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Assessing the Relationship Between Auditor Independence and Audit Quality: A Case Analysis of Six Firms in Bandung

ABSTRACT

This research examines the significant impact of Auditor Independence on Audit Quality, with a focus on public accounting firms in Bandung. The primary objective of the study is to determine whether a notable relationship exists between these two variables. To measure Auditor Independence (variable X), the study employs indicators such as independence in audit programs, investigations, and reporting. For Audit Quality (variable Y), it utilizes indicators including general standards, fieldwork standards, and reporting standards. The research employs a descriptive method, gathering data through questionnaires that are analyzed using the Statistical Package for the Social Sciences (SPSS). This analysis aims to identify the relationship between Auditor Independence and Audit Quality. The regression analysis yields an equation indicating that an increase in variable X has a positive influence on Audit Quality. The correlation coefficient between Auditor Independence and Audit Quality demonstrates a strong relationship, leading to a significant contribution of Auditor Independence to Audit Quality. The remaining influence is attributed to other unexamined variables. The novelty of this research lies in its specific focus on public accounting firms in Bandung, providing valuable insights into the importance of auditor independence in enhancing audit quality. The implications of this study underscore the importance for firms to prioritize auditor independence in order to enhance overall audit performance.

Keywords : Auditor Independence; Audit Quality; Public Accounting Firms; Descriptive Method; Correlation Analysis.

INTRODUCTION

In the business world, companies aim to deliver the highest quality to their customers, whether in manufacturing, services, or trade. Once they achieve this goal, they must focus on maintaining their existence and fostering growth. To sustain their presence and development, companies continuously improve their operational activities. The outcomes of these operations are reflected in their financial statements, which undergo audits to verify their accuracy and fairness. Auditing plays a crucial role in the economy and business landscape, as reliable

information is vital for informed economic decision-making. Stakeholders trust information more when independent auditors from public accounting firms provide their opinions on the financial statements. The audit process involves gathering and evaluating evidence to assess how well the information aligns with established criteria. Auditors must conduct their work with competence and independence to ensure their results benefit all stakeholders. This independence is essential for auditors, both personally and institutionally, to maintain objectivity in their dealings with the auditee. Furthermore, auditors need to possess expertise in auditing and sufficient knowledge of the relevant field. They must engage in careful planning and adhere to established standards and ethical codes to deliver reliable audit quality, ultimately supporting informed decision-making (Samagaio & Felício, 2022).

Independence reflects an auditor's commitment to impartiality, ensuring they do not favor any party during the audit process. Auditors must adopt a mental stance that demands honesty and objectivity throughout the audit, positioning themselves neutrally in relation to the auditee. By maintaining this independence, auditors uphold the integrity of the audit, fostering trust and credibility in their findings (Hwang, Sarath, & Han, 2022).

Audit quality refers to the likelihood that an auditor will identify and report any discrepancies or violations in a client's accounting system. This likelihood is closely tied to the auditor's level of understanding and expertise in the relevant field. The auditor's competence enables them to recognize potential issues and assess the accuracy of financial statements effectively. On the other hand, the auditor's independence is crucial when it comes to reporting any identified misstatements. An independent auditor is more likely to provide an unbiased opinion, free from external pressures or conflicts of interest. This impartiality ensures that the findings are credible and trustworthy, which is essential for stakeholders who rely on accurate financial information for decision-making. In summary, both the auditor's knowledge and their independence are vital components that influence the overall quality of the audit process. A competent auditor who maintains independence can significantly enhance the reliability of financial reporting, ultimately benefiting the broader economic environment (Samagaio & Felício, 2022).

The case study focuses on PT. Agrinical, which underwent an audit by Public Accountant Ronald Haryanto. Haryanto did not fully comply with the auditing standards (SPAP) because he failed to report the annual financial statements for the fiscal year 2008, which amounted to around 1.5 billion rupiah. BAPEPAM interpreted this oversight as an attempt to conceal information, resulting in sanctions against the accounting firm. They imposed a three-month

suspension of its practice license until the financial statements were published. Auditors recognize their responsibility to be honest not only to the company's management and owners but also to creditors and other stakeholders who rely on independent audit reports, including potential investors. They understand that public trust in auditor independence is vital for the growth of the public accounting profession. If doubts arise about an auditor's independence, the public's confidence can quickly erode. Therefore, auditors must consistently uphold their impartiality to maintain this trust. Audit quality represents the probability that an auditor will identify and report any irregularities within a client's accounting system. When independent auditors deliver high-quality audits, they enhance the trust that information users place in financial reports. This quality is crucial because reliable financial statements serve as a foundation for informed decision-making. By ensuring high audit quality, auditors contribute to the credibility of financial information, which ultimately benefits all stakeholders involved (Zahid et al., 2022).

The problem formulation centers on understanding the extent to which Auditor Independence influences Audit Quality within Public Accounting Firms in Bandung. This inquiry aims to investigate how maintaining independence among auditors affects the overall quality of audits conducted in these firms. By examining this relationship, the research aims to provide insights into the importance of auditor independence in ensuring reliable and trustworthy financial reporting. The study will investigate whether a more substantial commitment to independence correlates with higher audit quality, thereby highlighting the critical role that auditors play in the financial ecosystem.

METHOD

The research employs a verifiable method, which aims to test the validity of existing knowledge in the field through statistical hypothesis testing. This study aims to investigate the impact of auditor independence on audit quality specifically. The research focuses on six Public Accounting Firms (KAP) located in Bandung. The study examines two operational variables. First, auditor independence is viewed as a factor that enhances the credibility of financial reports, allowing users to rely on the presented information. This variable is measured through three aspects: independence in the audit program, independence in investigations, and independence in reporting. Second, audit quality encompasses the likelihood that auditors will identify and report violations within a client's accounting system in the audit report.

