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The Role of Competence, Independence, Professional Commitment, and Professional Oversight on Audit Quality and Reputable Public Accounting Firm Model in Indonesia

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Abstract

Background: The auditing profession continues to face a credibility crisis due to recurring corporate scandals that undermine public trust in audit quality and Public Accounting Firm (PAF) reputation. Previous studies examining the effects of auditor competence and independence have reported inconsistent findings, indicating the need for a more comprehensive model that incorporates moderating and mediating variables.
Objective: This study aims to develop a reputable PAF model in Indonesia by examining the effects of competence and independence on audit quality and PAF reputation, with professional commitment and professional oversight serving as moderating variables and audit quality serving as a mediating variable.
Methods: A quantitative explanatory survey was conducted involving 1,432 active Public Accountants in Indonesia. Using random sampling, 312 respondents were selected, of whom 289 provided valid responses. Data were collected through structured questionnaires and analyzed using Smart Partial Least Squares (SmartPLS), including measurement model evaluation and moderation–mediation analysis.
Results: Competence and independence significantly enhance audit quality and PAF reputation. Professional commitment and professional oversight strengthen the effects of competence and independence on audit quality, while audit quality significantly mediates the relationship between these factors and PAF reputation. These findings support an integrated model that links individual, professional, and organizational factors.
Conclusion: A reputable PAF is established through the integration of competence, independence, professional commitment, professional oversight, and audit quality. This model provides practical guidance for strengthening audit credibility, enhancing competitive advantage, increasing stakeholder trust, and supporting the long-term sustainability of Public Accounting Firms in Indonesia.

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INTRODUCTION

Reliable and transparent financial disclosure by publicly listed firms is widely regarded as essential for sustaining investor trust in capital markets. This trust is further reinforced when financial statements undergo an independent audit conducted by a Public Accountant (PA), who has an ongoing responsibility to maintain audit quality by adhering to the Professional Standards of Public Accountants and the profession's Code of Ethics. In fulfilling this responsibility, PAs protect the interests of audit clients, safeguard investors in audited entities, and contribute to the sustainability and credibility of the Public Accounting Firm (PAF). In practice, however, this ideal is not always achieved. Both globally and in Indonesia, a series of high-profile corporate scandals has repeatedly weakened public confidence in the audit profession, demonstrating that audit failures are not limited to any single jurisdiction.

The audit failures of Arthur Andersen were central to the collapse of Enron in 2001, an event that prompted a global reassessment of audit quality standards and auditor independence requirements (Francis, 2011). Similarly, EY failed to detect approximately €1.9 billion in fictitious assets over multiple audit cycles at Wirecard in Germany in 2020. In the United Kingdom, KPMG's audit deficiencies were associated with the 2018 collapse of Carillion, a major construction company, which resulted in losses exceeding £7 billion. Japan's Toshiba accounting scandal in 2015 involved profit overstatements of approximately ¥151.8 billion over seven years, raising significant concerns regarding the effectiveness of audit oversight. Collectively, these cases demonstrate the critical role of auditor competence, independence, and professional oversight in maintaining public confidence in financial reporting.

A prominent domestic example is the 2018 financial reporting case involving Garuda Indonesia, which reported a net profit of $809.85 thousand despite recording a $216.5 million loss in the previous year. This substantial financial reversal attracted objections from two members of Garuda Indonesia's board of commissioners, who argued that the 2018 financial statements did not comply with applicable Financial Accounting Standards. Subsequently, the Ministry of Finance imposed sanctions on the auditor from KAP Tanubrata, Sutanto, Fahmi, Bambang & Rekan, a member firm of BDO International.

Another relevant case concerns the collapse of Asuransi Adisarana Wanaartha Life, in which the appointed auditor was subsequently sanctioned by the Financial Services Authority. This case intensified national scrutiny of audit quality and professional conduct, damaging institutional credibility and weakening public confidence in audit engagements. Between 2019 and 2024, OJK records indicated that administrative sanctions—ranging from written warnings to license revocation—were imposed on 15 Public Accounting Firms and 23 individual Public Accountants for violations of auditing standards and professional ethics (OJK, 2024). Furthermore, PPPK data reported that eight Public Accountants received sanctions in 2023 alone for failing to comply with professional standards in audits involving public-interest entities (PPPK, 2023). These enforcement statistics highlight the continuing challenge of maintaining audit quality and strengthen the need for a more comprehensive framework for developing reputable Public Accounting Firms.

