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THE EFFECT OF AUDITOR COMPETENCE AND INDEPENDENCE ON AUDIT QUALITY: THE MODERATING ROLE OF AUDIT FEES (A CASE STUDY OF PUBLIC ACCOUNTING FIRMS IN BANDUNG)

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Abstract:

The purpose of this study is to evaluate various aspects of audit quality in Indonesia, with a particular emphasis on auditor competence, independence, and audit costs at public accounting firms in Bandung. A quantitative approach is applied using descriptive, associative, and causal methods. To collect data, auditors from 17 randomly selected public accounting firms were used as respondents in a closed-ended questionnaire based on a Likert scale. The data were analyzed using SEM-PLS techniques together with the SmartPLS 4 tool. The results of the analysis showed that auditor competence and independence greatly influence audit quality. Conversely, audit fees do not significantly affect audit quality, but they weaken the relationship between competence and audit quality. Meanwhile, audit fees do not moderate the relationship between independence and audit quality. These findings highlight the crucial role of auditor competence and objectivity in maintaining high audit quality, in line with Attribution Theory. Practically, companies should invest in improving auditor skills, ensure auditor independence, and establish audit fees that are fair and proportional. Future studies are encouraged to adopt a mixed-method approach.

Keywords: Audit Quality, Competence, Independence, Audit Fee, Public Accounting Firm

INTRODUCTION

The decline in audit quality in Indonesia has become a pressing concern, as evidenced by multiple violations committed by Public Accounting Firms and individual Public Accountants. In early 2024, the Financial Services Authority (OJK) imposed administrative sanctions on the Public Accounting Firm Anderson and auditor Anderson Supari for violating Article 21 of POJK Number 9 of 2023 concerning audit quality control standards (www.ojk.go.id). A similar case was found at PT Wanaartha Life, where data manipulation worth Rp12.1 trillion was uncovered. Auditor Nunu Nurdiyaman and KAP KNMT received serious sanctions for violating POJK 13 of 2017, and Jenly Hendrawan was declared unqualified under applicable OJK regulations.

Another major case involved the Public Accounting Firm Tanubrata Sutanto Fahmi Bambang & Partners in their audit of PT Garuda Indonesia. The auditors were found to have acknowledged unrealized revenue and violated key auditing standards, including SA 315 (identifying and assessing risks of material misstatement), SA 500 (audit evidence), and SA 560 (subsequent events). As a consequence, the Ministry of Finance suspended its auditing license in 2019. These violations reflect significant lapses in adherence to professional auditing standards and regulatory expectations. Competent and independent auditors can conduct audits professionally and produce reliable reports (Maulana, 2020). However, in reality, there are still auditors who fail to detect errors or fraud in financial statements.



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Several contributing factors have been identified in the decline of audit quality, notably low levels of auditor competence and independence. Another major factor is the determination of audit fees. Inappropriately low audit fees may lead to reduced audit efforts and inadequate procedures, ultimately lowering audit quality. On the other hand, excessively high audit fees may create financial dependence, which can undermine the auditor's objectivity and independence (Indahsari et al., 2023)

Ideally, competent and independent auditors should be able to conduct audits with professionalism and produce accurate, reliable financial reports (Maulana, 2020). The audit opinion highly depends on the quality of the audit conducted by the Public Accounting Firm, as it serves as the final representation of the entire audit process, reflecting the auditor's level of diligence, objectivity, and integrity (Kusuma Natita et al., 2023). However, in practice, there are still auditors who fail to detect material misstatements or fraudulent activities in financial reports. Such failures not only diminish public trust in the auditing profession but also highlight the ongoing challenges in enforcing strict audit standards and professional ethics.

