

Determinant Independence of Auditors of Public Accounting Firm

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Abstract. This study aims to examine the independence of auditors. The theory used in this study is the theory of individual-situation interaction (Person-Situation Interactionist Theory). The research approach is quantitative. The research data was obtained by distributing questionnaires. The sampling method is purposive sampling. The sample is auditors of public accounting firms. The data analysis technique used is a regression with a moderation variable. The results showed that ethical culture and religiosity affect auditor independence, but professional commitment does not affect auditor independence. Ethical culture and religiosity turned out not to be moderating variables but independent variables.

Keyword: Independence, auditor, religiosity, ethical, and culture.

1 Introduction

In the business world, users of corporate financial statements rely heavily on auditors to provide reports and opinions on audits conducted so that the information generated can be used in the decision-making process by those who need it. The reports and opinions issued by auditors will be questioned and their reliability will be reduced if there are indications of impaired independence [1]. Auditor independence is a mental attitude that does not take sides with anyone, in any condition and situation, both independence in fact and independence in appearance, so that it reflects personal integrity. The opinions issued by auditors are only useful if the auditor is independent of the client, both in fact and in appearance [2]. Independence, in fact, is an objective mental attitude about the auditor, while independence in appearance is a perception by reasonable observers that the auditor does not have a relationship with the audit client that will cause a conflict of interest [3].

The importance of auditors acting independently in conducting audits so that they can work freely [objectively] without any collision and pressure from anywhere. The independence shows "the auditor's ability to resist client pressure," but the client applying pressure to the accounting firm does not look at large accounting firm or small accounting firm [4]. The one should not conclude that large accounting firm will be immune to pressure from clients, such as cases or accounting manipulation scandals that hit Enron in the United States [5]. In such cases, the company has violated the ethics of disclosure of fictitious reporting by forming " *special purposes entities* " [6]. The violation of the auditor's code of conduct was then followed by the disclosure of other cases committed by the accounting firm, namely: Price Waterhouse Coopers [PWC], which conducted audits on Tyco, Deloitte on Adelphia, KPMG on Xerox, and Ernest and Young as auditors on Health South [PWC] [7].

Some of the accounting scandals that occurred because of a conflict of interest between the auditor and the company the men created pressure on the profession of audit [8], and raised serious concerns about the auditor's ability to resist pressure the client [9], resulting in an independence compromise on accounting issues [10], which raises important questions about auditor independence [11]. The sharp spotlight was directed at the auditor's behavior in dealing with clients who were perceived as failing to carry out their role as independent auditors so that the public and users of financial statements became doubtful and lacked confidence in the ability of the public accountant profession in maintaining its independence.

This research focuses on auditor behavior in interacting or dealing with clients. The auditor-client contractual relationship will create an auditor-client conflict of interest, causing pressure on the audit profession to be the main issue of this study. The key component in auditor independence is the nature of the auditor-client relationship, and this is the main cause of conflicts of interest in the accounting profession [5]. The conflicts of interest inherent in auditor-client relations will cause auditors to support client desires [12].

Decisions made by auditors when dealing with conflicts of interest are often not only related to technical matters but contain a lot of ethical content. The decision of auditors to act independently is one of many ethical judgments in order to practice professionally [13]. Research Independent auditors in this study need to be investigated because it will provide an explanation of the auditor's behavior when interacting or dealing with clients. This research is also important because without sacrificing auditor independence, audit results can meet the needs of users of financial statements [e.g., investors, creditors, prospective creditors, employees, government agencies, and other financial institutions] to assess the company's financial status [14].

This study uses a theory developed by the theory of individual-situation interaction [*Person-Situation Interactionist Theory*]. This theory is widely used in the context of ethical decision-making, which is an interaction of individual factors and situational factors [*person-situation interactionist models*], not on a single variable acting alone. Individual factors are *ego strength, field dependence, locus of control*, and situational factors, such as the *immediate job context, organizational culture, and characteristics of the work* [15].

Auditor Independence behavior is complex involves interaction between individual values, cognition, and situations, and provides strong support for using the interactionist approach of [15] in a model [16]. The process of impressionism and cognition is influenced by personal beliefs, which in turn is reflected in the interaction between contingency situational and cognitive processes [16].

This study uses two situational variables related to auditor independence, namely the ethical culture of the organization and the intensity of acouting firm competition and professional commitment as personal variables, which are variables of personal values. Professional commitment is a commitment and loyalty away from someone to keep and reduce professional institutions in accordance with professional codes of conduct that the profession has standardized. In the context of the public accounting profession, professional commitment is a guideline for each auditor to adhere to the principles of the accounting profession code of ethics as a basis for interacting or dealing with clients, the public, fellow accountants, and other interested parties. The professional commitment is an acceptance of professional goals and values; therefore, strong professional commitment is reflected in higher sensitivity to issues involving professional ethics, so it can be said that professional commitment is a matter of which is very important for the public accounting profession [17].