These cases illustrate why the determinants of audit quality and PAF reputation require systematic investigation. High audit quality reflects an auditor's ability to identify material misstatements in financial statements, thereby reducing information asymmetry between principals and agents and protecting stakeholder interests (Dang et al., 2004; Tampubolon, 2025).

The literature identifies several potential determinants of audit quality and PAF reputation, including auditor competence, independence, professional commitment, audit tenure, and professional oversight. Reviewing previous studies, Akuoko (2024) found that independence and competence represent the most consistent predictors of audit quality, although their influence may vary depending on contextual factors such as professional ethics and regulatory oversight.

DeAngelo (1981) conceptualized audit quality as the joint probability that an auditor possesses the capability to detect material misstatements (competence) and maintains the willingness to disclose such misstatements independently (independence). Subsequent empirical studies have examined this framework across different contexts with varying results. Octavia and Widodo (2015), Ramlah (2018), Salim (2025), and Juliyanti (2024) reported that competence significantly influences audit quality, whereas Dewi (2017), Dali (2019), and Syaifuddin (2019) found no significant relationship.

A review of these studies reveals an important pattern. Positive findings regarding competence Kertarajasa (2019) and Salim (2025) primarily originate from cross-sectional surveys conducted within limited geographical contexts, restricting broader generalization. Meanwhile, studies reporting insignificant relationships Octavia (2015) often involve smaller samples and different measurement approaches. A similar inconsistency exists regarding auditor independence: Ramlah (2018) and Manneh (2025) found that independence significantly affects audit quality, whereas Dewi (2017) and Nuswandari (2019) reported otherwise.

Much of this divergence may arise from differences in how independence is operationalized, as multidimensional measurements encompassing psychological, institutional, and economic independence generally produce stronger explanatory power than single-dimensional measurements. However, most previous studies have not incorporated moderating factors such as professional commitment and professional oversight, nor have they examined audit quality as an intervening mechanism connecting auditor competence and independence with PAF reputation.

Inconsistent empirical findings, whether related to statistical significance or directional effects, often indicate the presence of unexplored moderating variables. This perspective provides the rationale for incorporating professional commitment and professional oversight as moderators of the relationship between competence, independence, and audit quality in this study. Furthermore, previous research has rarely examined audit quality as a mechanism through which competence and independence influence PAF reputation in Indonesia. The indirect-effect findings obtained in this study ($p < 0.05$) support the role of audit quality as a transmission mechanism, suggesting that PAFs seeking to strengthen their reputation should prioritize audit-quality systems and organizational capabilities rather than relying solely on individual auditor competence.

Existing studies have extensively examined the relationship between competence, independence, and audit quality; however, their findings remain inconsistent regarding the significance and magnitude of these relationships. Moreover, limited research has integrated professional commitment and professional oversight as moderators while positioning audit quality as a mediator within a single framework explaining PAF reputation. This limitation creates an incomplete understanding of how individual auditor characteristics contribute to organizational reputation. Therefore, this study addresses this gap by developing an integrated model that combines these variables to provide a more comprehensive explanation of the determinants of PAF reputation in Indonesia.

Professional commitment is considered a moderating variable because auditors with stronger professional commitment tend to demonstrate higher competence and independence when encountering professional conflicts, maintain greater task focus, and comply more consistently with professional standards, thereby improving audit quality. Herda (2022) further explain that strong professional relationships and commitment can reduce burnout and turnover intentions while encouraging behaviors that enhance audit quality.

Professional oversight is included as a second moderating variable because regulatory supervision of the profession, including mandatory professional responsibilities and continuing professional education requirements, strengthens auditor competence and independence, which subsequently contributes to improved audit quality and PAF performance (Quick & Warming-Rasmussen, 2001). Purba (2023) similarly found that risk-based oversight strengthens the influence of competence and independence on audit quality.

Audit quality is positioned as a mediating variable because it represents the effectiveness of auditors in detecting material misstatements and reducing information asymmetry between principals and agents, thereby protecting stakeholders (Dang & Brown, 2004). Klein (1981) and Aronmwan (2013) similarly demonstrate that audit quality is positively associated with PAF reputation.

