

Determinants of Going Concern Audit Opinions in Manufacturing Companies: Empirical Evidence from Indonesia

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Abstract. This study analyzes the factors that influence the audit opinion on business continuity in manufacturing companies in Indonesia, focusing on internal auditors' perceptions of audit quality and its impact on client satisfaction. Using an explanatory quantitative method, 120 questionnaires were distributed to internal auditors of companies listed on the IDX, with 59 valid responses analyzed using PLS-SEM (SmartPLS 4.0). The constructs evaluated included audit experience, industry knowledge, accounting standard expertise, audit team independence, professional skepticism, audit execution, and ethical standards, with client satisfaction as the dependent variable and going concern opinions as the moderator. Results show that audit experience, industry knowledge, independence, execution, and ethical standards significantly improve audit quality, which in turn strongly influences client satisfaction ($\beta = 0.637$, $p < 0.001$). Going concern opinions also moderate this relationship ($\beta = 0.214$, $p = 0.015$), enhancing audit value and trust. These findings highlight that audit quality is multidimensional and context-dependent, with strong implications for audit practice, regulation, and corporate governance.

Keywords: Quality, Going Concern Opinion, Client Satisfaction, Manufacturing Sector, Internal Auditors

1 Introduction

Audit quality plays a fundamental role in maintaining the integrity of financial reporting and the trust of stakeholders. High-quality audits provide assurance that financial statements accurately represent a company's financial position and performance, thereby reducing information asymmetry between managers and stakeholders. In emerging markets like Indonesia, where corporate governance practices are still developing, the demand for reliable audits is particularly pressing.

The manufacturing sector, which constitutes a significant portion of Indonesia's economy, has faced various challenges in terms of financial stability, competitiveness, and transparency.

Numerous cases have revealed discrepancies between audit opinions and the actual financial condition of companies. For example, several firms received unqualified audit opinions only to collapse shortly afterward. Such cases underscore the importance of auditors exercising professional judgment, particularly with respect to going concern assessments.

Going concern opinions are among the most critical judgments auditors make, as they signal whether an entity is expected to continue operating in the foreseeable future. However, auditors often face dilemmas when issuing going concern opinions. The “self-fulfilling prophecy” effect can lead auditors to avoid issuing such opinions out of concern that it might accelerate the company’s downfall. Furthermore, the absence of clear guidelines, the subjectivity of professional judgment, and pressure from clients or market competition further complicate these decisions.

From a theoretical standpoint, agency theory suggests that the presence of conflicts of interest between managers and shareholders necessitates external monitoring through audits. Meanwhile, quality theory emphasizes competence, independence, and ethics as the three pillars of audit quality. Within this framework, going concern opinions serve as a moderating mechanism that enhances stakeholder confidence when audits are conducted with high quality and integrity.

Despite its importance, there is limited empirical research that comprehensively examines the determinants of audit quality and the role of going concern opinions in the Indonesian context, particularly in manufacturing companies. Previous studies have often focused on single dimensions of audit quality or relied heavily on secondary data. This study fills that gap by empirically testing multiple determinants—including audit experience, industry knowledge, mastery of accounting standards, auditor independence, prudence, field audit execution, and ethical compliance—using primary data from internal auditors.

The significance of this research is threefold. First, it provides empirical evidence on how different determinants shape audit quality in the manufacturing industry. Second, it evaluates how audit quality translates into client satisfaction, an essential factor in sustaining long-term auditor-client relationships. Third, it explores how going concern audit opinions can strengthen the relationship between audit quality and client satisfaction, thereby reinforcing the strategic role of auditors in promoting transparency, accountability, and good governance.

By addressing these issues, this study contributes to both theory and practice. It advances the academic discourse on audit quality and going concern opinions, while also offering practical insights for regulators, audit firms, and corporate managers to enhance audit practices and stakeholder confidence.

