The Influence of Educational Background and Ethics on Audit Quality: A Case Study in PWC, EY, Deloitte, and KPMG

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ABSTRACT
Good audit quality is determined by the quality of human resources as well. So from this study will look at the basic things that must be owned by auditors namely education and ethics. This study is intended to determine the effect of educational and ethical backgrounds on audit quality. Respondents in this study were auditors working in Big4 KAP, PWC, Deloitte, EY and KPMG. This study uses primary data collected using a questionnaire. Collecting data using convenience sampling technique. One hundred and twenty questionnaires were distributed to the Big4 KAP where each KAP received 30 questionnaires. From the questionnaire distributed which can be processed are 74 questionnaires. The data analysis technique used is Multiple Linear Regression. The results show that the Education Background and Ethics influence positively Audit Quality.

Keywords: Audit Quality, Educational Background, and Ethics.

Abstrak

Kata Kunci: Kualitas Audit, Latar Belakang Pendidikan, dan Etika
INTRODUCTION

The auditor is a profession that upholds the independence, integrity, honesty, and objectivity and is required to provide information that is relevant, accurate and timely (Cahyani, 2015). The trust to the Public Accounting Offices requires them to pay attention to its quality, but the proliferation of audit scandals that have occurred both inside and outside the country has a major impact on public trust in the public accounting profession (Bawono & Singgih, 2010). As an example of a case that was published in the online media (https://bisnis.tempo.co, 2017) regarding the public accounting firm Ernst & Young partners in Indonesia, namely Purwantono, Suherman & Surja paid a fine of $ 1 million USD (approximately 13.3 billion IDR) to US regulators due to failing to conduct financial statement audits. EY released an audit report with unqualified status where after that it was found that the audit results were not supported by accurate data in terms of leasing more than 4 thousand cellular tower units.

A similar case occurred in September 2008 in which the largest investment bank in America, Lehman Brothers, revealed that a bank founded by three Lehman brothers had been proven to have made financial engineering to hide loan dependence. Ernst & Young, which handled Lehman Brothers, was also dragged into the case where it issued an unqualified opinion for Lehman which should provide an early warning in the opinion so that interested parties in audited financial statements were not misled in making investment (N Ardiani, E. Nur DP; N. Azlina, 2012). Other auditing scandals have occurred in the case of Enron Corporation in which the firm Arthur Anderson gives an unqualified opinion on the financial statements of Enron Corporation who not long after the Enron bankruptcy.

Based on various existing cases, the integrity, objectivity, and performance of an auditor began to be doubted. Thus, the quality of an auditor should be considered in order to restore the trust of the public accounting firm. That trust must be maintained to proving professional performance.

Professionalism provided is inseparable from quality human resources (HR) as well. Quality and competent resources will provide an important role in completing existing tasks, including presenting information about financial statements. Human resources are important factors for the creation of quality financial reports. Incompetent human resources will not complete their work efficiently, effectively, and economically so that it can take time and energy (Indayani, Sujana, Luh, & Ermi, 2015). The quality of HR auditors can be determined from educational and ethical backgrounds that will affect audit quality.

A good auditor performance will produce good audit quality and increase public trust. In terms of ethics, a profession must have morals and obey the rules that have been formed in each profession. These rules constitute a code of ethics in carrying out or carrying out the profession. The code of ethics must be adhered to by every profession because it is a tool of trust for the community. Every profession must obey the ethics of the profession especially concerning the matter of the wider community, as an auditor must have good ethics in carrying out his duties (Cahyani, 2015).

Ethics is one of the factors that affect the quality of the audit. With the ethics formed in a code of conduct is expected to regulate the behavior of people in doing a job (Wulandari, 2018). The audit by adhering to existing ethics will improve the quality standards of the work carried out so that the audit results are more qualified (Kadhafi, 2013).

Ethics is not the only factor affecting the quality of the audit. Another factor is education that can support audit quality. The level of formal education is very important in supporting the competence of an auditor in carrying out his duties. Auditors who have a good formal education
will affect the results of the audit (Indayani et al., 2015). With formal education, someone in his life will be someone who is moral and cultured, and with have a formal education someone will be easy to understand and understand what they have to do or do in a job (Muzahid, 2004).