A PAF develops its reputation through public perceptions regarding the consistency with which it maintains professional standards over time (MacMillan et al., 2004). Because reputation is accumulated gradually through sustained ethical conduct and professional performance, it becomes a strategic asset that firms must actively preserve. Strong reputation attracts higher-quality clients, strengthens competitive advantage, and enhances market value (Vallens, 2008). Therefore, reputation is strategically important for PAF sustainability because it influences client acquisition, employee retention, audit fee structures, and market confidence. Conversely, reputational damage may trigger client losses, talent attrition, and regulatory scrutiny, as demonstrated by the dissolution of Arthur Andersen following the Enron scandal (Francis, 2011).

This study contributes in three main ways. First, it develops an integrated model that positions competence and independence as antecedents, professional commitment and professional oversight as moderators, audit quality as a mediator, and PAF reputation as the outcome variable, representing a configuration that has not previously been examined comprehensively. Second, extending DeAngelo's (1981) framework, this study incorporates behavioral (professional commitment) and institutional (professional oversight) dimensions that have received limited attention in prior research. Third, it provides empirical evidence from Indonesia that may assist regulators and PAFs in strengthening audit quality and organizational reputation.

The theoretical contribution of this research lies in integrating moderating and mediating mechanisms into a single PAF reputation model, validating DeAngelo's (1981) framework within the Indonesian auditing context, and extending knowledge regarding professional commitment and professional oversight as boundary conditions affecting the competence–independence–audit quality relationship. Practically, the findings provide PAF management with evidence-based guidance for improving reputation through competency development and independence safeguards. The results also provide regulators, including OJK, PPPK, and IAPI, with insights for strengthening oversight mechanisms and provide capital-market participants with clearer indicators for assessing auditor and PAF reputation.

In conclusion, this study develops a reputable PAF model grounded in DeAngelo's (1981) framework by positioning professional commitment and professional oversight as moderators of the competence–independence–audit quality relationship and audit quality as a mediator of the effects of competence and independence on reputable PAF status. Accordingly, this research aims to construct a reputable PAF model in which competence and independence function as independent variables, professional commitment and professional oversight serve as moderating variables, audit quality operates as a mediating variable, and reputable PAF status represents the dependent variable.

METHOD

This research is a quantitative explanatory study with a causal research design, employing a survey method. The study was conducted at Public Accounting Firms located across major cities in Indonesia, including Jakarta, Surabaya, Bandung, Medan, Semarang, and Makassar. The population consisted of Public Accountants (PAs) working at Public Accounting Firms (PAFs) throughout Indonesia, totaling 1,432 active PAs. Subsequently, a random sample was drawn using the Yale formula as cited in Dali (2019), yielding data from 312 PAs. However, the data that could be properly analyzed amounted to 289 PAs.

The research data consisted of primary data in the form of public accountants' perceptions of: competence, independence, audit quality, professional commitment, professional oversight, and reputable PAF; sourced from 312 PAs. These data were collected using a questionnaire distributed via Google Form.

Reputable PAF, as the dependent variable (Z), was measured referring to Tangpinyoputikhun and Thammavinyu (2010). Audit quality, as the mediating variable (Y), was measured referring to (Halim et al., 2020). Competence, as an independent variable (X1), was measured referring to (Halim et al., 2020). Independence, as an independent variable (X2), was measured referring to (Halim et al., 2020). Professional commitment, as a moderating variable (X3), was measured referring to (Smith and Hall, 2008). Professional oversight, as a moderating variable (X4), was measured referring to (Ussahawanitchakit, 2009).

Data analysis was performed using Smart Partial Least Square (SPLS). Before analysis, tests for validity, reliability, linearity, and model goodness of fit were conducted. Hypotheses were tested using a t-test at the 5% alpha level.