Table 1. Sanctioned Public Accounting Firms

No.	Public Accounting Firm	Sanction	Source
1.	Andersen Subri & Partners Public Accounting Firm	Sanctioned by OJK for non-compliance with regulations and a lack of quality control in audits. The firm was suspended and prohibited from offering audit services during the sanction period.	OJK Jatuhkan Sanksi ke KAP Andersen Subri, Larang Audit Laporan Keuangan www.cnbcindonesia.com
2.	Kosasih, Nurdiyaman, Mulyadi Tjahjo & Partners (KNMT)	Sanctioned for audit violations related to WAL's financial reports (2014–2019), failing to disclose high-risk insurance products. Violated POJK No. 13/2017.	OJK Jatuhkan Sanksi ke KAP KNMT Gara-gara Laporan Keuangan WAL 2014-2019 www.cnbcindonesia.com
3.	Tanubrata, Sutanto, Fahmi, Bambang & Partners is part of the BDO International network, reflecting its connection to a global auditing standard.	Sanctioned for recognizing unearned revenue in Garuda's audit. Violated SA 315, 500, and 560. Received a one-year suspension from both MoF and OJK.	Pelanggaran SA 315-560: KAP Tanubrata Sutanto Dibekukan Setahun Akibat Pendapatan Fiktif www.cnbcindonesia.com
4.	Satrio, Bing, Eny & Partners	Sanctioned for issuing WTP opinion on misleading financial statements of PT SNP. Registration revoked; the firm was banned from taking new clients.	OJK Cabut Izin KAP Satrio Bing Eny Kasus Laporan Keuangan PT SNP www.cnbcindonesia.com

Source: www.cnbcindonesia.com 2024

The table of sanctions imposed on Public Accounting Firms reveals that professional standard violations remain widespread. These include inaccurate revenue recognition, misleading audit opinions, and non-compliance with standards such as SA 315, SA 500, and SA 560. It reflects low

audit quality, primarily caused by inadequate auditor competence and independence. (Mahendra & Soedibyo, 2023).

The PPPK inspection results from the third quarter of 2022 showed that 61 % of the 926 findings were violations of professional standards, most commonly found in SA 500, SA 315, and SA 530. Despite the increasing number of public accountants, most are over 50 years old, and serious violations continued to rise in 2023, one of which is linked to low audit fees.

It agrees with the conclusions drawn in the studies of (Septiana & Jaeni, 2021) and (Noormansyah, 2024), which show that auditor competence has a positive effect on audit quality. In contrast, studies by Lele Biri (2019) and Hasan Farid (n.d.) indicate that competence does not have a significant impact on audit quality. A similar situation occurs with the independence variable, where research results remain inconsistent. The study conducted (Ali Zaputra & Marlina, 2022) shows that independence has a significant influence on audit quality. However, varying conclusions in existing literature indicate a gap that warrants further study to clarify how auditor independence affects audit quality.

METHODS

Employing a quantitative design with descriptive and associative perspectives, this research explores the impact of auditors' competence and independence on audit quality, moderated by audit fees. Primary data were gathered by distributing surveys to participants.

All Public Accounting Firms (KAP) in Bandung City registered with the Indonesian Institute of Public Accountants (IAPI), totaling 35, constitute the study's population. The sampling method adopted is probability sampling using a simple random technique, giving equal selection chances to every firm. The research utilized the entire population as its sample, with data collected through Google Forms. The instrument used in this study is a Likert scale questionnaire, which measures the respondents' perceptions of the research variables. The instrument is tested for validity (convergent and discriminant validity) and reliability (Cronbach's Alpha and Composite Reliability) to ensure data quality.

Data analysis in this research is carried out using inferential statistical techniques based on the Structural Equation Modeling (SEM) method, implemented through SmartPLS 4 software (Ghozali, 2024). The process includes multiple stages of data handling and analysis.

