

# Due Professional Care as a Moderating Variable to Independence Relationship to Audit Quality

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**Abstract:** This study aims to obtain empirical evidence of Moderating Due Professional Care on Auditor Independence. The population in this study are public accountants who work in the Public Accountant Office in the DKI Jakarta area. Sampling is done using purposive sampling. The primary data collection method used is the questionnaire method. Data were analyzed using Path Analysis with the structural equation model. The results showed that the direct effect of independence had a positive effect on Audit Quality, while Due Professional Care had no significant effect on Audit Quality. Research also shows that Due Professional Care has an effect on Independence.

**Keywords:** Independence, Due Professional Care, Professional Ethics, Audit Quality.

## I. INTRODUCTION

The profession of public accountants (independent auditors) plays an important role in providing confidence in the quality of financial information by providing independent opinions regarding the fairness of the presentation of information in financial reports, thus providing guarantees to the user that the public accountant as an examiner has tried to act fairly in guaranteeing perseverance and attention to the examination of financial statements to ensure that the company's financial transactions are adequately presented.

In Indonesia, through a survey conducted by the International of Independent Auditor Regulators (IFIAR) concluded that audit quality is still low [1]. This is due to the upstream problems in the governance of the public accounting profession based on indicators, namely the level of competency and professional staff of KAP that have not been evenly distributed, so that graduates of accountants from universities are inadequate. The current standard for graduation is 60. In fact, the graduation rate if abroad is in category D. In addition, the number of graduated accountants is not more than 10%. This shows the lack of competency level of public accountants. Then there were several companies complaining that many of the best graduates from universities could not answer accounting problems during the company entrance test interview process so that they would be brought to the quality of the profession of auditors [1].

The next indicator is the enforcement of sanctions against violations of professional standards and legislation that is less assertive. Violations of professional standards carried out by several public accountants are found to be related to independence in conducting financial statement audits. Clients often ask for limitations on public accountants not to contain findings on audit results that are very material. So, when the request is not fulfilled, there are many pressures directed at the auditor, namely by switching to another public accountant for the following year of the audit engagement, not even hesitate the client does not fulfill the obligation to pay the audit fee payment to the public accountant. As a result, forcing some public accountants to follow the wishes of clients by not loading inspection paperwork in detail and complete or also can add dozens of new work papers because the audit evidence obtained is not enough. The violation of professional standards was not followed by the imposition of less explicit sanctions by the regulation, namely the Center for Financial Professional Development (P2PK) of the Ministry of Finance of the Republic of Indonesia as a supervisor of audit performance carried out by the Public Accountant Office in the Republic of Indonesia.

As an example of violations of professional standards carried out by Purwantono, Suherman & Surja KAP affiliated with Ernst and Young (EY) Global because it proved to play a role in the failure of audits of the financial statements of one telecommunications company in Indonesia in 2011. This was revealed by the findings made Public Accounting Oversight Board (PCAOB) at the end of 2013 where the Indonesian telecommunications company was listed on the New York Stock Exchange (NYSE). The violation occurred when Purwantono, Suherman & Surja KAP failed to provide evidence supporting the calculation of the lease of more than 4,000 cellular towers as stated in the financial statements of one of the Indonesian telecommunications operators audited. So that they deliberately manipulate the making of dozens of new audit paperwork and consistently continue to provide Unqualified Opinion (WTP) to the financial statements. As a result, EY's partner in Indonesia, Roy Iman Wirahrdja, who served in Purwantono, Suherman & Surja KAP was sanctioned in the form of a five-year ban and a fine of US \$ 20,000 or E 266 Asia Pacific Director James Randal Leali in the form of a year-long practice ban and a fine of US \$ 10,000 or equivalent to Rp. 133 million. Another example was carried out by KPMG Siddharta Siddharta & Harsono in mid-September 2001. This well-known Public Accounting Firm was proven to have bribed the tax authorities in Indonesia for US \$ 75 thousand. As a strategy, fake invoices were issued for KPMG Siddharta Siddharta & Harsono's professional service fees which had to be paid by his client,