RESULTS AND DISCUSSION

Results

Results of Validity, Reliability, Linearity, and Goodness of Fit Tests

The Pearson correlation validity test produced p-values below 0.05 for every questionnaire item, confirming their validity, while Cronbach's Alpha values above 0.6 indicated acceptable reliability across the instrument. A curve-fit linearity test likewise returned significance levels below the 5% threshold for all eleven hypothesized relationships, confirming a linear model. The model's R^2 of 0.8789 indicates that the variables tested account for roughly 87.89 percent of the variance in the outcome, with the remaining 12.11 percent attributable to factors outside the model and to error, suggesting the PLS model is adequate for hypothesis testing. Outer-model evaluation in SmartPLS further supported measurement quality: AVE values exceeded the 0.50 threshold for every construct (Competence 0.612, Independence 0.587, Professional Commitment 0.643, Professional Oversight 0.601, Audit Quality 0.655, PAF Reputation 0.618), Composite Reliability ranged from 0.858 to 0.924, the Fornell-Larcker criterion and HTMT ratios (all under 0.90) confirmed discriminant validity, and VIF values stayed below 5.0, ruling out multicollinearity concerns.

Hypothesis Testing Results

The hypothesis testing results using SPLS are presented in Table 1 and Figure 1.

Table 1. Summary of Hypothesis Test Results

Description	**Inner Weight Coefficient**	**p-value (p-value < 0.05)**	**Conclusion**
X1 => Y	0.642	0.008	H-1 accepted
X1 => Z (direct effect)	0.323	0.033	H-2 accepted
X1 => Y => Z (indirect effect)	Specific Indirect Effect p-value = 0.000 < 0.05	H-3 accepted	
X2 => Y	0.534	0.006	H-4 accepted
X2 => Z (direct effect)	0.334	0.022	H-5 accepted
X2 => Y => Z (indirect effect)	Specific Indirect Effect p-value = 0.000 < 0.05	H-6 accepted	
Interaction X3*X1 => Y	0.791	0.023	H-7 accepted
Interaction X3*X2 => Y	0.632	0.016	H-8 accepted
Interaction X4*X1 => Y	0.765	0.025	H-9 accepted
Interaction X4*X2 => Y	0.577	0.013	H-10 accepted
Y => Z	0.872	0.015	H-11 accepted

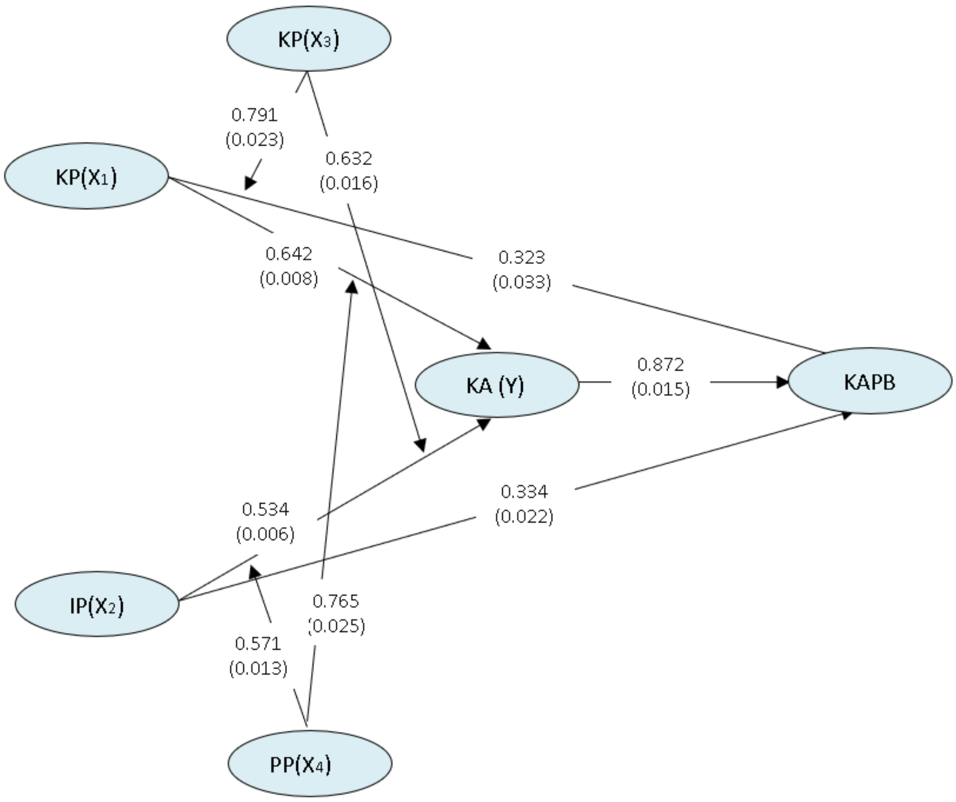

Figure 1. Research Results

Descriptions:

KP	= Competence
IP	= Independence
KA	= Audit Quality
KO	= Professional Commitment
PP	= Professional Oversight
KAPB	= Reputable Public Accounting Firm

Table 1 shows that the interaction term X1*X3 => Y carries a positive coefficient with p = 0.023, meaning professional commitment strengthens the link between competence and audit quality; the same holds for X2*X3 => Y (p = 0.016) with respect to independence. Professional commitment therefore moderates both relationships in the hypothesized direction. A parallel pattern emerges for professional oversight: X1*X4 => Y (p = 0.025) and X2*X4 => Y (p = 0.013) both carry positive coefficients, indicating that oversight likewise strengthens the competence-quality and independence-quality relationships.

The specific indirect effects in Table 1 are both significant at p = 0.000, confirming that audit quality mediates the influence of competence and independence on reputable PAF status, which is captured in the model shown below.

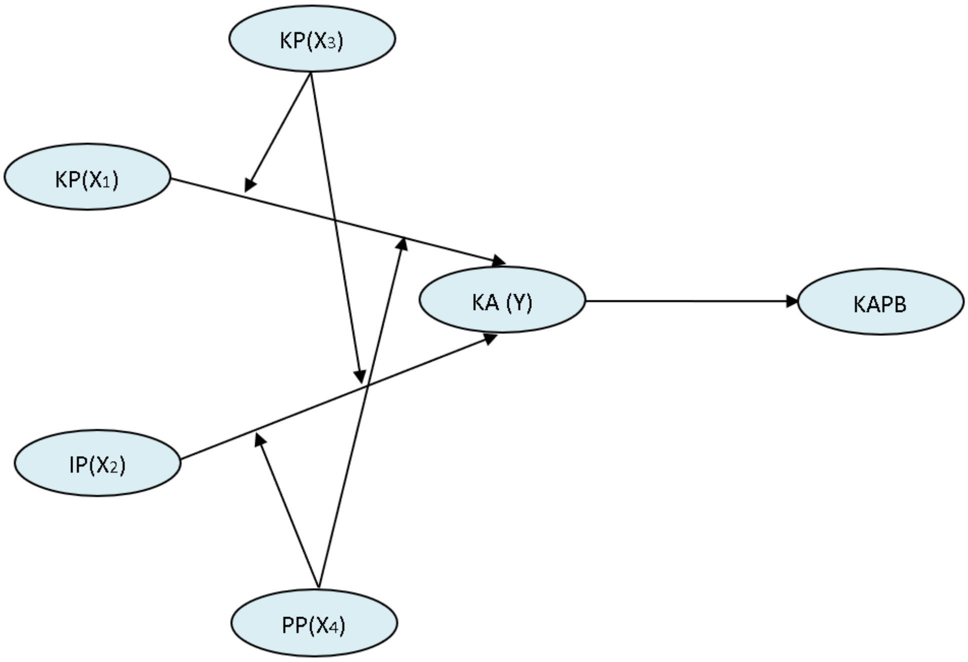

Figure 2. Reputable Public Accounting Firm Model

Discussions

These results indicate that audit quality serves as a meaningful pathway through which competence and independence translate into PAF reputation. Building on this, PAFs looking to strengthen their reputation should focus on the five elements the International Auditing and Assurance Standards Board identifies as central to audit quality: the inputs that shape an audit - values, ethics, and the attitudes fostered by firm culture, together with auditor knowledge, skill, experience, and time; the processes used to run the audit and control its quality; the outputs produced, chiefly the audit report; the interactions among stakeholders across the reporting chain, both formal and informal; and the wider contextual factors that can shape audit outcomes.

Audit quality can also be strengthened by cultivating industry-specialist auditors. Cahan (2008) show that sector-specific expertise gives specialized auditors an edge in delivering higher-quality engagements, a finding echoed by Lowensohn (2007), who likewise report a positive link between auditor specialization and audit quality.