Organizational ethical culture is a specific dimension that describes how organizations behave ethically [18]. Ethical values that exist within the organization [or *organizational ethical culture, organizational ethical climate*] or often also called organizational ethical values [*corporate ethical value*], are a concern in understanding the ethical behavior of individuals within an organization. the organizational ethical culture as an organizational factor influences one's ethical behavior [15].

The audit services industry, as in other industries, is full of competition and is not spared from increasing competition among fellow audit service providers, namely between public accounting firms [19]. The market full of competition can have an impact on unethical behavior [20]. When in the market of industry there is a high level of competition, it raises the tendency of unethical behavior among market participants [21].

Based on various descriptions of this background, then several problems in this study can be formulated, namely: Does professional commitment affect auditor independence? Does the organization's ethical culture strengthen the effect of professional commitment on auditor independence? Does the intensity of competition of accounting firms' moderate constellations influence professional commitment to the independence of auditors?

2 Study Literature

2.1 Auditor Independence

The independence is the only reason for the existence of an accounting firm that provides external audits [12]. If it were not for independence claims, there would be no reason for external auditors to exist because their function would be redundant in the presence of a company's internal auditor. The auditor's independence is important. Independence is generally recognized as one of the central values or ideals that underlies the work and legitimacy of public accountants [22], as the foundation or basis of the audit profession [Gramling & Karapanos, 2008], and is a central concept in the accounting profession [8].

Independence means a mental attitude free from influence, not controlled by other parties, and not dependent on others. Independence also means that there is honesty in the auditor in considering the facts, and there are objective considerations that are not impartial in the auditor in formulating and expressing his opinion [23].

2.2 Professional Commitment

Professional commitment refers to the strength of identifying individuals with the profession. Individuals with high professional commitment are characterized by having high trust and acceptance in professional goals, a desire to do their best in the name of the profession, and a strong desire to maintain membership in the profession [24]. In particular, high professional commitment should encourage auditors to behave in accordance with the interests of the public and stay away from behaviors that endanger the profession. The professional commitment as a belief and acceptance of goals in the value of a profession, and the willingness to play certain efforts on behalf of the profession [25].

2.3 Ethical Organizational Culture

The culture in organizations is a value shared by organizational members, which tends to shape group behavior [26]. Values as an organizational culture tend not to be seen, so it is difficult to change. The norms of group behavior that can be seen, illustrated in the behavior patterns and styles of organizational members, can relatively change. If organizational culture is the cultural values that members believe in the organization, then organizational ethical culture is a specific dimension that describes how organizations behave ethically [Key, 1999].

The research results state that a professional's ability to understand and be sensitive to ethical issues in his profession is influenced by the cultural or community environment in which the profession is located, the professional environment, the organizational environment and personal experience [27].

2.4 Religiosity

Religiosity is committed individuals to religion and teachings - teachings including commitments based on attitudes and behavior of individuals [28]. Religiosity is a description of the attitude/nature of ethical behavior [29]. Religiosity also has an effect on a person's behavior or attitude [30]. The auditor religiosity affects audit quality [31].

3 Research Methods

This study explores the independence of auditors in situations of conflict of interest. The approach used is a quantitative *positivistic* approach using survey methods as a data collection tool. The study population was senior auditors working at accounting firm Surabaya and Gresik. Senior auditors who conduct audits on companies are selected as populations because senior auditors interact more frequently with clients. The senior auditor in charge of conducting the audit is responsible for committing the audit fee and audit time according to plan. The sampling technique in this study is based on the sample of clusters [*purposive sampling*] with criteria auditors public accounting firms.

The research instrument consists of four variables: auditor independence, auditor professional commitment, organizational ethical culture, and religiosity. The instrument is attached in appendix 1. Auditor independence is measured by 15 questions [32]. Professional commitment is measured by 15 question items [17]. The ethical culture of an organization is measured by 5 question items [33]. Religiosity is measured by 15 question items [34].

4 Research results

4.1 Descriptive Statistics

Research respondents obtained as many as 39 respondents. Variable independence has an average of 5.53. This means that the respondent has a fairly high level of independence. The variable professional commitment has an average of 5.37, and this means the response and the average have a high level of professional commitment. Ethical culture variables have an average of 5.75. This case, respondents have a high level of ethical culture. Variable religiosity has an average level of 5.67. This means that the respondent has level high of religiosity.

