Auditor’s Quality in Bali Provincial Representative of Supreme Audit Agency in Denpasar

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ABSTRACT

Planning strategies for state and regional development are still lacking due to misappropriation of public fund, corruption, and the absence of honesty and transparency in governance finances of a state and a region. This demands noticeable improvements. Thus, audit quality is highly vital for public accounting firms. Public accountants have the duty and function of auditing financial statements by producing accurate, and reliable audit reports. This study discusses audit quality of Bali Provincial Supreme Audit Agency auditors in Denpasar. The data are primary data, collected from 50 auditors, as saturated sample of respondents, in Bali Provincial Representative Office. The data were then analyzed by multiple linear regression analysis. This paper research contended that independence, professional expertise, and professional ethical sensitivity have positive and significant effects on audit quality at the Supreme Audit Agency.

Keywords: Audit Quality, Independence, Professional Skills, and Professional Ethical sensitivity

INTRODUCTION

There are still deficiencies in planning strategies for national and regional development. This requires obvious improvements as misappropriation of public fund, corruption, and the absence of honesty and transparency in the government finances of a state and a region are prominent. Efendy (2010) proposed three main aspects supporting the creation of good governance, including supervision, control, and examination.

Supervision refers to activities carried out by parties outside the executive, namely the community and the Regional People’s Representative Council to monitor the performance of the government. Control is about a mechanism conducted by the executive to ensure that the systems and management policies properly implemented to achieve organizational goals, while examination discusses an activity undertaken by the party with independence and professional competence to examine whether the results of the government’s performance has been established in accordance with the standards.

Information discrepancies between managers and shareholders can be reduced by an audit. To ensure financial statement reliability, a third party such as a public accountant is needed since users of financial statements will always perform checks and seek information on reliable company financial reports.
A common way to obtain reliable information is to require an independent audit to ensure the information used in decision making is complete, accurate, and unbiased. As to audits, financial reports are highly important to be audited for financial reports are summaries of recording process of financial transactions during the year.

Management will ask the auditors to assure users that the financial statements are reliable (Lilis, 2010). The financial statements are based on general principles of financial accounting standards, which are applied consistently without material or immaterial errors. The characteristics of these financial statements are difficult to measure, so that users need accountant or auditor services, without which, company management will not be able to convince that the company’s financial statements are reliable. By the regulations of the Supreme Audit Agency as stated in the State Financial Audit Standards, professional auditing standards provide higher quality audit results, and added value in the management and responsibility of state finances. The auditors must ensure that the audit quality is accurate, relevant and reliable. Thus, financial reports have the characteristics of independence, professional expertise, and professional ethical sensitivity.

The auditor’s honesty, objectivity, and impartial formulation of their opinions is interpreted as independence. Auditors have an independent attitude, since they are mentally free from influence, uncontrolled, and independent of others (Darmoko & Ratnaningtyas, 2010, p. 74). Audit quality refers to auditor’s expertise professionalism in detecting errors in financial statements reported to financial statement’s users (Angelo et al., 2011). Auditor’s expertise professionalism is measured by the ability of auditors, for example, the level of experience, auditor specialization, audit hours, etc., while independence is measured by the extent to which auditors can be independent in conducting the audit process and providing opinions (Fitriani, 2010). A view that underlies individual awareness in behaving ethically is that they are moral agents. The individual's awareness can be assessed through the ability to be aware of ethical values in a decision which is referred to as ethical sensitivity (Velasquez & Rostankowski, 2006, p. 19). The existence of a corruption case will sue the auditors including Bali Provincial Representative auditors, to further improve their performance to address irregularities in the state budget. Government auditors are currently in the public spotlight with rampant corruption cases in Indonesia, one of which is from the Century Bank case to the procurement of Transjakarta buses. The Supreme Audit Agency of the Republic of Indonesia seeks to increase its role in assisting law enforcement officials to combat the misappropriation of state finances (Wicaksono, 2014).