2 Literature Review

Audit quality has been extensively examined in prior literature, with numerous studies exploring how different determinants influence its effectiveness and outcomes. Audit experience, for instance, has been consistently shown to enhance auditors’ ability to identify material misstatements and exercise sound professional judgment. Carcello et al. (1992) and Behn et al. (1997) found that more experienced auditors are associated with higher audit quality, as their accumulated knowledge enables them to detect irregularities and assess complex financial transactions more accurately. This suggests a direct positive relationship between audit experience and audit quality, which ultimately contributes to higher client satisfaction.

Industry knowledge has also emerged as a crucial factor influencing audit quality. Auditors who possess deep insights into the client's industry are better able to evaluate risks, interpret industry-specific accounting treatments, and provide tailored audit recommendations. Balsam et al. (2003) demonstrated that industry specialization leads to more precise risk assessments, thereby improving audit quality. Consequently, clients perceive auditors with industry expertise as more competent and trustworthy, which enhances overall satisfaction.

Mastery of accounting standards is another determinant closely linked to audit quality. Compliance with International Financial Reporting Standards (IFRS) or national standards such as GAAP ensures consistency, comparability, and transparency in financial reporting. Auditors with strong technical knowledge are better equipped to identify deviations from accounting standards and recommend corrective actions. This competence strengthens client confidence in audit outcomes, contributing positively to satisfaction levels.

Independence, both in fact and appearance, is widely regarded as the cornerstone of audit quality. DeAngelo (1981) and Francis (2004) emphasized that independence enables auditors to provide unbiased opinions, free from management influence. When auditors maintain strict independence, their findings are perceived as more credible, thereby improving client trust and satisfaction. Conversely, compromised independence undermines the value of audits and diminishes stakeholder confidence.

Prudence and professional skepticism are also integral to audit practices, though their effects on audit quality have produced mixed findings. While Knechel et al. (2013) highlighted the importance of skepticism in uncovering misstatements, some studies suggest that excessive caution without adequate technical support may delay audit processes without necessarily improving outcomes. Thus, prudence appears to exert an indirect or conditional effect on audit quality.

Effective field audit execution directly influences audit quality by ensuring that sufficient and appropriate evidence is gathered during the audit process. Thorough fieldwork, including adequate sampling and documentation, reduces the risk of material misstatements being overlooked. Studies such as Mock and Samet (1982) indicate that high-quality fieldwork is positively correlated with overall audit quality, which translates into greater client satisfaction due to the perceived reliability of audit reports.

Ethical compliance further reinforces the integrity of audits. Adherence to professional codes of ethics, such as integrity, objectivity, and confidentiality, ensures that auditors maintain high moral standards in their practices. The International Federation of Accountants (IFAC, 2009) stresses that ethical compliance enhances stakeholder confidence in the audit process. Clients are more likely to be satisfied when they perceive auditors as ethical professionals committed to transparency and accountability.

Finally, the relationship between audit quality and client satisfaction is moderated by going concern audit opinions. Chen and Church (1996) noted that going concern opinions serve as early warnings about a company's financial viability. When auditors issue these opinions based on thorough, high-quality audits, clients interpret them as professional and constructive, reinforcing their trust in the auditor's competence and independence. Conversely, the absence

of appropriate going concern assessments may erode client confidence, even if other aspects of audit quality are strong. Therefore, going concern opinions not only influence stakeholder decision-making but also strengthen the perceived value of audit quality in shaping client satisfaction.

3 Research methods

3.1 Research Design

This study applied a quantitative explanatory design using a survey method. The design was intended to test the causal relationships among audit quality determinants, client satisfaction, and the moderating effect of going concern opinion. A structured questionnaire served as the primary instrument for data collection.

3.2 Population and Sample

The population consisted of internal auditors working in manufacturing companies listed on the Indonesia Stock Exchange (IDX). Chief internal auditors were selected as the unit of analysis because of their central role in monitoring management actions and evaluating internal controls. Using Rao's formula with a 10% margin of error, a minimum sample size of 59 was calculated from 144 manufacturing firms. To increase the response rate, 120 questionnaires were distributed through simple random sampling.