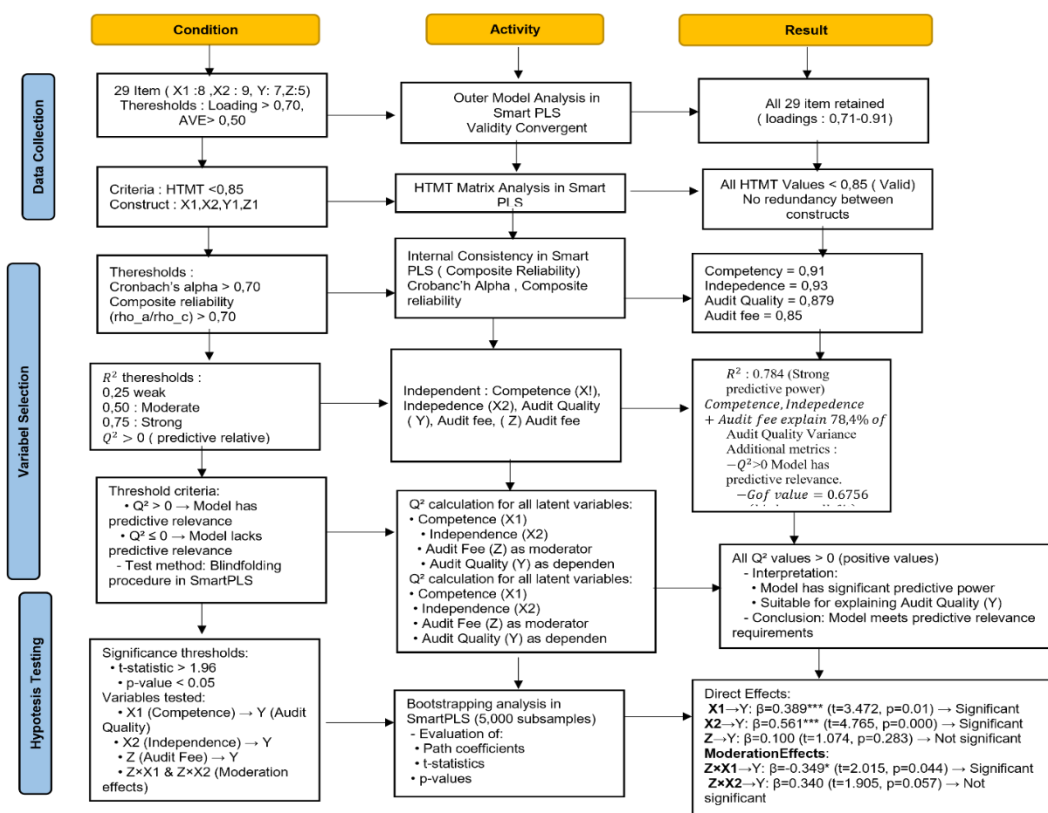
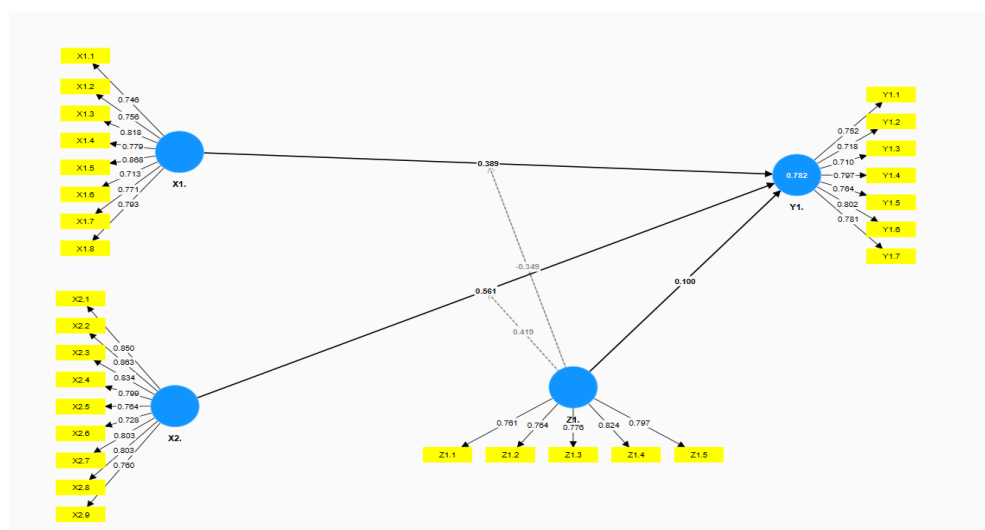


Figure 1. Diagram Condition-Activity-Result Methodology



Source: SmartPLS 4 Output, processed (2025)

Figure 2. PLS Algorithm Final Evaluation Result

Discriminant Validity Test Result. Discriminant validity was assessed using the HTMT (Heterotrait-Monotrait Ratio) criterion, which is among the most recommended and up-to-date methods in PLS-SEM.