Several cases were found as the result of an audit by the Development Finance Supervisory Agency in Denpasar City related to the alleged corruption case of “Punia funds" at Denpasar State Hindu Dharma Institute (IHDN), resulting in state losses which resulted in the fund collection which was then considered to have violated the rules. In addition, the corruption of Dauh Puri Village Budget which caused losses to 1 billion rupiahs as stated by Denpasar District Prosecutor's Investigation Team.

Therefore, the quality of the audit must be improved to produce competent and professional audits including experience in auditing, objectivity, and with ethics in the
Therefore, independence, professional expertise, and professional ethical sensitivity on audit quality at Bali Provincial Audit Agency in Denpasar are the objectives of this paper.

Independence deals with auditor’s impartial attitude, without personal interest, and not easily influenced by interested parties in providing opinions or conclusions. Supriyono et al. (2013) stated that independence is an attitude-free from persuasion to influence or control the party being examined. Ability to master learning material broadly and deeply is professional competence which allows teachers to guide students to master knowledge or skills optimally to meet the competency standards set out in the National Education Standards (Payong, 2011). Professional competence is a set of abilities that a teacher must have to carry out his teaching duties successfully according (Uno, 2010).

Professional ethics is a form of one's integrity to the organization. Greenstone (2018) stated that a person's professional ethics is indicated by (1) awareness of the applicable rules of agreed values; (2) willingness to carry out a dialogue with various entities in the organization; and (3) ethics is taken into consideration in the interaction between leaders and fellow members of the organization. Everyone must hold professional ethics in their work since it is ethical considerations and professional guidelines relevant to every profession (Rodríguez & Juricic, 2018). In other words, every profession certainly has different professional ethics from other professions. However, some professional ethics apply universally, such as responsibility, integrity, objectivity, and maintaining confidentiality.

Several researches have proposed some determining factors on audit quality. Sailendra, Murwaningsari, Mayangsari, and Murtanto (2020) found that corporate governance positively correlates on audit quality. Oklivia and Marlinda (2014) argued that independence is detrimental to audit quality. Febriyanti et al (2013) added that independence and accountability have no significant positive effect on audit quality. However, Wahyuni (2013), Riani (2013), and Raiyani & Suputra (2014) contended that independence has a positive effect on audit quality. Agustin (2013) and Ariyanto (2014) state that independence has a positive effect on the quality of audits of financial statements.

Professionalism is the ability, expertise, and commitment of the profession in carrying out tasks. Auditors are professionally expected to carry out audits by established standards of ethics and professionalism. Rodgers et al. (2017) assumed that professional expertise supported by auditor’s experience and knowledge is the basis needed in the auditing process. This expertise consists of experience and knowledge. Harhinto (2014) argued that expertise professionals do not affect significantly audit quality. Bonner (1999) stated that auditor expertise has a significant effect on audit quality. Huntoyongo (2012) state that proficiency and expertise affect audit quality.

Auditor’s ethical sensitivity is defined as the ability to intuitively acknowledge the nature of ethics in the professional situation of auditors. They are expected to carry out the profession accounting more sensitively in understanding professional ethics issues (Aziza & Herawaty, 2020). Auditors must implement ethical standards and support the goals of professional norms, which is one aspect of professional commitment as reflected
in their sensitivity to problems related to professional ethics. In other words, ethical sensitivity is the ability to recognize the ethical nature of a decision.

Ariyanto (2016) stated that professional sensitivity does not affect audit quality, while Alim et al. (2017) contended that auditor ethics does not affect audit quality. Darma (2016) concluded that professional ethical sensitivity carefully and simultaneously affects positively audit quality. Wahyuni (2013) mentioned that ethical sensitivity has a positive effect on quality audit, while Ariyanto (2016) contended that professional ethical sensitivity has a positive effect on productivity of external auditors.

Opportunities encourage significant improvement in professional auditing by continuing to learn with the concept of continuous learning. Thus, this study examines the effect of auditors in auditing or examining financial reports on the quality of the audit results, especially at the Bali Provincial Supreme Audit Agency in Denpasar. The Indonesian Supreme Audit Board, represented Bali Province at an international conference on the governance and accountability of state finances to promote sustainable development. Facilitating knowledge of state finances by involving stakeholders in realizing sustainable development. The existence of the Supreme Audit Agency for human resources development in overseeing the governance of state finances is a step for human resources, especially financial auditors (Sultan, 2019).