Table 1 Descriptive

| | N | Min | Max | Mean | Std. Dev |
|--------------------|----|------|------|--------|----------|
| Independence | 39 | 2,63 | 7,00 | 5,5256 | 0,95593 |
| Professional | 39 | 3,50 | 6,60 | 5,3718 | 0,66647 |
| Ethical culture | 39 | 3,40 | 7,00 | 5,7538 | 0,99680 |
| Religiosity | 39 | 3,70 | 6,80 | 5,6718 | 0,76087 |
| Valid N [listwise] | 39 | | | | |

4.2 Model I Regression Results

Table 2: The Model I of Regression Results

| Variables | Unstandardized Coefficients | | Standardized Coefficients | | Sig. |
|-----------|-----------------------------|------------|---------------------------|---|------|
| | B | Std. Error | Beta | t | |

| | | | | | |
|-----------------|-------|------|------|--------|------|
| [Constant] | -,848 | ,698 | | -1,216 | ,232 |
| Professional | ,123 | ,162 | ,086 | ,760 | ,452 |
| Ethical culture | ,294 | ,113 | ,306 | 2,602 | ,013 |
| Religiosity | ,709 | ,171 | ,565 | 4,139 | ,000 |

The results of the model I test show that professionalism has a significance of 0.452 greater than alpha 0.05 and a coefficient of 0.123. This means that professional commitment does not have a significant effect on auditor independence. Ethical culture has a level of significance that amounted to 0,013, smaller than 0.05, and a coefficient of 0.294. This means that ethical culture has a positive influence on auditor independence. Giusitas rally has a significance value of 0,000 less than 0.05 and a coefficient of 0.709. This means that religiosity has a positive relationship with auditor independence.

4.3 Model II Regression Results

Model II test results show that the commitment to professionalism has a significance of 0.683 greater than alpha 0.05 and a coefficient of 0.100. This means that professional commitment does not have a significant effect on auditor independence. Ethical culture has a level of significance that amounted to 0,040, smaller than 0.05, and a coefficient of 0.281. This means that ethical culture has a positive influence on auditor independence. Religiosity has a significance value of 0.004, less than 0.05, and a coefficient of 0.753. This means that religiosity has a positive relation with auditor independence. The interaction of professional commitment and ethical culture has a significant level of 0.879, greater than 0.05, and a coefficient of 0.033. This means that ethical culture is not a moderating variable but an independent variable. The interaction between professional commitment and religiosity has a significance level of 0.794, greater than 0.05, and a coefficient of -0.071. This means that religiosity is not a moderating variable but more appropriate as an independent variable.

Table 3 The Model II of Regression Results

| Variables | Unstandardized Coefficients | | Standardized Coefficients | | |
|-----------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | t | Sig. |
| [Constant] | -,889 | ,840 | | -1,058 | ,298 |
| Professional | ,100 | ,243 | ,070 | ,412 | ,683 |
| Ethical culture | ,281 | ,131 | ,293 | 2,138 | ,040 |
| Religiosity | ,753 | ,243 | ,599 | 3,096 | ,004 |
| Commitment | ,033 | ,212 | ,018 | ,154 | ,879 |
| COM_REL | -,071 | ,270 | -,035 | -,263 | ,794 |

5 Discussion

The results of the professional commitment commitments have no effect on auditor independence. The commitment to one's client does not necessarily result in a loss of commitment to the core professional value of independence [8]. Changes in the work context have contributed to the demise of ethics among professional accountants. An accountant who works outside public accountants has a higher commitment to independence than an accountant who works in the context of public accounting firms. Accountants in large international accounting firms [i.e. the "Big Four"] report lower commitment to auditor independence than others in public accounting. And older accountants report a stronger commitment to auditor independence. However, one finding contradicts the general thesis.

Research that are based on survey responses from 122 auditors in Spain, to analyze the combined effects of the variables studied, the variance-based structural equation modeling [partial least squares, PLS] is used to do by [35]. The results showed that regulatory efforts to improve auditor behavior by enforcing independence rules had been internalized by auditors. The results also reinforce the need to instill the social responsibility of professional auditors because the auditors' public interest commitments are related to their ethical decision-making [35].

Ethical culture test results show a significant effect on auditor independence. The results of this research are consistent with research conducted by [35]. Results of the research revealed that the company's ethical culture impacts the auditor's commitment to the public interest and ethical decision-making. His studies have practical implications for audit professionals, regulators and audit firms. Understanding auditor beliefs and behavior patterns are very important to propose mechanisms that enhance the ethical behavior of auditors, which in turn can improve audit quality.

The religious test results show there is a significant influence on independence. The results of this study are consistent with the results of the study [36]. The results show that religiosity can affect the level of auditor independence only on the client's weak economic conditions, and the same applies to morality as well. There is no evidence that there is an interactive effect between religiosity and moral development that affects the level of auditor independence.

The result of an ethical culture as a moderating variable between commitment to professionalism and independence did not show a significant effect. Likewise, religiosity is not a moderating variable of the relationship between professional commitment and auditor independence. These results are consistent with the results of the study [36]. The results show that there is no evidence that there is an interactive effect between religiosity and moral development [ethical culture] that affects the level of auditor independence.

6 Conclusions

Ethical culture and religiosity have a significant influence on auditor independence. Professional commitment does not have an influence on auditor independence. Ethical and religious culture is not a moderating variable in the relationship between professional commitment and auditor independence. Ethical culture and religiosity are independent variables that influence auditor independence. The results of this study indicate the importance of increasing religiosity and ethical culture in order to increase auditor independence.

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