Beyond expertise, specialization brings efficiency gains, since firms can concentrate resources on sector-specific tools and methods. Specialist auditors are also better at spotting errors and judging audit risk Owhoso (2002) and Beasley (2001), and their deeper familiarity with a sector's business models, operations, and risk profile makes them harder to mislead than generalist auditors (Bell et al., 2005; Solomon et al., 1999).

Consistent with the hypothesis testing, professional commitment strengthens the relationship between auditor competence, independence, and audit quality: where commitment is high alongside strong competence and independence, the resulting boost to audit quality carries through to PAF reputation. This suggests PAs should work on all three dimensions of professional commitment identified by Smith (2008) - normative, continuance, and affective. Normative commitment reflects a sense of moral duty to the profession, where an auditor stays out of loyalty and would feel guilt at not contributing to it.

Affective commitment, by contrast, stems from emotional attachment - an auditor stays because they identify with and value the profession. Continuance commitment reflects a more calculated weighing of the costs of leaving; the higher those perceived costs, the more likely an auditor is to remain committed to the profession.

Theoretically, these results show that the link between auditor attributes and organizational outcomes is neither direct nor unconditional: professional commitment and oversight both act as boundary conditions that earlier research has generally missed, and the mediating role of audit quality extends DeAngelo's (1981) proposition by showing that quality subsequently feeds into reputation. Practically, PAF management should pursue a holistic strategy - developing competence, protecting independence institutionally, building commitment through firm culture, and treating oversight as a quality tool rather than a compliance cost - while regulators (OJK, PPPK, IAPI) have reason to strengthen oversight mechanisms and continuing-education requirements industry-wide.

Professional oversight similarly moderates the path from competence and independence to audit quality: where oversight mechanisms are strong and competence and independence are already well developed, the resulting gains in audit quality are larger, with corresponding benefits for reputation. This points to a role for PPPK (Pusat Pembinaan Profesi Keuangan) in tightening standard-setting, enforcement, and monitoring of accounting standards, professional codes of ethics, and sanctions for violations, and in revisiting these standards as the profession keeps changing. PAs, for their part, need to keep pace with an evolving financial and technological environment, including new challenges such as climate-related business risk.

CONCLUSION

This study concludes that a reputable PAF model in the Indonesian context rests on three elements: competence and independence as antecedents that shape audit quality; audit quality as the mechanism that carries and amplifies their effects on reputation; and professional commitment and professional oversight as moderating forces along that pathway. These results provide PAFs with a practical basis for building reputation by developing competence, protecting independence, improving audit quality, strengthening professional commitment, and complying with oversight requirements, which can ultimately support competitive positioning, client trust, market value, and long-term sustainability. The main contribution of this study is an empirically validated model demonstrating how competence, independence, professional commitment, professional oversight, and audit quality collectively determine PAF reputation, offering both a theoretical extension and practical direction for the auditing profession in Indonesia.

For individual PAs, the findings highlight the importance of developing industry specialization through repeated engagements rather than frequent client rotation. For PAFs, the results emphasize the need to actively manage competence, independence, professional commitment, professional oversight, and audit quality in an integrated manner. Regarding professional commitment, PAs should strive to strengthen its normative, continuance, and affective dimensions. For the Ministry of Finance's Center for Financial Professional Development (*Pusat Pembinaan Profesi Keuangan* [PPPK]), the findings suggest the need to continuously update oversight mechanisms and evaluation indicators, including accounting standards, professional standards, codes of ethics, sanctions for violations, and continuing professional development provisions, to remain aligned with changes in the business environment.

One limitation of this study is that it did not differentiate among PA seniority levels (junior, senior, supervisor, manager, and partner), although these groups may perceive the study variables differently. Therefore, the findings should be generalized with caution. Future research would benefit from incorporating differences in professional seniority among respondents to provide a more comprehensive understanding of how experience levels influence perceptions of competence, independence, professional commitment, professional oversight, audit quality, and PAF reputation.

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AUTHOR CONTRIBUTION STATEMENT

Yulia Tri Kusumawati conceived and designed the study, collected and analyzed the data, interpreted the findings, and prepared the initial manuscript. Abdul Halim contributed to the research framework, supervised the study, validated the analytical model, critically revised the manuscript, and approved the final version for publication. Both authors read and approved the final manuscript and are accountable for the integrity and accuracy of the work.

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