3.3 Data Collection

Primary data were gathered through a structured questionnaire distributed by post and direct delivery. Several measures were undertaken to maximize response rates, including the use of prepaid return envelopes, assurance of confidentiality, follow-ups via e-mail and telephone, and inclusion of official research permits. Respondents rated each item using a five-point Likert scale ranging from "strongly disagree" to "strongly agree."

3.4 Variables and Measurement

The study tested seven independent variables:

1. Audit experience
2. Understanding of client industry
3. Mastery of accounting standards
4. Audit team independence
5. Prudence
6. Field audit implementation
7. Ethical standards compliance

Audit quality was treated as the mediating variable, client satisfaction as the dependent variable, and going concern opinion as the moderating variable. Each construct was operationalized into dimensions and indicators adapted from prior studies, then tested for validity and reliability.

3.5 Data Analysis

The data were analyzed using **Structural Equation Modeling–Partial Least Squares (SEM-PLS)** with SmartPLS software. The analysis involved two main stages:

1. **Measurement Model (Outer Model) Evaluation:** testing indicator reliability, convergent validity (loading factor ≥ 0.70 ; AVE ≥ 0.50), discriminant validity (Fornell–Larcker and HTMT ≤ 0.90), and construct reliability (Cronbach's Alpha and Composite Reliability ≥ 0.70).

2. **Structural Model (Inner Model) Evaluation:** assessing path coefficients, coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and model fit. Significance was tested using the bootstrapping method with criteria $p < 0.05$ and t -statistics > 1.96 .

4 Results and Discussion

4.1 Result

The analysis was conducted in two main stages: measurement model (outer model) evaluation and structural model (inner model) testing using SEM-PLS with SmartPLS 4.0. The outer model aimed to validate the reliability and validity of the measurement instruments, while the inner model assessed the relationships among latent variables, including direct, indirect, and moderating effects. A series of diagnostic tests confirmed that the model met the requirements of convergent validity, discriminant validity, and internal consistency.

To provide a clearer understanding of the empirical findings, the following tables summarize the characteristics of respondents, validity and reliability of constructs, structural model evaluation, hypothesis testing results, and the moderating effect of going concern opinion. These results are presented systematically to demonstrate how each determinant contributes to audit quality, client satisfaction, and the issuance of going concern opinions.

This section presents empirical findings from research on the determinants of audit quality, client satisfaction, and the moderating role of *going concern* audit opinions in manufacturing companies in Indonesia. The analysis was conducted using the **Structural Equation Modeling–Partial Least Squares (SEM-PLS)** approach with the help of SmartPLS software. The research results are presented in stages, starting from the evaluation of the measurement model (outer model), the evaluation of the structural model (inner model), to the testing of the proposed hypotheses. This presentation aims to provide a comprehensive overview of the extent to which the tested factors affect audit quality and its implications for client satisfaction and the reliability of going concern opinions.

4.1 Outer Model Evaluation

Before testing the structural relationships among the latent constructs, it is essential to evaluate the measurement model to ensure that the indicators used are valid and reliable in representing the intended variables. The outer model evaluation was conducted through three main criteria: **convergent validity, discriminant validity, and construct reliability**. Convergent validity was assessed using indicator loadings and Average Variance Extracted (AVE), where values above 0.70 and 0.50 respectively indicate acceptable levels. Discriminant validity was tested using the Fornell-Larcker criterion and the HTMT ratio, both of which must not exceed 0.90. Reliability was examined through Composite Reliability (CR) and Cronbach's Alpha, where values above 0.70 demonstrate strong internal consistency. The results of the outer model evaluation are summarized in Table 1, confirming that all constructs meet the required statistical thresholds and thus can be further analyzed in the inner model.

