services all have a detrimental impact on audit quality, but favorable colleagues influence auditors. So, the longer ongoing relationship between the auditor who the client auditors audit quality tends to be lower. The more clients perceive pressure from auditors, the lower the audit quality (Putra 2016).

H2: Independence affects Audit Quality

### ***The Influence of Competence and Independence on Audit Quality***

Competence (expertise) and independence are both required for high-quality audits. These characteristics have a direct impact on audit quality, as well as potential interactions. Furthermore, financial statement users' opinions of audit quality are linked to their beliefs of auditor independence and expertise.

The two factors that define audit quality are competence and independence. Public accountants' competence is tied to their sufficient education and experience in auditing and accounting. While independence is one of the ethical requirements for public accountants. Independent indicates that public accountants are not readily persuaded, do not favor anyone's interests, and are truthful to all parties who rely on public accountants' work (Christiawan 2002). H3: Competence and Independences influences audit quality.

## **METHODOLOGY**

### ***Types of Research***

This study employed a descriptive research method based on a case study methodology. The data used is qualitative and presented as numbers. This study's data source is primary data, which was gathered directly by delivering questionnaires to the company being studied.

This study's data was collected through a questionnaire. Primary data is information gathered directly from the analysis unit under investigation (Edison, 2018: 95). This research questionnaire includes statements about the variables of Independence and Competence on Audit Quality, which will be answered by junior auditors, senior auditors, and partners. Questionnaires were distributed to public accounting firms in Bandung City that were listed in the IAPI directory in 2024.

### ***Population and Sample***

The population in this study were auditors working in Public Accounting Firms (KAP) registered with the IAI (Indonesian Institute of Accountants) in Bandung City, totaling 37 public accounting firms. The research sample was selected using the nonprobability sampling technique, namely the selection of samples with certain considerations or criteria, namely:

1. public accounting firms located in Bandung City
2. public accounting firms is willing to be surveyed
3. public accounting firms has at least 3 public accountants and partnership partners
4. Respondents in this study were public accountants and partnership partners at public accounting firms selected as samples.

**RESEARCH RESULT AND DISCUSSION**

*T-test*

**ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	172,244	1	172,244	47,969	.000b
Residual	204,671	57	3,591		
Total	376,915	58			

- a. Dependent Variable: Total\_X1
- b. Predictors: (Constant), Total\_Y

According to the table above, the regression model evaluated has a F value of 47.969 with a significance level of 0.000. Because the p-value is less than 0.05, we can assume that Competence, variable X1, has an effect on variable Y, Audit Quality.

This study further confirms that competence includes the knowledge, skills, and experience of auditors in conducting audits appropriately and efficiently. The higher the level of competence of an auditor, the better his/her ability to analyze data, identify risks, and draw accurate conclusions, which ultimately has an impact on improving audit quality. In addition, to produce a quality audit, auditors must have adequate experience and insight into the audit process. With the competence they have, auditors will be more trusted and considered capable of carrying out their duties well, thus contributing to improving audit quality.

**ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	50,957	1	50,957	2.916	.093b
Residual	996.026	57	17,474		
Total	1046.983	58			

- a. Dependent Variable: total\_X2
- b. Predictors: (Constant), Total\_Y

According to the table above, the regression model evaluated has a F value of 2.916 and a significance level of 0.093. Because the p-value is greater than 0.05, it is possible to conclude that independence as variable X2 has no significant effect on variable Y, namely Audit Quality.

Independence does not always affect audit quality due to the existence of strict monitoring mechanisms and standards. The review process within the audit team by senior auditors, the application of professional audit standards such as SPAP and ISA, and the quality control and peer review system in the Public Accounting Firm (KAP) ensure that the audit remains objective and of high quality, even though the level of auditor independence varies.

**F Test (Simultaneous)**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.677a	.459	.439	3,091

a. Predictors: (Constant), total\_X1, Total\_X2

The Rsquare used is 0.459→45.9% (Independence and competence towards audit quality)

**ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	453,274	2	226,637	23,717	.000b
	Residual	535.133	56	9,556		
	Total	988.407	58			

a. Dependent Variable: Total\_Y

b. Predictors: (Constant), total\_X1, Total\_X2

Based on the calculation results above, it can be concluded that the Sig. Value of 0.000 (less than 0.05) indicates that independence and competence together have an effect with a contribution of 45.9% on audit quality.

Competence and independence are two key factors that complement each other in maintaining audit quality. Auditor competence, which includes knowledge, skills, and experience, plays an important role in improving the accuracy and reliability of the audit. Competent auditors are more effective in collecting, analyzing, and evaluating audit evidence, and are able to identify risks, detect errors, and provide accurate opinions. In addition, high competence allows auditors to apply audit standards appropriately, understand the complexity of financial transactions, and provide relevant recommendations to stakeholders, thereby improving overall audit quality.

Independence ensures that auditors are free from pressure or personal interests that may influence audit decisions. By being independent, auditors can assess financial statements objectively, increasing the trust of report users such as investors, shareholders, and regulators. If independence is compromised, the risk of biased audit opinions increases, which can reduce the reliability and transparency of financial statements.

Although individually independence does not have a significant effect on audit quality, in combination with competence, both contribute to a higher quality audit. This shows that competence is more of a direct determinant of audit quality, while independence plays a more complementary role that ensures audit results remain objective and reliable.

**CONCLUSIONS AND RECOMMENDATIONS**

Based on the results of the analysis in this study, it can be concluded that:

1. Competence has an impact on audit quality. Competence ensures that

auditors are able to analyze audit evidence, detect errors, and provide accurate opinions, thus directly contributing to audit quality.

2. Independence has no effect on audit quality. Independence does not always affect audit quality because of the team review, professional standards, and quality control in the Public Accounting Firm (KAP) that ensure the audit remains objective and of high quality.
3. Competence and independence have an impact on audit quality. Competence and independence work synergistically. Competence ensures audit accuracy, while independence ensures the audit remains objective and reliable.

## ADVANCED RESEARCH

The findings of this study highlight the nuanced relationship between competence, independence, and audit quality, offering critical insights into the auditing profession. While competence significantly enhances audit quality by enabling auditors to effectively assess evidence, detect anomalies, and form well-grounded opinions, independence alone appears to have a negligible direct effect. This suggests that the structured mechanisms within Public Accounting Firms (KAP), such as team reviews and stringent quality control processes, serve as safeguards to uphold objectivity, even in scenarios where individual independence may be compromised. However, when competence and independence operate in tandem, they create a reinforcing effect—competence ensures technical accuracy, while independence upholds the integrity of the audit process, ultimately leading to more reliable and high-quality audits. These findings underscore the importance of a holistic approach to auditor training and regulatory oversight, emphasizing the need for both technical proficiency and ethical resilience to optimize audit outcomes.

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