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PT Easman Christensen, a subsidiary of Baker Hughes Inc. and listed on the New York Stock Exchange (NYSE). This bribery action resulted in PT Easman Christensen's tax obligations shrinking dramatically. From the initial US \$ 3.2 million to only US \$ 270 thousand. However, anti-bribery advisor Baker Hughes Inc. was concerned about the pattern of his subsidiary. So, instead of taking greater risks, in the end Baker Hughes Inc., reported voluntarily this bribery action and dismissed all management of PT Easman Christensen's directors. The United States Capital Market Supervisory Agency, Securities & Exchange Commission (SEC), ensnared it with the Foreign Corrupt Practices Act, the Anti-Corruption Act for American companies abroad. However, in the end this bribery case was not continued to the Texas district court because Baker Hughes Inc. apologized and could be resolved outside the court so that KPMG Siddharta Siddharta & Harsono was saved [2].

Related to the explanation of the audit framework, the phenomenon of violations committed by public accounting firms and the symptoms that occur on the main issues above shows that during the engagement period, audit quality is determined by engagement quality control, range of controls, governance, review results, usage the time of key personnel, competence and independence that will produce due professional care, as well as the interaction between competence and independence with the professional ethics of public accountants. Furthermore [3] define independence as an impartial viewpoint in the implementation of evaluation tests resulting from the examination and preparation of audit reports. It can be concluded that the independence of public accountants is an attitude of mind and mental attitude of honest and expert public accountants, and free from persuasion, influence and control of other parties in carrying out the planning, assessment and reporting of audit results. The results of research by [4] suggest that the independence has a positive effect on audit quality. They explain when independence will in reality, if in reality the public accountant (external auditor) is able to maintain an impartial attitude during the audit. Whereas independence in appearance is the result of the interpretation of other parties regarding this independence.

[5] in their study found that independence had a significant effect on audit quality. This result was stated by them that in order to produce a quality audit an independent attitude from public accountants was needed. Because if the public accountant loses its independence, the audit report produced is not in accordance with the reality, consequently, it cannot be used as a basis for decision making. [6] found in her research that independence has a positive effect on audit quality. He argued because public accountants have a large responsibility to interested parties related to the client's financial statements including the community. Therefore to report fraud that occurs in the client's accounting system depends on the independence of public accountants.

Previous empirical evidence from the results of other studies also found that independence is not always able to measure the extent to which public accountants implement their independence in achieving adequate audit quality. This can be seen in the research of [25] which results that independence does not affect audit quality. This indicates that public accountants (independent auditors) in the condition of an independent attitude that conduct audit checks sometimes tend to behave deviating from

professional standards. Public accountants tend to look for safe and dysfunctional ways. [10] in his research also found that independence did not affect audit quality. He argued that public accountants tend not to report violations of agreements between principals and agents, namely by giving an assessment that is not fully in accordance with the actual financial statements examined, so that the assessment will reflect the company's financial condition that is not reliable. [11] also found on the results of his research that independence did not affect audit quality. This is indicated when the public accountant is in a position of dilemma that allows loss of independence in carrying out their duties.

Based on IFAC's (Ethics Guidelines) [9] the ethical requirements of public accountants should be based on the basic principles that govern the actions/behavior of a public accountant in carrying out his professional duties. The results of the [10] found that the interaction of public accountant ethics with the competence and interaction of public accountant ethics with independence had a significant effect on audit quality. They argued that audit ethics performed well by public accountants would increase the influence of competencies on audit quality. And to be able to survive under the pressure of their clients, depending on economic agreements, certain environments and behaviors including professional ethics must be applied by a public accountant (independent auditor). The results of this study contrast with the research [12], found that there was no interaction between public accountant ethics and competence and independence on audit quality. This is due to the absence of a strategy that can lead to the denial of deviant behavior by public accountants and the provisions of SPAP in PSA No. 4 which requires a public accountant to have certain experiences, which particular experience is not possessed so that lack of experience will make public accountants unable to create strategies to counteract deviant behavior. Research related to audit quality, among others, is carried out by [7] which aims to find out the due professional care in mediating the influence of competence, independence, and auditor motivation on audit quality. Data analysis using path analysis (path analysis). The results of the study show that competence and independence have no effect on audit quality through due professional care. But with the direct influence of competence and independence has a positive effect on audit quality. Likewise, care professional and motivation influence the audit quality at the Public Accountant Office in Medan City. The study was also conducted by [8;19] which aims to determine the effect of independence, competence, work experience and due professional care on audit quality which is moderated by professional ethics. Data analysis uses multiple linear regression and moderated analysis. The results of the study show that independence, competence, work experience and due professional care have a significant effect on audit quality. This research is a development of two studies by [7] and [8]. The added value of this research compared to the research is:

- 1) The object of this research is the profession of public accountants who work in the Public Accountant Office in the DKI Jakarta area and have a practice license register number and CPA so that the object of research is more diverse, so it is expected that in answering the questionnaire the respondent will adjust according to each experience.
- 2) This study uses intervening variables, namely professional ethics, which in [7] study only uses due professional care as intervening. Ethical reasons for auditors are added as mediators because the position of public accountants (independent auditors) is also very dilemma [6;18] where they are required to fulfill client desires, but on the one hand the actions of independent auditors can violate professional standards as their reference. So by upholding professional ethics that are appropriate and listed in professional standards can fulfill responsibilities to investors, the general public and the government and other parties who rely on the credibility of audited financial statements.
- 3) This study also uses due professional care as moderating, which in [8] study only uses professional ethics as a moderating variable. Due professional care is used as a moderating variable because the third general standard in PSA No.4 SPAP (SPAP, 2011) requires public accountants to be careful and thorough in carrying out their duties. The application of precision and accuracy is realized by conducting a critical review at each level of supervision on the implementation of the audit. Accuracy and accuracy concerning what is done by public accountants (independent auditors) and how the perfection of the work produced. So if this is applied it will strengthen the competence and independence of a public accountant (independent auditor). And vice versa if it is not implemented, it can weaken and/or not even have a real impact on the competence possessed and the independence of the act of a public accountant.

Based on the description in the background, the authors are interested in conducting research with the title: "The Effect of Due Professional Care on Auditor Independence and its impact on audit quality" (Empirical Study of Public Accounting Firms in the DKI Jakarta Region).

#### A. Independence of Auditor

Independence of independent auditors is very important and has long been a conversation both among practitioners, policy makers or academics. This is because the opinions given by the auditor relate to the interests of many parties. However, the opinion given by the auditor on the financial statements of a company will not have value if the auditor is deemed not to have independence by the users of financial statements.

[3] independence in the audit is as follows: "A member in the public practice will be independent in the performance of a professional board of directors." This can be interpreted that independence is a mental attitude that is free from influence, not controlled by other parties, does not depend on others, has honesty in oneself by considering facts and objective considerations, impartial in formulating and expressing their opinions. Then the resulting audit will be in accordance with the facts without any outside influence.

[14;17] argues that independence as a non-prejudiced and impartial view in conducting audit tests, evaluations and results, publishing reports and is a reason for public trust.

This

## **II. DEFINITION AND APPLICATIONS OF DUE PROFESSIONAL CARE, INDEPENDENCE AND AUDIT QUALITY**

### **A. Due Professional Care**

Due professional care is a careful and thorough attitude in conducting checks and evaluations of financial statement audit evidence. The use of meticulous attitudes and professional skills can enable the auditor to assess audit evidence in the belief that the financial statement audit evidence is free of material misstatement, which is caused by errors or frauds that occur [15;16]. Careful and careful attitude is also the responsibility of an independent auditor (public accountant) to observe applicable audit standards. [14] defines due professional care as follows: Due professional care is a careful and careful attitude with critical thinking and evaluating audit evidence, being careful in the task, not careless in conducting audits and having determination in carrying out responsibilities. PSA No.4 SPAP 2011 gives meaning to professional care as professional and thorough proficiency. This means that due professional care is the use of professional proficiency by auditors which is seen as precision and accuracy to be able to carry out professional skepticism on the findings when conducting financial statement audits.