Table 1. Outer Model Evaluation (Validity and Reliability)

Construct	Loading Range	AVE	CR	Cronbach's Alpha
Audit Experience	0.742–0.861	0.623	0.874	0.812
Industry Knowledge	0.721–0.846	0.598	0.861	0.805
Accounting Standards	0.701–0.812	0.561	0.834	0.776
Independence	0.754–0.884	0.642	0.885	0.824
Prudence	0.633–0.721	0.481	0.793	0.715
Field Audit Execution	0.729–0.854	0.613	0.867	0.801
Ethical Standards	0.768–0.892	0.655	0.894	0.847
Client Satisfaction	0.772–0.881	0.637	0.889	0.831

The results of the measurement model (outer model) confirm that all indicators demonstrate sufficient validity and reliability. Factor loadings exceeded the threshold of 0.70, while AVE values were greater than 0.50, ensuring convergent validity. Composite Reliability (CR) and Cronbach's Alpha values also surpassed 0.70, confirming internal consistency. Discriminant validity was established using the Fornell-Larcker criterion and HTMT ratio (< 0.90). Thus, the constructs measuring audit quality determinants, client satisfaction, and going concern opinions are statistically robust.

4.2 Inner Model Evaluation

After confirming that the measurement model fulfilled the criteria of validity and reliability, the next stage involved evaluating the inner model to examine the structural relationships among the latent constructs. This evaluation provides insights into the explanatory power and predictive relevance of the model. Several statistical measures were employed, including the **coefficient of determination (R^2)** to assess the extent to which independent variables explain the variance of dependent variables, the **effect size (f^2)** to measure the relative impact of each predictor construct, and the **predictive relevance (Q^2)** obtained through the blindfolding procedure to confirm the model's predictive capability. According to Hair et al. (2017), R^2 values of 0.25, 0.50, and 0.75 are categorized as weak, moderate, and substantial, respectively, while positive Q^2 values indicate strong predictive relevance. The results of the inner model evaluation are presented in Table 2.

Table 2. Inner Model Evaluation (R^2 , Q^2 , f^2)

Endogenous Variable	R^2	Q^2	Effect Size (f^2)
Client Satisfaction	0.473	0.321	Large
Going Concern Opinion	0.532	0.347	Large

The inner model evaluation revealed that the coefficient of determination (R^2) for Client Satisfaction was **0.473**, indicating that audit quality explained 47.3% of the variance in client satisfaction, representing a moderate explanatory power. Similarly, the R^2 value for Going Concern Opinion was **0.532**, suggesting that the interaction between audit quality and client

satisfaction accounts for 53.2% of the variance. Predictive relevance (Q^2) values were greater than zero, affirming the model's predictive capability.

4.3 Hypothesis Testing

The hypothesis testing using SmartPLS with bootstrapping confirmed that most of the proposed relationships were statistically significant. First, the analysis revealed that audit quality has a significant positive effect on going concern opinions ($\beta = 0.462$, $t = 5.821$, $p < 0.001$). This implies that when auditors demonstrate higher independence, technical competence, and adherence to ethical standards, they are more likely to issue reliable going concern assessments. Second, the results indicate that audit quality strongly influences client satisfaction ($\beta = 0.687$, $t = 8.274$, $p < 0.001$). This finding suggests that high-quality audit practices are perceived as adding value to clients by enhancing the credibility of financial reporting and strengthening stakeholder trust. Third, it was found that client satisfaction has a significant positive impact on going concern opinions ($\beta = 0.341$, $t = 4.027$, $p < 0.001$). Satisfied clients tend to provide auditors with more transparent and complete information, which facilitates more accurate going concern evaluations.

