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Determinants of Audit Quality: The Role of Auditor Independence, Competence, and Professional Ethics in Public Accounting Firms in Indonesia

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Abstract: Audit quality has become an increasingly critical issue in maintaining public trust in financial reporting, especially in Public Accounting Firms in Indonesia. Several audit failure cases in corporate financial statements indicate that auditors do not always succeed in detecting material misstatements effectively. This condition raises concerns regarding the role of auditor independence, competence, and professional ethics in ensuring reliable audit outcomes. Therefore, this study aims to analyze the effect of auditor independence, competence, and professional ethics on audit quality in Public Accounting Firms in Indonesia. This study employs a quantitative research approach using a survey method. Primary data were collected through questionnaires distributed to auditors working in Public Accounting Firms. The data were analyzed using multiple linear regression analysis to examine the relationship between independent variables and audit quality. The results show that auditor independence, competence, and professional ethics have a positive and significant effect on audit quality. Among these variables, professional ethics is found to be the most dominant factor influencing audit quality. This indicates that ethical behavior plays a crucial role in ensuring audit integrity and reliability, beyond technical competence and independence. The implications of this study suggest that Public Accounting Firms should strengthen ethical standards, improve auditor competence through continuous professional training, and maintain auditor independence to enhance audit quality. These efforts are essential to improve public trust in audited financial statements and strengthen the credibility of the auditing profession. The originality of this study lies in the integrated analysis of auditor independence, competence, and professional ethics within a single empirical model in the context of Public Accounting Firms in Indonesia. This study contributes to auditing literature by providing comprehensive evidence that audit quality is shaped not only by technical factors but also by ethical and behavioral dimensions of auditors.

Keywords: audit quality; auditor independence; auditor competence; professional ethics

INTRODUCTION

In recent years, audit quality has become an increasingly important issue in accounting practice in Indonesia. This is largely driven by several audit failure cases involving public companies, which have reduced public confidence in audited financial statements. In some situations, auditors have failed to detect material misstatements in a timely manner, raising concerns about the effectiveness of audit processes conducted by Public Accounting Firms (KAP). From an auditing theory perspective, audit quality is defined as the probability that an auditor will detect and report material misstatements in financial statements, which is strongly influenced by auditor independence and competence (DeAngelo, 1981; Francis, 2011).

The increasing complexity of the business environment, globalization of capital markets, and rapid development of financial reporting systems have further increased the demands placed on auditors. Auditors are expected not only to possess strong technical knowledge of auditing standards but also to maintain independence when facing client pressure and to uphold high ethical standards in every audit engagement. In practice, factors such as audit fees, long-term auditor–client relationships, and competitive pressure among audit firms may compromise auditor independence, which in turn can negatively affect audit quality (Carcello et al., 1992; Beattie et al., 2013). Therefore, audit quality is not solely determined by technical capability, but also by behavioral and ethical dimensions of auditors.

Previous studies have extensively examined the determinants of audit quality from different perspectives. Auditor independence is widely recognized as a key factor influencing audit quality because independent auditors are more likely to provide objective audit opinions without client interference. DeAngelo (1981) emphasizes that independence is a fundamental requirement for high-quality auditing. In addition, research also shows that independence may be weakened by audit tenure and economic dependence on clients, which can reduce auditor objectivity in practice (Knechel et al., 2013).

Another important determinant is auditor competence, which refers to the knowledge, experience, and technical skills required to perform audit tasks effectively. Highly competent auditors are better able to design audit procedures, identify risks, and detect material misstatements in financial statements. Bonner and Lewis (1990) found that auditor expertise significantly affects judgment quality in auditing tasks. However, competence alone is not sufficient to ensure high audit quality if it is not supported by strong ethical behavior and professional values.

Ethics in the auditing profession also plays a crucial role in maintaining audit quality. The code of ethics for professional accountants establishes fundamental principles such as integrity, objectivity, professional competence, and professional behavior that auditors must follow in performing their duties. Violations of ethical principles can damage public trust and reduce audit credibility. Sweeney and Pierce (2004) highlight that ethical behavior is a key foundation of audit quality because it directly influences auditors' decisions under pressure. Nevertheless, ethical violations are still found in practice, indicating that the implementation of professional ethics is not yet optimal.

Based on the above discussion, audit quality is influenced not by a single factor but by the interaction of multiple factors, including auditor independence, competence, and professional ethics. However, previous research has largely examined these variables separately, providing limited understanding of their combined effect on audit quality in Public Accounting Firms in Indonesia. Therefore, an integrated analysis is needed to provide a more comprehensive explanation of audit quality determinants.