This opinion is directly proportional to the results of Subhan's research (2012) which tests the influence of educational background, competence, technical, continuing education and training and work experience on the quality of examination results. The results showed that the educational background partial significant effect on audit quality produced. Research conducted by Mulyono (2009) also shows the significant influence of educational background on audit quality. But it is different from the opinion of Batubara (2008) and Ayuni (2008) in their research which also tests the influence of educational background on audit quality, showing the results have no significant effect between educational background on the quality of audits produced.

Simunic (1980) in Gray (2010), argues that accounting services in Public Accounting Firm provides different quality, with the brand name auditors (Big 4 auditors) are being more trusted. Larger accounting firms have a larger portfolio of clients.

Big 4 accounting firms have more experience in administering the audits of public companies (SEC registrants). Big 4 will gave material greater in detecting problems in the financial statement of the clients. Whereas, auditors of smaller accounting firms have less experience and less skills in detecting such problems (Francis, 2009).

From several reasons above based on previous research, researchers are interested in examining the influence of educational and ethical backgrounds on audit quality. The researcher took the study with the title, "The Influence of Educational Background and Ethics on Audit Quality: A Case Study in PWC, Deloitte, EY, and KPMG".

**REVIEW OF RELATED LITERATURE**

**Educational background**

Background according to the Big Indonesian Dictionary (KBBI) is the basis of an action regarding events to supplement information that has previously been received. While education is human maturity through teaching and training and changing human behavior in it (KBBI).

To get adequate knowledge a person needs education, the higher a person's education or the more appropriate one's education, the more knowledge possessed, so that in accordance with increasingly diverse global developments (Meinhard et al., 1987 in Dharmawan, 2014). Kusharyanti (2003) states that auditors must possess the following knowledge, namely:

1. The general auditing knowledge.
2. Functional area knowledge.
3. Knowledge of the particular industry.

Dewi (2010) in Putri & Hariadi (2019) states that one of the requirements to get permission establish Accounting Firm in accordance with the rules permit that was issued by the finance minister that has at least three auditors with formal education levels of the lowest areas of accounting degree in Diploma Three (D-III). This confirms that one of the requirements to be an auditor is to have a formal education of at least a Diploma of three (D-III). The auditor is also required to have a certificate certifying that he has passed a valid Public Accountant professional examination in accordance with what is stated in the *UU Akuntan Publik No. 5 Tahun 2011 Pasal 6*. Government Regulation No.20 Tahun 2015 about *Praktik Akuntan Publik Pasal 6 ayat 1* states that Public Accountants must maintain competence by attending *Pendidikan Profesional*
Berkelanjutan in a certain number of continuing professional education credit units. Then, Pendidikan Profesional Berkelanjutan, referred to in this regulation is education organized according to Government Regulation No. 20 of 2015 concerning the Practice of Public Accountants Pasal 7 ayat 1 that the Professional Association has the authority to hold "Pendidikan Profesional Berkelanjutan".

Auditor Ethics

Ethics are values or norms of behavior in society that can be accepted by a group or individual (Sukamto, 1991). According to Suseno Magnis (1989) and Sony Keraf (1991) that ethics is different from morality. Morality is how one must live as a human being. Morality is a human rule in how to live and act in life as a good human and avoid bad behavior. While the ethics talk about values and moral norms that determine human behavior in life. Based on the expected ethics, the code of ethics was formed as a pattern of its own rules.

To be declared a professional auditor, an auditor must have a code of ethics that regulates norms. Related to auditor independence, SA 200 Section 18 letter a No. 15 Part A of the Code of Ethics establishes the basic principles of professional ethics that are relevant to auditors when carrying out an audit of financial statements and provides a conceptual framework for applying these basic principles. The basic principles that must be obeyed by auditors according to the Code are as follows:
(a) Integrity;
(b) Objectivity;
(c) Professional competence and accuracy;
(d) Confidentiality; and
(e) Professional Behavior.