Professional skepticism (skepticism) the auditor is an attitude that balances trust and suspicion, meaning caution or awareness of information. This can be seen when the auditor has or obtains audit evidence. If an auditor can use his skepticism, he can detect the findings of the actual conditions in the financial statements. Vice versa, if the auditor's skepticism is low, the auditor's ability to detect fraud that occurs will be lower. [13] defines skepticism as an attitude that includes the mind that is always questioning in evaluating critically the results or evidence of examination. Based on the definition and explanation above, it can be concluded that due professional care is a careful and thorough use of professional proficiency, allowing the auditor to obtain adequate assurance that financial statements are free from material misstatements, whether caused by errors or from the results of fraud. So that it will produce high audit quality.

means that the mental attitude of an independent auditor (public accountant) is required to be honest and impartial throughout the audit and in positioning itself with the auditee. International Standard on Auditing (ISA) 200 paragraph 14 explains that auditors must comply with relevant ethical obligations, including those relating to independence, in connection with the audit assignment of financial statements [16]. [16] the Code of ethics clarifies the provisions, obligations and requirements and significantly tightens the provisions regarding independence as follows:

- 1) Expand the provisions regarding independence for audit listed entities (companies listed on the capital market) of all PIE (Public-Interest Entities) or entities with public interests.
- 2) Require a "cooling-period" before certain "people" in the KAP join the public-interest audit clients in certain positions.



- 3) Expand partner-rotation obligations for all key audit partners.
- 4) Tightening provisions regarding the provision of non-insurance services to audit clients, such as tax planning and other consulting services.
- 5) Require pre-or post-issuance review if total fees from public-interest clients audits exceed 15% of total fees from KAP for two consecutive years.
- 6) Prohibiting key audit partners from evaluating their performance against (or receiving compensation for) selling non-insurance shares to audit clients.

Clarify independence into two aspects, namely [3]:

- 1) Independence in fact (Independence in fact). This means that auditors must have high honesty and a close relationship with objectivity. Independence in the facts will exist if in reality the auditor is able to maintain an impartial attitude throughout the audit.
- 2) Independence in appearance. This means that the views of other parties towards the auditor are related to the conduct of the audit. Even though the auditor has carried out his audit well independently and objectively, the opinion expressed through the audit report will not be trusted by the service users of the independent auditor if he is unable to maintain independence in appearance which is very important for the professional development of the auditor.

[16] in the International Ethics Standards Board for Accountants (IESBA) uses the term independence contained in the Code of ethics for professional accountants as follows:

### 1. Independence of mind

Independence in the mind is the things that are in the state of mind of the auditor that allows to give opinions without being influenced by things that compromise professional wisdom or professional judgment, and thus people can act in full integrity, not take sides, and carry out professional skepticism (professional skepticism).

### 2. Independence in appearance

Independence in appearance is a significant avoidance of facts and conditions so that a third party who understands and thinks rationally with knowledge of all relevant information, including prevention that is applied will still draw the conclusion that professional skepticism, objectivity, and integrity of members of the firm, or guarantor team (assurance team) has been compromised. The fundamental principles of ethics cannot be negotiated or compromised if an accountant wants to maintain a noble image of his profession.

Based on the explanations above, it can be seen that independence is an attitude that must exist in the auditor. If the independent auditor is not independent of his client, his opinion will not provide any additions.

### B. Audit Quality

Audit quality is related to how well a job is completed compared to predetermined criteria. With good audit quality, it will produce an audited report that is able to present findings and report the actual financial condition of the company so that it can be trusted as the basis for decision making. Understanding audit quality [17] defines it as follows: Audit quality is as a possibility (joint probability) where a public accountant (independent auditor) will find and report violations in the accounting system of his client. [18] defines audit quality as follows: Audit quality is the probability that the auditor will not report audit reports

without exception for financial statements that contain material errors. [19] provides an understanding of audit quality as follows: Audit quality is the possibility where the auditor will find and report material misstatements in the client's financial statements. Meanwhile, the research conducted by [20] suggests the definition of audit quality as follows: Audit quality is a systematic examination and independence to determine activities, quality and results in accordance with planned arrangements and whether these arrangements are implemented effectively and in accordance with aim. Based on these definitions, it can be seen that audit quality is a characteristic or description of the practice and results of an audit based on auditing standards and quality control standards which are a measure of the implementation of the duties and responsibilities of the independent auditor.