This study aims to analyze the effect of auditor independence, competence, and professional ethics on audit quality in Public Accounting Firms in Indonesia. The study is expected to contribute to auditing literature and provide practical implications for improving audit quality through strengthening auditor independence, enhancing competence, and reinforcing ethical standards.

Based on auditing theory and prior empirical evidence, auditor independence, competence, and professional ethics are expected to have a positive effect on audit quality. Auditors with high independence tend to provide more objective opinions, competent auditors are more effective in detecting misstatements, and auditors who adhere to ethical principles maintain integrity and professionalism in their work. Therefore, this study hypothesizes that auditor independence, competence, and professional ethics have a positive and significant effect on audit quality, both partially and simultaneously.

RESEARCH METHOD

This study focuses on auditors working in Public Accounting Firms (Kantor Akuntan Publik/KAP) in Indonesia as the unit of analysis. The respondents in this study are auditors at various hierarchical levels, including junior auditors, senior auditors, and audit managers who are directly involved in audit engagements. The selection of auditors as the unit of analysis is based on their direct role in audit processes and decision-making, which makes them the most appropriate source of information regarding auditor independence, competence, professional ethics, and audit quality.

This study uses a quantitative research design with a causal-explanatory approach. This method is chosen because the study aims to examine the causal relationship between independent variables (auditor independence, competence, and professional ethics) and the dependent variable (audit quality). A quantitative approach is considered appropriate because it allows for objective measurement of variables and statistical testing of hypotheses to determine the strength and significance of relationships among variables.

The data used in this study are primary data obtained directly from respondents. The primary data source consists of auditors working in Public Accounting Firms in Indonesia who have at least one year of audit experience. The use of primary data is considered appropriate because the variables studied are perceptual and behavioral in nature, requiring direct responses from auditors regarding their professional attitudes and audit practices.

Data collection was conducted using a structured questionnaire distributed to respondents. The questionnaire was designed using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) to measure perceptions of auditor independence, competence, professional ethics, and audit quality. The distribution of questionnaires was carried out either directly or through online platforms to reach a wider range of respondents. The questionnaire items were developed based on previous validated instruments from auditing literature to ensure content validity.

Data analysis in this study was conducted using multiple linear regression analysis to examine the effect of auditor independence, competence, and professional ethics on audit quality. Prior to hypothesis testing, data were tested for validity, reliability, and classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests. Hypothesis testing was carried out using t-test to examine partial effects and F-test to examine simultaneous effects, with a significance level of 5% ($\alpha = 0.05$). The regression model used in this study is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

where Y represents audit quality, X_1 represents auditor independence, X_2 represents auditor competence, and X_3 represents professional ethics.

RESULT AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistics were used to provide an overview of respondents' perceptions regarding auditor independence, competence, professional ethics, and audit quality in Public Accounting Firms (KAP) in Indonesia. The results indicate that all variables are perceived at a relatively high level, suggesting that auditors generally recognize the importance of these factors in supporting audit performance and professional responsibilities.

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	Std. Deviation	Interpretation
Auditor Independence (X1)	4.21	0.54	High
Auditor Competence (X2)	4.18	0.57	High
Professional Ethics (X3)	4.35	0.49	Very High
Audit Quality (Y)	4.29	0.51	High

The table shows that professional ethics obtains the highest mean score, indicating that respondents place strong emphasis on ethical compliance as a fundamental principle in audit practice. This suggests that ethical awareness among auditors is relatively well-established and becomes a dominant perception in supporting audit quality compared to other factors.

4.2 Classical Assumption Tests

Prior to hypothesis testing, classical assumption tests were conducted to ensure the validity of the regression model. The normality test indicates that the data are normally distributed based on the Kolmogorov–Smirnov test. The multicollinearity test shows that all independent variables have tolerance values greater than 0.10 and VIF values below 10, indicating that there is no multicollinearity problem among the independent variables. In addition, the heteroscedasticity test using the Glejser method shows that the significance values are above 0.05, meaning that the model is free from heteroscedasticity issues.

These results confirm that the regression model meets the requirements of classical assumptions, allowing the hypothesis testing to be conducted with reliable and unbiased estimations.

4.3 Multiple Linear Regression Analysis

Multiple linear regression analysis was applied to examine the effect of auditor independence, competence, and professional ethics on audit quality. The results of the regression analysis are presented in the following table.