Audit Standards

Audit standards are rules or performance set by the Indonesian Institut Akuntan Publik Indonesia (IAPI) covering 3 parts:

General Standards

1) The auditor must have adequate expertise and training as an auditor.
2) The auditor must maintain mentality of all things in the engagement relationship.
3) The auditor in auditing and reporting should carry out with careful and thorough.

Field Worker Standards

1) The work of the audit must be planned well and when using the assistant then it should be supervised by a supervisor /
2) Internal control must be well understood in order to conduct audit planning properly.
3) Competent audit evidence must be obtained through observation inspection, request for information, and confirmation as an adequate basis to be able to provide an opinion statement on the audited financial statements.

Reporting Standards

1) The audit report must state whether the financial statements have been prepared in accordance with generally accepted accounting principles.
2) The results of the auditor's report must be consistent, if there is inconsistency in the application of accounting in the preparation of the current period's financial statements with the application in the previous period.
3) The financial statements must be reported informative unless otherwise stated in the auditor's report.
4) The auditor's report must contain statements of opinion regarding the financial statements as a whole.

**Audit Quality**

Audited financial statements are important because they are needed by users of financial statements for decision making by a company. In auditing the client's financial statements an auditor must maintain the quality of the financial statements with existing procedures in accordance with applicable standards so as to maintain the reputation and good name of the independent auditor's place. According to IAASB (2011) audit quality is the dependence of audit opinions provided by independent auditors after gathering and checking reliable audit evidence to users of financial statements.

LE DeAngelo (1981) states that audit quality is the auditor's disclosure of what has been found and reports violations that occur in the client's accounting system. Audit quality is needed by companies to assess the performance of a company. Audit quality allows the auditor to find and report what is happening in the client's accounting system. According to IAASB (2011) Audit quality is a reliable audit opinion for users of financial statements.

The AAA Financial Accounting Standards Committee (2000) states: "Good quality audits require both competence (expertise) and independence. These qualities have direct effects on actual audit quality, as well as potential interactive effects. In addition, users' financial statements' perception of audit quality are a function of their perceptions of both auditors' independence and expertise."

Knechel et al. (2012) states that users of financial statements will conduct an evaluation of audit quality with the auditor's ability to detect material misstatements and the auditor's actions after detecting it.

*Ikatan Akuntan Indonesia* (IAI) states that the quality of the audit carried out if it is in accordance with existing standards. Wardina (2015) to improve audit quality it is necessary to:

a. Improve his professional education.
b. Maintaining independence in mental attitude.
c. Carry out audit tasks using their professional skills carefully.
d. Conduct audit planning.
e. Understand the client's internal structure.
f. Auditor competence and adequacy of evidence obtained.
g. The audit report must be in accordance with the actual situation.

The audit quality indicators stated SPAP, SA seksi 411, (PSA No. 72, 2001) as follows:

a. Timeliness in completing the audit.
b. Auditing standard compliance.
c. Communication with the audit team with client management.
d. Planning and implementation.
e. Independence in making audit reports.

**Conceptual Framework and Hypothesis Development**

This study uses three variables, two independent variables and one dependent variable. Two independent variables consist of Educational and Ethical Background. While the dependent variable is Audit Quality. The relationship between these three variables can be described in the conceptual framework as follows:
Mulyono (2009) in his research he said that educational background has a significant influence on audit quality. Subhan (2012) also in his research on the influence of educational background on quality stated that the two variables had a significant effect on audit quality. Education in question is education that is in accordance with the profession involved in the world of work. For an auditor, it requires formal education with a major in accounting. In addition to formal education there is a need to conduct training for an auditor. Training is able to assist auditors in understanding practical knowledge and its application (Mashar, 2015) in (Smartdyanda, 2018). Based on the description, the hypothesis in this study is formulated as follows:

H1: Educational background influences positively audit quality.