Based on the theory and previous research, the researcher formulated the following hypothesis:
H1: Independence has a positive effect on audit quality at the Bali Provincial Representative Audit Board.
H2: Professional expertise has a positive effect on audit quality at the Bali Provincial Representative Audit Board.
H_3: Professional Ethics Sensitivity has a positive effect on audit quality at the Bali Provincial Representative Audit Board.

RESEARCH METHOD

This research was conducted at the Bali Province Representative of Supreme Audit Agency in Denpasar, located at DI Panjaitan street Renon, Denpasar, Bali, Indonesia. The object of the study is independence, professional guardianship, and professional ethical sensitivity to audit quality with a case study at the Bali Provincial Audit Agency. The data were analyzed using statistics and quantitative data. The results of the questionnaire in the form of numbers from each section and the respondents' questions were used as quantitative data. The research data which are more related to the interpretation of the data found in the field are qualitative data, in the form of descriptions, pictures, and sentences. The qualitative data in this study are general descriptions or histories and organizational structure of Bali Provincial Supreme Audit Agency. Primary data were obtained directly from the source, observed, and recorded for the first time, not through intermediary media by going directly to the field. The secondary data is a data source that does not directly provide data, for example through other people or documents (Sugiyono, 2017). All 50 auditors who work at Bali Provincial Supreme Audit Board, were used as the population in this study and the entire population were used as the sample.
Data collection methods are technical or methods used to obtain data used as research material. The questionnaire is a data collection technique carried out by a set of questions or a written statement to the respondent for the answer (Sugiyono, 2017). In this study, the distribution of questionnaires was carried out by auditors of the audit agency. The questionnaires distributed were divided into four sections. Part 1 contained questions relating to independence; part 2 is questions about professional expertise; part 3 comprised questions about professional ethical sensitivity; and part 4 are questions about audit quality. Interviews in data collection to find problems were conducted to find out what the respondents have (Sugiyono, 2017).

Data analysis is used to determine the extent to which a variable affects other variables. The data were processed to make decisions. The data described the average value (mean), standard deviation of each variable, variance, maximum, minimum, sum, range, kurtosis, and skewness (Ghozali, 2016).

The quality of measured data on questions representing each variable was tested for validity and reliability. Classic tests such as normality, multicollinearity, and heteroscedasticity were carried out on the regression model equation so that it is free from classical assumptions. The ability of the model to explain variations in the dependent variable was measured by the coefficient of determination (R2). If the value is one, it means that the variation in the dependent variable is all explained by the independent variable. The model used in regression is appropriate or feasible to use the F statistical test by comparing the significant value of F with the significant level α (alpha) of 0.05 or 5%. The test results are feasible if the F value <α (alpha) 0.05 is consistent to the t-test. The statistical t test is used in hypothesis testing with a significant level of 5% (0.05), which shows the effect of one independent variable on the dependent variable (Ghozali, 2016).

Data analysis was used with multiple linear regression to obtain the results of research variable model. SPSS was used as a tool in analyzing the hypothesis tested by multiple regression analysis, to test the independent variable on the dependent variable (Sugiyono, 2017). The equation is obtained as follows.

\[ KA = \alpha + \beta_1 \text{IPD}_1 + \beta_2 \text{KP}_2 + \beta_3 \text{SEP}_3 + e \ldots \text{..................} \quad \ldots \ldots \quad (1) \]

where,
- \( KA \) = Audit Quality
- \( \alpha \) = Constant
- \( \beta_1, \beta_2, \beta_3 \) = Regression Coefficient
- \( \text{IPD} \) = Independence
- \( \text{KP} \) = Variable of Professional Skill
- \( \text{SEP} \) = Variable of Professional Ethical Sensitivity
- \( e \) = Residual Error or Confounding Variable
RESULTS AND DISCUSSION

The results of the calculation of Independence ($X_1$), Professional Skills ($X_2$), Professional Ethical sensitivity ($X_3$), and Audit Quality ($Y$). Independence has a minimum value of 10.00, a maximum value of 18.00, average value of 13.08, standard deviation of 1.95709. Professional Skills have a minimum score of 10.00, maximum score of 20.00, average score of 15.82, and a standard deviation of 2.72322. Professional Ethical Sensitivity (SEP) has a minimum value of 29.00, maximum value of 48.00, average value of 40.60, and standard deviation of 4.61143. Audit quality has a minimum value of 8.00, maximum value of 24.00, average value of 16.64, and standard deviation of 4.51193.