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HTMT value < 0.85 (or < 0.90 in some literature) \rightarrow Discriminant validity is satisfied; constructs are empirically distinct.

HTMT value ≥ 0.85 (or ≥ 0.90) \rightarrow Discriminant validity is not satisfied; constructs may not be truly different.

Table 2. Discriminant Validity Test Results

Discriminant validity - Heterotrait - Monotrait ratio (HTMT) - Matrix						
	X1.	X2.	Y1.	Z1.	Z1. x X2.	Z1. x X1.
X1.						
X2.	0.573					
Y1.	0.806	0.796				
Z1.	0.386	0.346	0.431			
Z1. x X2.	0.052	0.190	0.099	0.165		
Z1. x X1.	0.078	0.066	0.097	0.244	0.733	

Source: SmartPLS 4 Output, 2024

Based on Figure 2, all HTMT values are below 0.85, which means all constructs Competence, Independence, Audit Quality, and Audit Fee, are empirically distinct. It indicates the model is valid in terms of construct separation.

Reliability Test (Cronbach's Alpha). Internal consistency of constructs was measured through reliability testing using Cronbach's Alpha and Composite Reliability. According to (Ghozali, 2024), a construct is considered reliable when it meets the following conditions:

Cronbach's Alpha > 0.70

Composite Reliability > 0.70

Table 3. Reliability Test Results

Variable	Cronbach's Alpha	rho_A	Composite Reliability
Competence	0.91	0.917	0.926
Independence	0.93	0.933	0.942
Audit Quality	0.879	0.882	0.906
Audit Fee	0.85	0.861	0.892

Source: Processed SmartPLS 5 Output, 2025

From the table above, all variables have high reliability, with values > 0.85 . It indicates the instruments used are internally consistent and reliable.

Structural Model Test (Inner Model). The structural model test evaluates the causal relationship between latent variables using the following criteria:

- R-Square (R^2)
- Q-Square (Q^2)
- Goodness of Fit (GoF)

R-Square Test Result.

Table 4. R-Square Test Result

Variable	R-Square
Audit Quality	0.784

Source: SmartPLS 4 Output, 2025

The R-Square value = 0.784, which means that 78.4% of the variance in Audit Quality can be explained by the independent variables Competence, Independence, and the moderating variable Audit Fee.

Table 5. Q-Square Test Result

Construct cross-validated redundancy - Total.			
	SSO	SSE	Q ² (=1-SSE/SSO)
X1.	488.000	455.285	0.067
X2.	549.000	517.671	0.057
Y1.	427.000	250.818	0.413
Z1.	305.000	305.000	0.000

Source: Processed SmartPLS 5 Output, 2025

This model is considered to have good predictive ability, as seen from all latent variable Q² values greater than 0. It means the constructs used are relevant in explaining the variation in the dependent variable (Audit Quality).

Goodness of Fit (GoF) Test Result. GoF is used to assess the overall model fit and its capability to explain empirical data (Ghozali, 2015).