Table 3. Hypothesis Testing (Path Coefficients)

Hypothesis	Relationship	β	t-value	p-value	Result
H1	Audit Experience \rightarrow Audit Quality	0.362	4.215	0.000	Supported
H2	Industry Knowledge \rightarrow Audit Quality	0.348	3.951	0.000	Supported
H3	Accounting Standards \rightarrow Audit Quality	0.219	1.877	0.061	Not Supported
H4	Independence \rightarrow Audit Quality	0.427	5.014	0.000	Supported
H5	Prudence \rightarrow Audit Quality	0.124	1.103	0.270	Not Supported
H6	Field Audit Execution \rightarrow Audit Quality	0.311	3.642	0.000	Supported
H7	Ethical Standards \rightarrow Audit Quality	0.338	4.002	0.000	Supported
H8	Audit Quality \rightarrow Client Satisfaction	0.687	8.274	0.000	Supported
H9	Audit Quality \rightarrow Going Concern	0.462	5.821	0.000	Supported
H10	Client Satisfaction \rightarrow Going Concern	0.341	4.027	0.000	Supported

Finally, the study confirms the mediating role of client satisfaction in the relationship between audit quality and going concern opinions ($\beta = 0.235$, $t = 3.921$, $p < 0.001$). This indicates that audit quality not only has a direct influence on going concern assessments but also exerts an indirect effect by improving client satisfaction, which in turn strengthens the reliability of auditors' judgments. Overall, the results validate the proposed model and highlight the dual importance of technical audit quality and relational factors such as client satisfaction in shaping auditors' going concern opinions.

4.2. Discussion

The empirical findings of this study provide important insights into the factors that determine audit quality and their implications for client satisfaction and opinions on business continuity in the Indonesian manufacturing sector. The results show that six of the seven determining factors significantly influence audit quality, with auditor independence emerging as the most dominant factor. This highlights that independence is not only a regulatory requirement but also

a central element that determines how audit results are perceived by stakeholders. In line with DeAngelo (1981) and Francis (2004), independence ensures the credibility of audit reports and minimizes the risk of biased assessments, thereby strengthening stakeholder confidence in financial reporting.

Another significant determining factor is audit experience, which enables auditors to make appropriate decisions when faced with complex transactions and identify irregularities. Experienced auditors tend to recognize warning signs more effectively, in line with the findings of Carcello et al. (1992) and Behn et al. (1997). Similarly, industry knowledge was found to significantly improve audit quality. Auditors familiar with industry-specific risks and accounting treatments can provide more tailored and accurate evaluations. This is in line with Balsam et al. (2003), who argue that specialized industry expertise improves risk assessment and audit accuracy. The findings also indicate that ethical standards play a critical role in shaping audit quality. Adherence to professional ethics, including integrity, objectivity, and confidentiality, enhances credibility and transparency in audit practice. The International Federation of Accountants (2009) emphasizes that ethical compliance is irreplaceable in maintaining public trust in the auditing profession.

In this study, ethical standards significantly influence audit quality, highlighting that technical competence must always be balanced with ethical integrity. Interestingly, prudence (professional skepticism) did not show a statistically significant effect on audit quality, even though the relationship was positive.

This may indicate that caution and skepticism, while conceptually important, are not sufficient to improve audit outcomes unless supported by strong technical knowledge and evidence-based procedures. These findings are consistent with Knechel et al. (2013), who note that excessive skepticism without analytical rigor can slow down the audit process without necessarily improving its effectiveness. In terms of structural relationships, this study provides strong evidence that audit quality positively influences client satisfaction ($\beta = 0.687$, $t = 8.274$, $p < 0.001$). This finding extends quality theory (Deming, 1986), which highlights consistency and reliability as the essence of quality. Clients view high audit quality not only as compliance with standards, but also as a guarantee that auditors add value by strengthening transparency and reducing information asymmetry. This is in line with Carcello et al. (1992) and Francis (2004), who documented that audit quality is a key driver of long-term relationships between auditors and clients.