To measure the level of understanding of the auditor in applying ethics requires a certain size. Professional accountants in carrying out their duties have a code of ethics. Ananda (2014) states that to perform optimally audit an auditor is required to obey the code of ethics that is going to sustain ethical behavior so as to meet the principles of accountable work. Thus, the work performed by public accountants will be focused clearly and can give a decision in a responsible manner to the parties who use the results of the auditor's decision. Arens et al (2012) argue that a public accountant must be accountable to the public, clients, and fellow practitioners with good behavior and to produce good audit quality must sacrifice personal interests. Based on the above statements the following hypothesis appears:

H2: Ethics influences positively audit quality

RESEARCH METHOD
Population and Sample

Population

According to Sugiyono (2010), Population can be interpreted as an object or subject that has certain qualities and characteristics that can be examined by researchers to be studied and concluded. The population of this research is auditors who work in KAP PWC, Deloitte, EY and KPMG.

Samples

According to Roscoe (1975) in Sekaran and Bougie (2013) states that the rules of proper sample size for a study is more than 30 and less than 500 and better sample size 10 times or more than the number of variables contained in a study. Therefore, in this study the research sample were 120 auditors working in KAP Big4. The researcher conducts the data collection for three
weeks by online questionnaires by the submission in Google Forms. Online questionnaires by the submission in Google Forms distributed by researchers to the auditor division at KAP Big4.

In this study using convenience sampling techniques (easy data collection techniques), sampling is based on the availability of elements and the ease of getting it. Samples are taken at the right place and time. This sampling technique is used by researchers because it has the advantages of being easier, faster and more affordable.

**Data Types**

Data used in this research is primary data. According to Sekaran and Bougie (2013) primary data is data obtained directly by the first party. Primary data source of this study which was obtained from questionnaires distributed to auditors working in KAP Big 4 in the form of a score on the answers given by respondents to the questions contained in the questionnaire.

**FINDINGS AND DISCUSSION**

**Descriptive Statistic**

From the table above it can be seen if the number of the first questionnaire was distributed by 120 questionnaires with the calculation of each KAP 30 questionnaire. In this study, only 74 questionnaires were returned so that 74 questionnaires were used as samples. Hypothesis testing in this study was conducted using multiple linear regression tests with the help of SPSS 24.0 for Windows software.

**Table 1. Descriptive analysis results**

<table>
<thead>
<tr>
<th></th>
<th>Educational Background</th>
<th>Ethics</th>
<th>Audit Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>19,53</td>
<td>45,93</td>
<td>50,86</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>20,00</td>
<td>48,00</td>
<td>51,50</td>
</tr>
<tr>
<td><strong>Std. Deviation</strong></td>
<td>2,761</td>
<td>5,976</td>
<td>6,740</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>10</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
<td>25</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>1445</td>
<td>3399</td>
<td>3764</td>
</tr>
</tbody>
</table>

(Sources: Result of Processing Data, 2019)
Table 2.
R Square

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.879a</td>
<td>.773</td>
<td>.766</td>
<td>3.258</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Ethics (X2), Educational Background (X1)
b. Dependent Variable: Audit Quality (Y)

(Sources: Result of Processing Data, 2019)

According to the picture above the value of R Square = 0.773 indicates that the Audit Quality variable (Y) is influenced by Educational Background (X1) and Ethics (X2) of 77.0% and the remaining 23% is influenced by other factors not calculated in this study.

Table 3.
T-Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>std.Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.002</td>
<td>3.256</td>
<td>.205</td>
</tr>
<tr>
<td></td>
<td>X1</td>
<td>.500</td>
<td>.162</td>
<td></td>
</tr>
<tr>
<td></td>
<td>X2</td>
<td>.851</td>
<td>.075</td>
<td>.755</td>
</tr>
</tbody>
</table>

(Sources: Result of Processing Data, 2019)

Based on table 4.9 the results of the Multi Linear Regression Test obtained a value of t count of 3.087 and obtained a value of t table 1.99394 which means the calculated value is greater than the value of t table so it can be concluded that H1 or the first hypothesis is accepted. This means that there is an influence of the Education Background on Audit Quality.