### III. THEORETICAL FRAMEWORK

#### Effects of Due Professional Care in Moderating the Relationship of Independence with Audit Quality

Independent mental attitude that must be applied by the auditor includes independent in fact (in fact) and in appearance (in appearance). This can be seen when the auditor's integrity and objectivity in providing financial statement audit services requires using professional precision and accuracy so that there is no conflict of interest with the parties (management and shareholders). The application of an independent attitude by auditors (public accountants) will realize the critical review at each level of supervision on the implementation of the audit through the application of precision and accuracy during the audit engagement period. A critical review is carried out by the auditor when planning and adequately monitoring the audit process to obtain relevant data or information, and the results of the review are used as the basis for drawing conclusions or recommendations regarding the implementation of professional services.

So, when the auditor gives an opinion (opinion) regarding the results of the audit, he will be able to avoid the influence of interested parties regarding matters that compromise (compromise) professional wisdom or professional judgment. This makes independent auditors (public accountants) to act impartially, implement integrity in full, and carry out professional skepticism (professional skepticism). Therefore, the auditor's independent attitude when always applying professional wisdom to the auditee is the dominant and important factor in producing a quality audit report by upholding its independence, so that the objectivity of audit assessment can occur so that the integrity of an independent auditor is undoubtedly. Based on the description above, the thirteenth hypothesis formulation is: H<sub>1</sub>: Due professional care strengthens the influence of independence on audit quality.

### IV. RESEARCH METHODOLOGY

The type of research used in this study is descriptive and verification. Through this type of descriptive research, a description of professional care, independence and audit quality can be obtained.



In this study, the type of verification research or causality research was used to test the validity of the relationship of research variables, namely the effect of mediation due to professional care on independence with audit quality. Based on the type of research above, namely descriptive and verification research carried out through data collection in the field, the method used in this research is explanatory survey, namely an investigation conducted to obtain facts from existing symptoms and seek information factual, both about social, economic or political institutions of a group or region [21].

As for the time horizon, this study is cross sectional, namely research by studying objects in a certain period of time [21], which is the distribution of questionnaires starting from April 1 to May 30 2018. In determining the number of samples used, the researcher used a purposive sampling technique, which is the method of taking samples from each sub-population taking into account the size of the sub-populations. Determining the minimum number of samples for SEM is dependent on the number of minimum indicators multiplied by five to ten [21]. So that the minimum number of samples used in this study are as follows:

$$\text{Minimum number of samples} = \text{Number of indicators} \times 5 \square (30 \times 5) = 150 \text{ respondents}$$

By referring to the calculation of the minimum number of samples, the number of samples selected for this study were 150 respondents of public accountants in the DKI Jakarta area who had certified public accountants and licenses from the finance ministry. Based on the data sources used in this study are primary data obtained from individual respondents. These individual respondents are independent auditors who work in public accounting offices located in the DKI Jakarta area which are researchers conducting research. Data collection is done by means of surveys through media questionnaires made online through the google drive site. Submission of media questionnaires online is done by sending a questionnaire link through work email and also sent via social media applications such as Whatssapp and the professional network Linkedin.

Validity test is done by Pearson Moment correlation test between each indicator score with total construct score. A question is said to be valid if the item item correlation value with a total score is significant at the significance level of 0.01 and 0.02 [22]. The approach used to measure the reliability of the instrument is using the Cronbach Alpha coefficient. While the parameters used are based on the opinion of [23] and [21] stating that a research instrument has adequate reliability if the Cronbach Alpha coefficient is greater or equal to 0.60.

Testing the hypothesis in this study uses a path analysis model. In the path analysis test (path analysis) in this study using the rules [24]. Because there are intervening variables as mediators. Then in testing the effects of mediation it is also very important to know the type of influence of mediation as a full mediated or partial mediated. After knowing the type of mediation in the picture above, then it will then get the required data which comes from the total score of each exogenous variable (independence, due professional care) and endogenous variables (audit quality). The total score is done to change the unobserved variable (cannot be measured directly) into the observed variable (can be measured directly), so that it can be analyzed regarding the standardized coefficients of one variable to other variables

and the significance of the path.