For validity testing, this study used Pearson Product Moment: If the coefficient $r$ count > 0.3, the item is valid. The results of the validity test of 50 respondents indicated that the instruments on each variable in this study had met the validity requirements and could be used to test the research hypothesis because the coefficient value of each instrument was above a significant value, (above 0.3). The Cronbach Alpha Value is greater than 0.7, so the instrument is reliable.

In the normality test, the Asymp Sig (2-tailed) value is 0.840, which means that the significance value is greater than 0.05. This concludes that the data were normally distributed. The VIF value of all independent variables in the study has a value of less than 10 consecutively Independence of 1.022, Professional Skills of 1.023, and Professional Ethical Sensitivity of 1.001. The tolerance value of all variables is above 0.10, (Independence of 0.978, Professional Skills of 0.977, and Professional Ethical Sensitivity of 0.999). This implies that there is no correlation between variables and there are no symptoms of multicollinearity.

In the Heteroscedasticity test, the independent variable has a significance value greater than 0.05, where the significant value of Independence is 0.087 (> 0.05), Professional Expertise of 0.066 (> 0.05), and Professional Ethical Sensitivity of 0.066 (> 0.05). It concludes that heteroscedasticity symptoms did not exist. The coefficient of determination is measured by Adjusted R Square. The results of the coefficient of determination analysis are presented in Table 1 below.

**Table 1. Results of Determination Coefficient**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. The error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.663</td>
<td>0.439</td>
<td>0.403</td>
<td>3.48715</td>
</tr>
</tbody>
</table>

Source: Processed Data, 2020

The coefficient of determination (Adjust R Square) is 0.403 or 40.3% This means that 40.3% of the Audit Quality variable is influenced by Independence, Professional Expertise, and Professional Ethical Sensitivity while the remaining 59.7% is influenced by other factors not included in the regression model. The F test is to compare the significance level of 0.05. If the probability value <0.05 then H1 is accepted, but if the
probability value > 0.05 then H1 is rejected. Table 2 presents the results of the F statistical test.

**Table 2. F-Test Results (Simultaneous Test)**

<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>438,149</td>
<td>3</td>
<td>146,050</td>
<td>12,010</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>559,371</td>
<td>46</td>
<td>12,160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>997,520</td>
<td>49</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed Data, 2020

Table 2 signifies that the means the F-test value is 12,010 with a significance of 0.000 less than 0.05. This means that the independent variable (X1), professional expertise (X2), and professional ethical sensitivity (X3) have a simultaneous effect on audit quality (Y) on the Bali Province Representative of Supreme Audit Agency auditors. The t-test is used to test the hypothesis partially to show the effect of each independent variable individually on the dependent variable (see Table 3).

**Table 3. Regression Test Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>unstandardized</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>Std Error</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-18.940</td>
<td>6.108</td>
<td>-</td>
<td>0.003</td>
</tr>
<tr>
<td>IPD</td>
<td>0.902</td>
<td>0.257</td>
<td>0.391</td>
<td>3.506</td>
</tr>
<tr>
<td>KP</td>
<td>0.567</td>
<td>0.185</td>
<td>0.342</td>
<td>3.063</td>
</tr>
<tr>
<td>SEP</td>
<td>0.365</td>
<td>0.108</td>
<td>0.373</td>
<td>3.375</td>
</tr>
</tbody>
</table>

Source: Data processed (2020)

Table 1.3 describes the results of t-test as follows.
1. The independent variable has a statistical test value of 3.506 with a positive coefficient direction and a significance level of 0.001, smaller than 0.05. This means that independence has a positive effect on audit quality. H1 is accepted.
2. The professional skills variable shows the t statistical test value of -3.063 with a negative coefficient direction and a significance level of 0.004, smaller than 0.05. This means that professional expertise hurts audit quality. H2 is accepted.
3. The professional ethical sensitivity variable has at the statistical test value of 3.375 with a positive coefficient and a significance level of 0.002, smaller than 0.05. This means that the sensitivity of professional ethics has a positive effect on audit quality. H3 is accepted.