The value is calculated using the formula:

$$\text{GoF} = \text{Average AVE} \times R^2$$

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AVE Values:

$$\text{Competence} = 0.612$$

$$\text{Independence} = 0.642$$

$$\text{Audit Quality} = 0.580$$

$$\text{Audit Fee} = 0.622$$

$$\text{Moderation (Z*X1)} = 1$$

$$\text{Moderation (Z*X2)} = 1$$

$$R^2 = 0.784$$

$$\text{Average AVE} = (0.612 + 0.642 + 0.580 + 0.622 + 1 + 1) / 6 = 0.7427$$

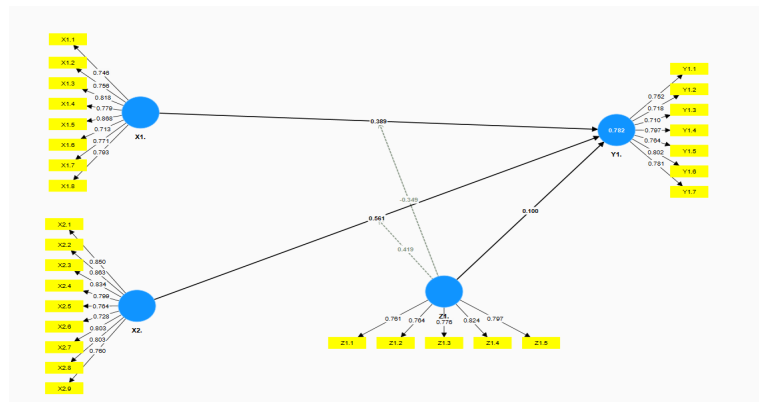
$$\text{Gof} = \sqrt{\text{Com} \times R^2}$$

$$= \sqrt{\frac{0,612 + 0,642 + 0.58 + 0.622 + 1 + 1}{6}} \times 0.78$$

$$= 0,6756$$

Interpretation: GoF = 0.6756 → indicates high overall model fit (above 0.36 threshold).

Hypothesis Testing Results. This study used the bootstrapping method in SmartPLS to evaluate the influence of constructs. To test the hypotheses, the coefficient of determination and t-statistic values were analyzed, and a p-value under 0.05 was used as the threshold for acceptance. The following figure displays the bootstrapping results generated using SmartPLS.



Source: SmartPLS Output 4, 2025

Figure 3. Bootstrapping Test Results

P-values and T-statistics are used in the bootstrapping process to utilize the path coefficient output to identify the extent to which independent variables contribute to the variation in the dependent variable. Variables or whether moderator variables strengthen or weaken the relationship between the two. The bootstrapping results with T-statistics and P-values are shown in the following table.

Table 6. Path Coefficient Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic (O/STDEV/)	P Values
X1.->Y1.	0.389	0.396	0.112	3.472	0.001
X2.->Y1.	0.561	0.54	0.118	4.765	0
Z1.->Y1.	0.1	0.121	0.094	1.074	0.283

Source: SmartPLS Output 4, 2025

Based on Table 6, the results of hypothesis testing on the direct influence using bootstrapping can be explained as follows:

1. The analysis results show that the Competence variable (X1) has a positive effect on Audit Quality (Y) with a path coefficient of 0.389. The T-statistic value of 3.472 (>1.96) and significance of 0.01 (<0.05) confirm a statistically significant effect.
2. The research findings reveal that Independence (X2) has a strong positive influence on Audit Quality (Y) with a coefficient of 0.561. It is supported by a T-statistic value of 4.765 (>1.96) and a significance level of 0.000 (<0.05), indicating a highly significant relationship.
3. For the Audit Cost (Z) variable, although it shows a positive path coefficient of 0.100 on Audit Quality (Y), the T-statistic value of 1.074 (<1.96) and significance level of 0.283 (>0.05) indicate that the influence is not statistically significant.

Moderation Test Results.

Table 7. Moderation Path Coefficient Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic (O/STDEV/)	P Values
Z1. x X2. -> Y1.	0.419	0.34	0.22	1.905	0.057



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Z1. x X1. -> Y1.	-0.349	-0.277	0.173	2.015	0.044
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Source: SmartPLS Output 4, 2025

1. The results of the moderation analysis revealed that Audit Costs (Z) significantly moderated the effect of Competence (X1) on Audit Quality (Y), with an interaction coefficient of -0.349 ($T=2.015 > 1.96$; $p=0.044 < 0.05$). These findings indicate that Audit Costs play a significant moderating role in this relationship.
2. In contrast to the previous finding, the moderating effect of Audit Costs (Z) on the relationship between Independence (X2) and Audit Quality (Y) is not statistically significant, although it shows a positive coefficient of 0.340 ($T=1.905 < 1.96$; $p=0.057 > 0.05$). Thus, Audit Costs were not found to moderate the relationship between Independence and Audit Quality.