Table 2. Regression Analysis Results

Variable	Coefficient (B)	t-value	Sig.
Constant	0.842	2.113	0.036
Auditor Independence (X1)	0.312	3.981	0.000
Auditor Competence (X2)	0.274	3.562	0.001
Professional Ethics (X3)	0.401	5.127	0.000

$R^2 = 0.712$
Adjusted $R^2 = 0.701$
F-statistic = 58.324
Sig. F = 0.000

The regression equation obtained is:

$$\mathbf{Y = 0.842 + 0.312X_1 + 0.274X_2 + 0.401X_3 + e}$$

The coefficient of determination (Adjusted $R^2 = 0.701$) indicates that 70.1% of the variation in audit quality can be explained by auditor independence, competence, and professional ethics, while the remaining 29.9% is influenced by other variables not included in this model, such as audit tenure, audit fee, time pressure, and organizational culture.

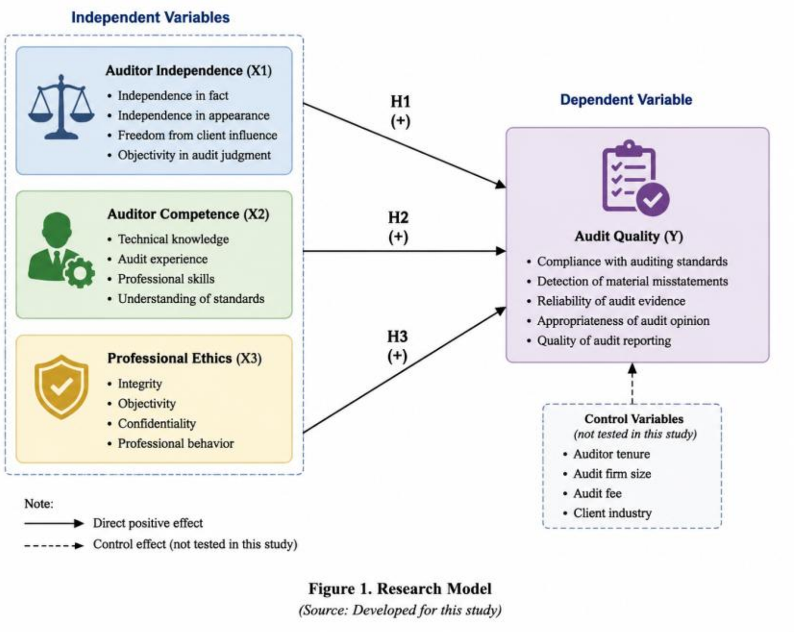

Figure 1. Empirical Research Model

The model illustrates that all independent variables have a direct influence on audit quality, with professional ethics appearing to have the strongest effect based on standardized coefficients.

4.4 Hypothesis Testing

The t-test results show that all independent variables have a positive and significant effect on audit quality. Auditor independence has a significance value of 0.000, indicating a strong statistical influence. This suggests that auditors who maintain independence in fact and appearance are more likely to produce objective and reliable audit reports. Auditor competence also shows a significant positive effect ($p = 0.001$), indicating that auditors with higher knowledge, experience, and technical ability are better at identifying misstatements and applying audit procedures effectively. This finding reinforces the importance of continuous professional development in enhancing audit performance. Professional ethics has the strongest statistical influence among all variables ($t = 5.127$; $p = 0.000$), indicating that ethical compliance is a dominant determinant of audit quality. This implies that even when auditors are competent and independent, ethical violations can significantly undermine audit outcomes. The F-test results ($F = 58.324$; $p = 0.000$) confirm that auditor independence, competence, and professional ethics simultaneously have a significant effect on audit quality. This indicates that the model is statistically robust and suitable for explaining variations in audit quality.

DISCUSSION

The findings of this study indicate that auditor independence, auditor competence, and professional ethics have a positive and significant effect on audit quality in Public Accounting Firms in Indonesia. Among these variables, professional ethics emerges as the most dominant factor influencing audit quality. This suggests that audit quality is not only determined by technical capabilities but is also strongly influenced by ethical behavior and professional values held by auditors. The simultaneous influence of these three variables also demonstrates that audit quality is a multidimensional construct that cannot be explained by a single factor alone.