Discussion Of Result
1. Educational Background influence on audit quality

The hypothesis proposed in this study is that educational background has a significant positive effect on audit quality. Based on the results of the study indicate that the Educational Background variable has a positive effect on Audit Quality. The results of partial hypothesis testing (T Test) Educational Background variables have t count greater than t table which is 3.087 where the t table is 1.94394 and the significance value is smaller than alpha that is (0.003> 0.05) so that the quality variable can be concluded audits are influenced by Educational Background variables. This is consistent with previous research conducted by Mulyono (2009) where the results of the study say that the Educational Background has a positive effect seen from the regression coefficient of educational background of 0.202 and significant because the value of t count> t table (2.481> 2.03). The estimation results show in accordance with Education theory (Moore, 1974) which states that education does not only focus on learning, but also focuses on character building which will produce certain types of people who are expected
to become ideal communities for their environment. Muzahid (2004) also states that with education, someone will easily understand and understand what they have to do or do in job. This is in accordance with the opinion (Batubara, 2008) which reveals that the quality of audits is required to be higher so that the results of the examination are demanded higher so that the results of the examination are able to provide value for what has been implemented against the applicable standards, it confirms that the auditor must have a good educational background. Education for auditors must be able to improve audit quality and achievements in the field of education to guarantee the quality of the workforce. This study also strengthens the results of (Subhan, 2012) which based on the results of the F test shows that simultaneously the educational background variable affects audit quality.

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2. Ethics Influence on Audit Quality

Based on the results of the research show that ethics has a positive significant effect on audit quality. The results of partial hypothesis testing (T Test) Ethical variables have a t count greater than t table that is 11.381 where the t table is 1.94394 and the significance value is smaller than alpha that is (0.000> 0.05) so it can be concluded that audit quality variables are influenced by the Ethics variable. This is in accordance with the theory (Sarwono, 2004) which states that human behavior is the result of all forms of activities and human interactions with the environment that are shown in the form of knowledge, attitudes, and actions. This strengthens the research of (Wulandari, 2018) where the results of the t test of professional ethics effect on audit quality with significant value 0.000 ethics variable> 0.05 so welcome and professional ethics hypothetical effect on audit quality in receiving. Previous research by (Imansari, 2015) also gave the results of a significance value of> 0.05 which is equal to 0.000 where the auditor ethically partially influenced the audit quality.
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CONCLUSION AND SUGGESTION

Conclusion
Based on results of data analysis and hypothesis testing it can be concluded that Educational Background with Audit Quality shows a significant positive influence. Therefore the first hypothesis which states that Educational Background significantly affects Audit Quality has been proven.

This proves that from the test results, an auditor is required to have a good educational background, both formal and informal education. Formal education must be accompanied by informal education such as trainings or seminars on audits to increase knowledge for an auditor to do his work which will have an influence on audit quality.

Ethics with Audit Quality shows a significant positive influence. Therefore, the second hypothesis which states that ethical significantly influence Audit Quality has been proven.

This proves that to be an auditor must have a good ethics. Auditors in their work must uphold the applicable ethics and understand well the professional ethics of auditors in order to continue to understand what should be done and should not be done as an auditor which will influence audit quality.

Research Limitations
This research is inseparable from the limitations. In conducting this research the researcher had to wait for the respondents' spare time to remember to coincide with the high season auditor so they had to wait a little longer. This study uses convenience sampling technique, which is an easy sampling technique and depends on the availability of elements. Another limitation in this study is using convenience sampling technique, which is a sampling technique that is easy and depends on the availability of elements.

Recommendation
From the results of analysis and conclusions that have been drawn, the researcher provides several suggestions as follows:
1. To obtain more respondents, then the researcher should further distribute the questionnaire at a time when the auditors do not have a high level of activity and further extend the time to return the questionnaire.
2. Ethical on Audit Quality results that have a significant effect on audit quality, it is better to provide supporting programs for auditors so that they continue to uphold existing ethics and will produce good audit quality results.
3. Auditors must often conduct training or seminars to support knowledge will have an impact on the results of a given audit quality.

4. Further research is expected to be able to compare the educational background between the largest Public Accounting Firm and the small Public Accounting Firm.

5. It is expected that the next researchers will use more diverse variables to see what can affect audit quality.

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