RESULT AND DISCUSSION

Competence as a Determinant of Audit Quality. Statistical analysis proves a significant positive influence between auditor competence and audit quality. The T-statistic value exceeds the threshold of 1.96, and the P-value is below 0.05, indicating that the hypothesis is accepted. This finding not only supports the proposed hypothesis but also confirms the theoretical proposition that an increase in auditor competence is directly proportional to an increase in audit quality through three main mechanisms: risk identification ability, proper execution of audit procedures, and reliability of audit results.

Independence as a Determinant of Audit Quality. The analysis indicates that auditor independence has a significant positive effect on audit quality. The statistical test results show that independence meets the requirements for hypothesis acceptance. It suggests that independent auditors are more likely to maintain objectivity, perform their duties fairly, and produce accurate audit reports. Independence is essential to ensure that external parties do not influence auditors during the audit process.

Audit Fee Impact on the Quality of Audit Services. Statistical analysis revealed no significant effect of audit fees on audit quality. The T-statistic value is below 1.96, and the P-value is greater than 0.05, meaning the hypothesis is rejected. This finding rejects the initial hypothesis and implies that non-monetary variables such as professional integrity and compliance with auditing standards may play a greater role in ensuring audit quality than the amount of audit fees.

The Moderating Role of Audit Fees Between Auditor Competence and Audit Quality. The moderation analysis indicates that audit fees (Z) significantly moderate the relationship between auditor competence (X1) and audit quality (Y), with an interaction coefficient of -0.349. It is evidenced by a T-statistic of 2.015 (exceeding the 1.96 threshold) and P-value of 0.044 (below $\alpha=0.05$), statistically confirming the moderating effect. These findings demonstrate that audit fees serve as a significant moderator variable influencing the competence-audit quality association.

The Moderating Role of Audit Fees Between Independence and Audit Quality. The moderation test results indicate that audit fees (Z) do not significantly moderate the relationship between auditor independence (X2) and audit quality (Y). It is evidenced by a non-significant moderation coefficient of 0.34 ($T\text{-Statistic} = 1.905 < 1.96$; $P\text{-Value} = 0.057 > 0.05$). Therefore, it can be concluded that audit fees do not play a relevant moderating role in the independence-audit quality relationship, neither strengthening nor weakening its effect.



CONCLUSION

Using a case study at a public accounting firm in Bandung, this study aims to examine the relationship between competence and independence on audit quality, with audit costs as a moderating variable. The respondents consisted of 61 junior auditors, senior auditors, supervisors, managers, and partners. The data were analyzed using SmartPLS 4. The hypothesis testing results led to the following conclusions:

Auditor competence markedly influences audit quality, as heightened expertise correlates with superior outcomes. It underscores the pivotal role of technical proficiency and experiential knowledge in ensuring audit reliability.

Effect of Independence on Audit Quality. The analysis confirms that auditor independence significantly affects audit quality. Professionals who maintain independence demonstrate superior capability in conducting objective and unbiased assessments, thereby positively enhancing audit outcomes.

Non-Significance of Audit Fees. The study reveals no significant impact of audit fees on audit quality. It implies that financial compensation levels do not determine audit quality, as auditors consistently apply professional standards and ethical principles unaffected by monetary factors.

Moderating Role of Audit Fees. Audit fees serve as a statistically significant moderator in the competence-audit quality relationship. The analysis demonstrates that fee structures can amplify or attenuate the effect of auditor competence on audit quality, with the moderating effect being statistically significant in this study context.

Audit fees do not moderate the effect of independence on audit quality. The audit fee received does not influence the relationship between independence and audit quality. Independence remains an internal factor that consistently contributes to audit outcomes regardless of fee levels.

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