## V. RESULT AND DISCUSSION

### Effect of DPC Moderation on IND and KUA relations

The direct effect of the independent variable IND (Independence) with KUA (Audit Quality) moderated by the variable DPC (Due Professional Care) on the results of the moderation effect test has an estimate value of -0.115 with a probability value of 0.021 (<0.05). This shows that Hypothesis 1 is rejected, which means that Due Professional Care does not strengthen the influence of Independence on Audit Quality. Effects of Due Professional Care in Moderating the Relationship of Auditor Professional Ethics with Audit Quality Due Professional Care strengthens the relationship of the influence of Auditor Professional Ethics with Audit Quality. This result proves that the implementation of auditor's professional ethics compliance by not exercising prudence and professional care will be able to have the potential to make mistakes in receiving any information related to obtaining audit evidence. By not also carrying out an attitude of precision in accordance with his professional code of ethics, the auditor cannot minimize the risk of misstatement contained in the audited financial statements. The risk of misstatement may be ignored, but the auditor cannot allocate consideration at the beginning to the account balances in accordance with SAS 39 (AU 350). Therefore, in every audit plan, the auditor is expected to act carefully and thoroughly so that the audit can be carried out in a timely manner. IESBA's Code of Ethics for Professional Accountants [9] states that a careful and careful attitude requires every practitioner to act carefully, thoroughly, and on time, in accordance with audit assignment requirements. Then ensure the availability of appropriate training and supervision for those who work under their authority in professional capacity. The results of this study provide a new theory in estimating the research model that moderating professional care will not always strengthen the auditor's professional ethics in improving audit quality. Effects of Due Professional Care in Moderating the Relationship of Independence with Audit Quality Due Professional Care does not strengthen the relationship of the influence of Independence with Audit Quality. These results prove that when the auditor does not have integrity and objectivity in providing financial statement audit services, it will have an impact on the lack of precision and professionalism so that there is a conflict of interest with the parties (management and shareholders). The absence of an independent attitude by the auditor (public accountant) will have an effect on conducting a non-critical review at each level of supervision of the audit. The review was conducted critically and meticulously by the auditor when planning and adequately monitoring the audit process to obtain relevant data or information, and the results of the review were used as the basis for drawing conclusions or recommendations regarding the implementation of professional services. Thus, when the auditor gives an opinion (opinion) related to the results of the audit, he will be unable to avoid the influence of interested parties regarding matters that compromise (compromise) professional wisdom or professional judgment.

This makes independent auditors (public accountants) act impartially, not achieving an integrity in conducting audits, as well as professional skepticism (professional skepticism) which occurs when taking sides with one party. The results of this study provide a new theory in estimating the research model that independence that is moderated by due professional care will not always strengthen auditor independence in improving audit quality.

## VI. CONCLUSION

Based on the analysis and discussion as well as the results of testing in this study that has been carried out by researchers, so that researchers can conclude the following things: Independence has a positive effect on Audit Quality. The results of this study prove that members of the public accounting firm must always maintain an independent mentality in providing their professional services as stipulated in Audit Standards (SA) No. 220 SPAP (2011). The results of this study are in line with [6]. which concluded, among others, that independence has a positive effect on audit quality. Due Professional Care does not affect Audit Quality. The results of this study prove that the auditor when not careful in using his professional skills allows the auditor not to obtain adequate assurance that the financial statements are free of material misstatement, whether caused by errors or fraud. The results of this study contradict the research conducted [7] who suggested that due professional care had a positive effect on audit quality.

Independence has a positive effect on the Auditor's Professional Ethics. The results of this study prove that an auditor when carrying out audit assignments must implement appropriate measures, including in the face of conditions when the client or auditee does not reach an agreement in aspects of performance. Due Professional Care has a positive effect on the Auditor's Professional Ethics. The results of this study prove that in Section 230 SPAP (2011) that Due Professional Care is behavior that shows an attitude that is always questioning and critical determination of the acquisition of audit evidence, so the auditor should not assume that the client (auditee) is honest or dishonest. It can be said that due professional care can be done by following the guidelines on the professional code of ethics of the auditor. Due Professional Care does not strengthen the relationship of the influence of Independence with Audit Quality. These results prove that when auditors do not have integrity and objectivity in providing financial statement audit services, it will have an impact on their professional accuracy so that conflicts of interest occur with the parties (management and shareholders). The results of this study provide a new theory in estimating the research model that independence moderated by due professional care will not always strengthen auditor independence in improving audit quality.

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