Researchers measure audit quality based on general standards, fieldwork standards, and reporting standards. The population for this study consists of public accountants from the six

KAPs, totaling 30 respondents. Given the relatively small population size, the researcher includes all members of the population as the sample, utilizing a saturated sampling technique. To test the validity of the instruments, the study applies content validity testing through item analysis, correlating item scores with total scores. The reliability test ensures that the responses provided are trustworthy and consistent, meaning the measurement results remain stable when repeated on the same object and measuring tool. For data analysis, this research uses regression testing to evaluate the functional and causal relationships between the two variables under investigation. Regression analysis enables researchers to understand how the independent variable affects the dependent variable, controlling for other variables. By applying regression analysis, the researcher can determine whether changes in the dependent variable can be predicted based on changes in the independent variable. Additionally, the study employs path analysis to comprehensively identify and measure the relationships between variables, thereby providing a deeper understanding of how auditor independence affects audit quality.

RESULT AND DISCUSION

Tabel 1

The results of the validity and reliability tests for the Audit Quality

Item	Auditor Independence (X)	Audit Quality (y)
1	0,724	0,838
2	0,855	0,636
3	0,829	0,711
4	0,749	0,778
5	0,752	0,744
6	0,528	0,714
7	0,814	0,593
8	0,828	0,611

9	0,775	0,605
10	0,765	0,788
11	0,833	0,464
12	0,824	0,789
13	0,853	0,83
14	0,831	0,838
15	0,781	0,637
Reliability		
Independence	15	0,961
Audit Quality	15	0,940

The data quality tests reveal that both variables, Auditor Independence and Audit Quality, show strong evidence of validity and reliability, which is crucial for the integrity of the research. In terms of validity, the scores for both Auditor Independence and Audit Quality exceed the necessary threshold. This indicates that these variables accurately reflect the constructs they are intended to measure. Validity ensures that the research instruments honestly assess what they claim to assess, meaning that the findings can be trusted to represent the real-world phenomena of auditor independence and audit quality. When it comes to reliability, the results indicate that both variables are highly reliable. This means that the measurement instruments consistently produce stable results over time. Researchers can confidently use these instruments, knowing that if they conduct the exact measurements repeatedly, they will yield similar outcomes. High reliability is essential because it indicates that the instruments not only measure the intended constructs but also do so in a consistent manner. Overall, the findings confirm that the instruments used to measure Auditor Independence and Audit Quality are both valid and reliable. This enhances the credibility of the research, as it assures stakeholders that the conclusions drawn from the study are based on sound measurement practices. By

establishing the validity and reliability of these instruments, the research lays a solid foundation for understanding the relationship between auditor independence and audit quality, ultimately contributing valuable insights to the field of accounting and auditing.

The research findings indicate a significant influence of Auditor Independence on Audit Quality, aligning with existing literature in the field. This relationship underscores the importance of maintaining auditor independence to enhance the credibility and reliability of audit outcomes. Hwang, Sarath, and Han (2022) highlight that auditor independence plays a crucial role in the effectiveness of quality control efforts and corporate governance. Their study suggests that when auditors maintain independence, they are more likely to conduct thorough and unbiased audits, resulting in higher audit quality. This situation reinforces the idea that independence is not just a regulatory requirement but a fundamental aspect that directly impacts the integrity of financial reporting. Similarly, Guizani and Abdalkrim (2022) explore how ownership structure and board independence affect auditor choice in the context of GCC countries. Their findings suggest that a robust governance framework, which includes independent auditors, leads to improved audit quality. These conditions suggest that when auditors operate without conflicts of interest and are supported by an independent board, they can deliver more reliable audit results.

CONCLUSION

In conclusion, this research clearly shows that Auditor Independence at six Public Accounting Firms in Bandung is rated as good. The analysis reveals that the average responses from participants regarding Auditor Independence mostly fall into this positive category. This indicates that auditors in these firms generally maintain a level of independence that supports their professional responsibilities. Similarly, the study finds that Audit Quality at these firms also ranks as good. The average scores from respondents on various statements related to audit quality reinforce this conclusion. This suggests that the audits performed by these firms meet acceptable standards, providing reliable financial information to stakeholders. The findings highlight a significant positive influence of Auditor Independence on Audit Quality. The statistical analysis and regression results confirm this relationship, indicating that when auditors maintain their independence, they are more likely to produce high-quality audits. However, the research also notes that other factors, which were not examined in this study, may also affect audit quality. This means that while independence is crucial, it is not the only

element that contributes to the overall quality of audits. This research does have some limitations. It focuses exclusively on six Public Accounting Firms in Bandung, which may not fully represent the broader landscape of auditor independence and audit quality across different regions or types of firms. Additionally, the study does not explore other potential factors that could influence audit quality, such as the size of the firm or the specific industry in which they operate. These limitations suggest that the findings should be interpreted with caution. For future research, it is essential to broaden the scope by including a larger sample of firms and examining additional variables that may impact the relationship between Auditor Independence and Audit Quality. Researchers should consider conducting longitudinal studies to track how changes in auditor independence over time affect audit quality. This approach could provide deeper insights into the dynamics of the auditing profession. Based on the findings, auditors in the Public Accounting Firms in Bandung must prioritize maintaining their independence to enhance the quality of their audits. They should also focus on improving the quality of their draft reports and actively engage in discussions with companies before finalizing audits. This practice will help ensure that the reports meet established standards and provide accurate information. Furthermore, it is crucial to emphasize the importance of auditor compensation, as it can influence their objectivity when reporting client errors. By fostering a strong commitment to independence and professionalism, auditors can significantly enhance the quality of their audit outcomes, ultimately benefiting both clients and stakeholders.

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