Data analysis with multiple linear regression to obtain the results of research variable model produces:

\[
\text{Quality Audit} = -18.940 + 0.902 \text{ Independence} + 0.567 \text{ Professional Skills} + 0.365 \text{ Professional Ethical Sensitivity} \]

.......................................................... (1)
The constant value (α) is -18,940 meaning if the independent variable is Independence (IPD), Professional Skills, and Professional Ethical Sensitivity are considered constant (zero value). In addition, the quality audit dependent variable shows a value of -18,940. Independence has a regression coefficient of 0.902 with a significance level of 0.001. This shows that if the other variables are constant, an increase in one independent variable unit creates an increase in the audit quality variable by 0.902. Professional Skills has a regression coefficient of 0.567 with a significance level of 0.004. This shows that if the other variables are constant, an increase in one unit of the professional skill variable makes an increase in the audit quality variable by 0.567. Professional Ethical Sensitivity has a regression coefficient of 0.365 with a significance level of 0.002. This shows that if other variables are constant, an increase in one unit of professional ethical sensitivity variable produces an increase in the audit quality variable by 0.365.

Auditors often encounter difficulties in maintaining an independent mental attitude. The independence variable has a value of 0.902 with a significant level of 0.001, less than 0.05, which means that there is a significant influence between independence on audit quality. This means that the better the condition of independence, the better the audit quality of the agency auditors. Thus, H1 (independence has a positive effect on the audit quality of Bali Provincial Representative of Supreme Audit Agency auditors) is accepted. This means that the better the independence of an auditor in auditing financial statements, the higher the quality of the audit results. This finding is in line with Wahyuni (2013), Riani (2013), Agustin (2013), Saputra (2014), and Ariyanto (2016).

Expertise comprises experience and knowledge. The auditor must always enhance the knowledge they have to improve their experience. The variable of professional expertise has a value of 0.567 with a significant level of 0.004, smaller than 0.05, which means that there is a significant influence between professional expertise on the audit quality. This means that the better the condition of professional expertise, the better the quality of audits produced. Thus, H2 (professional expertise has a positive effect on the audit quality of Bali Provincial Representative of Supreme Audit Agency auditors) is accepted. The results of this study are in line with Indriastuti (2012), Drupadi & Sudana (2015), and Darma (2016) which shows that professional expertise has a positive effect on audit quality.

The sensitivity of the professional ethics is one factor affecting the quality of the audit results. It is related to their ethical behavior when making decisions. The professional ethical sensitivity is defined as the ability to acknowledge the nature of ethics in the auditor's professional situation intuitively. The auditors are expected, in carrying out the accounting profession, to be more sensitive in understanding professional ethical issues. The variable of professional ethical sensitivity has a value of 0.365 with a significant level of 0.002, smaller than 0.05, which means that there is a significant influence between the sensitivity of professional ethics on audit quality. This means that the better the condition of professional ethical sensitivity, the better the quality of audits produced. Therefore H3 (the sensitivity of professional ethics has a positive effect on the audit quality of the Bali Provincial Representative of Supreme Audit Agency auditors) is accepted. This means that the better the professional ethical sensitivity of the auditors in examining financial statements, the more people, or companies use the services of
auditors in minimizing fraud or manipulation of a company's financial statements. This is in concordance with Wahyun (2013), Darma (2016), and Ariyanto (2016).

CONCLUSIONS

Professional expertise, sensitivity, and professional ethics, affect the audit quality of Bali Provincial Representative of Supreme Audit Agency auditors. The auditors shall improve the quality of audits by increasing their competence, by participating in training, seminars, and improving professional education. In addition, they must be excellently independent to ensure that the audit is truly objective and reliable.

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