The significant effect of auditor independence on audit quality can be explained through auditing theory, which emphasizes that independence is a fundamental requirement in producing credible audit outcomes. Auditors who maintain independence in fact and appearance are more likely to provide objective audit opinions without being influenced by client pressure or economic dependency. This condition allows auditors to exercise professional judgment more effectively and reduces the risk of biased reporting. Therefore, independence strengthens the reliability and credibility of audit results in financial reporting environments.

Auditor competence also plays a crucial role in determining audit quality. Competent auditors possess adequate knowledge of accounting standards, auditing procedures, and industry-specific risks, which enables them to identify material misstatements more effectively. High competence also enhances auditors' professional judgment in evaluating audit evidence and making appropriate audit decisions. This finding confirms that technical expertise and professional experience are essential components in ensuring the effectiveness of audit procedures, especially in increasingly complex business environments driven by digital transformation and financial innovation.

Professional ethics, as the most influential variable in this study, reflects the importance of moral principles in shaping auditor behavior. Ethical auditors are more likely to uphold integrity, objectivity, confidentiality, and professional behavior in carrying out audit assignments. Even when auditors are highly competent and independent, violations of ethical principles can still compromise audit quality and reduce public trust. This emphasizes that ethical commitment serves as the foundation of professional conduct in auditing practice, ensuring that auditors act in the public interest rather than personal or client interests.

When compared with previous studies, these findings are consistent with DeAngelo (1981) and Francis (2011), who argue that auditor independence is a key determinant of audit quality. The results also support Bonner and Lewis (1990), who found that auditor expertise significantly influences judgment quality in audit tasks. Furthermore, the importance of professional ethics aligns with Sweeney and Pierce (2004), who highlight that ethical behavior is essential for maintaining audit credibility. However, this study contributes a more integrated perspective by examining the simultaneous effects of independence, competence, and ethics within a single empirical model in the context of Indonesian Public Accounting Firms, which is still relatively limited in previous research.

From an interpretative perspective, these results suggest that audit quality is not merely a technical outcome, but also a reflection of professional integrity and ethical responsibility. This highlights that auditing is both a technical and moral practice that plays a critical role in maintaining transparency and accountability in financial reporting. Strong audit quality contributes to increased investor confidence, improved financial market stability, and better corporate governance practices.

The findings also imply that focusing on only one aspect, such as competence or independence alone, is insufficient to ensure high-quality audits. For example, a competent auditor without ethical commitment may still produce biased audit outcomes, while an ethical auditor without sufficient competence may fail to detect material misstatements. Therefore, a balanced integration of independence, competence, and ethical values is essential for achieving optimal audit performance.

In terms of practical implications, Public Accounting Firms should strengthen policies aimed at improving audit quality through a holistic approach. This includes reinforcing auditor independence through stricter rotation policies and conflict-of-interest regulations, enhancing competence through continuous professional training and certification programs, and strengthening ethical behavior through internalization of professional codes of ethics and strict enforcement mechanisms. By implementing these strategies, audit firms can improve the overall quality and reliability of audit services in Indonesia.

CONCLUSION

This study concludes that auditor independence, auditor competence, and professional ethics have a positive and significant effect on audit quality in Public Accounting Firms in Indonesia. Among these variables, professional ethics emerges as the most dominant factor influencing audit quality, indicating that ethical commitment plays a central role in ensuring reliable and credible audit outcomes. The findings also highlight that audit quality is not determined by a single factor, but rather by the integration of behavioral, technical, and moral aspects of auditors in performing audit engagements.

The main contribution of this study lies in providing an integrated empirical model that combines auditor independence, competence, and professional ethics in explaining audit quality within a single analytical framework. This study enriches the existing auditing literature by confirming that ethical behavior is not only a supporting factor but also a critical determinant of audit quality. In addition, this research contributes practical insights for Public Accounting Firms in Indonesia by emphasizing the importance of strengthening ethical standards, enhancing auditor competence, and maintaining independence simultaneously as a unified strategy to improve audit performance.

However, this study has several limitations. First, the data were collected using a questionnaire based on self-reported perceptions, which may lead to subjective bias in respondents' answers. Second, the study only focuses on three main independent variables, while other potential factors such as audit tenure, audit fee, time pressure, and organizational culture were not included in the model. Third, the research scope is limited to auditors working in Public Accounting Firms in Indonesia, which may limit the generalizability of the findings to other contexts or countries. Therefore, future research is recommended to include additional variables, expand the sample size, and consider crosscountry comparisons to obtain more comprehensive results regarding audit quality determinants.

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