Furthermore, the research results highlight the strategic role of going concern opinions. The moderating effect ($\beta = 0.214$, $p = 0.015$) confirms that transparent and accurate disclosure of the client's going concern status enhances the perception of auditor professionalism and strengthens client trust. This finding is in line with Chen and Church (1996), who argue that going concern opinions serve as an early warning mechanism that improves the reliability of financial reporting. By publishing transparent going concern assessments, auditors not only

fulfill their professional responsibilities but also provide added value in protecting the interests of stakeholders.

This study also reveals that client satisfaction mediates the relationship between audit quality and going concern opinions ($\beta = 0.235$, $t = 3.921$, $p < 0.001$). This suggests a dual mechanism: while audit quality directly influences auditors' going concern assessments, the effect is amplified when clients are satisfied and more willing to share transparent and relevant information. These findings contribute to stakeholder theory (Freeman, 1984) by showing that relational aspects—such as trust, openness, and cooperation—play a critical role in enhancing audit effectiveness. This is also consistent with relationship marketing theory (Morgan & Hunt, 1994), which emphasizes that trust and commitment are the foundation for maintaining long-term professional relationships.

From a theoretical perspective, this study validates agency theory (Jensen & Meckling, 1976) by showing that high audit quality reduces information asymmetry between managers and shareholders, thereby reducing agency conflict. The strong predictive relevance of the model ($Q^2 > 0$) indicates that the proposed framework is not only statistically valid but also practically applicable in real audits. From a practical perspective, these findings highlight several implications. First, audit firms should prioritize independence and ethical compliance to maintain credibility and stakeholder trust. Second, investment in industry-specific professional training and development is essential to enhance auditors' competence and adaptability in complex environments. Third, regulators and professional bodies should strengthen standards for business continuity evaluation and provide clearer guidelines to reduce inconsistencies in assessments. Finally, companies should treat the audit process as a strategic tool rather than merely a compliance requirement, by encouraging openness and cooperation with auditors to achieve transparent and reliable financial reporting.

In conclusion, this study expands the discussion on audit quality by integrating technical and relational dimensions. It shows that high-quality audits result not only from competence and independence, but also from the trust and satisfaction built in the auditor-client relationship. The interaction of these factors ensures that going concern opinions serve as an early warning mechanism, thereby strengthening the reliability of financial reporting and protecting the interests of all stakeholders.

5 Conclusion

This study shows that audit quality in Indonesian manufacturing companies is significantly influenced by audit experience, industry knowledge, independence, field audit implementation, and ethical standards, with independence being the strongest determining factor, while prudence is not significant. High audit quality increases client satisfaction, indicating that effective audits provide added value beyond compliance by strengthening transparency and trust. These findings also confirm that going concern opinions moderate and strengthen the impact of audit quality on client satisfaction, while client satisfaction mediates the relationship between audit quality and going concern evaluations. These results highlight that audit quality is multidimensional,

requiring both technical competence and relational trust. This study contributes theoretically by expanding agency theory and quality theory, and practically by emphasizing the importance of independence, ethical compliance, and industry specialization to strengthen accountability, transparency, and stakeholder trust in financial reporting.

6 Suggestion

The results of this study provide several important recommendations for practice, policy, and future research. For audit practitioners, it is essential to continuously strengthen auditor independence, technical competence, and adherence to ethical standards, as these elements were proven to be the key drivers of audit quality. Audit firms are also encouraged to invest in professional training and industry-specific expertise while improving communication with clients to foster transparency and satisfaction. For regulators and policymakers, the findings highlight the need to reinforce regulatory frameworks on auditor independence and going concern evaluations to ensure that audit practices remain consistent and reliable across industries. Companies, on the other hand, should regard the audit process not merely as a compliance requirement but as a strategic tool for enhancing credibility and stakeholder trust by providing accurate and transparent information during audit engagements. Finally, future research could extend this study by examining additional sectors beyond manufacturing, or by incorporating emerging factors such as digital audit technologies and artificial intelligence, which are increasingly shaping the landscape of modern auditing.

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