

Promoting Factors Of Audit Quality: Mediating Role Of Financial Statement Fraud Detection

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Abstract. This study aims at estimating the effects of audit risk consideration and the auditor's professional skepticism on audit quality mediated by the detection of financial statement fraud. The samples were 216 auditors from Public Accounting Firms (KAP) throughout Indonesia using the Slovin formula. The analytical tool used was Smart-PLS 3.2.2. The results indicate that (1) audit risk consideration has no significant effect on audit quality, (2) professional skepticism has a positive and significant effect on audit quality, (3) detection of financial statement fraud has a positive and significant effect on audit quality, (4) audit risk consideration has no significant effect on the detection of financial statement fraud, (5) auditor's professional skepticism has a positive and significant effect on, (6) cannot mediate the effect audit quality risk consideration, and (7) fraud financial statement detection can mediate the effect of audit quality professional skepticism.

Keywords: Audit Risk Consideration, Auditor's Professional Skepticism, Detection of Financial Statement Fraud, Audit Quality

1 Introduction

Audit quality plays a pivotal role in increasing the assessment accuracy of financial statements. As explained by [16] audit quality emerges as a probability in which an auditor will be able to detect and report a breach found in the client's accounting system due to the fact that financial statements serve as the form of organizational accountability for the interested parties. [60]; [4] asserted that the emergence of business failure highlights a company's inability in terms of identifying audit risk. As conveyed by [43], an auditor is perceived to be capable of convincing stakeholders by ensuring that there are no material risks in the company. Audit risk refers to the risk of failure in identifying financial statements that are materially misstated, in which it leads to inappropriate opinions expressed by the auditor. A weak identification that the auditor undertakes in the attempt to prevent the fraud occurrence has not accomplished optimally as it is supposed to be. It was reflected in the phenomenon that occurred in Indonesia in 2019 related to numerous cases faced by PT. Garuda Indonesia, Jiwas Raya, and PT. Krakatau Steel. Audit risk signifies a product that encompasses three components, namely inherent risk, control risk, and detection risk. Inherent risk is defined as a risk of material misstatement that occurs before considering internal control environment. Control risk

is interpreted as a risk in which the client's internal control does not detect material misstatements on a timely basis. Meanwhile, detection risk is the risk of material misstatements or errors in a financial statement that cannot be detected by the auditor. A control environment which is considered weak is likely to affect numerous areas in a financial statement [62].

Auditors' inconsistency and the absence of audit procedure standards may result in poor audit results and low-quality audit performance [44]. As risks can threaten an organization's sustainability, appropriate risk management is an important consideration of audit risk [46]; Considerations of audit risk belong to an auditor's responsibilities. These considerations are important to support the confidence that the financial statement is free from misstatements [62]. According to Indonesian Public Accounting perception, risk components are determined by auditors based on their professional assessment. Auditors who make a professional consideration needs to have adequate skills and educational backgrounds [3];[28]. The structured audit risk can be examined if the audited area is adjusted to the entire organization's activities. ([55]; [14]). Fraud is frequently difficult to detect as the perpetrators attempt to conceal their action[42].

Audit quality is utilized to predict fraud occurrence against the breach of Generally Accepted Accounting Principles (GAAP). Contrary to the research conducted by [7] and [12] demonstrated that audit quality reports are not considered informative in the audit environment in China. [24] employed cultural distinctions to give an explanation regarding why Chinese and British auditors show their different reactions to the clients' pressure. The results indicated that clients in China with the weak mechanism of the company governance have a tendency to hire low-quality auditors. [23] conveyed that the increasing governance in a company will give an impact on the higher audit quality.

A high-quality audit will likely minimize financial statement fraud. It will also enhance auditors' reputation by preventing auditors from audit failure [16]. This is important as once a bad reputation catches auditor due to audit failure; they will possibly lose their market [59]. Auditors can avoid legal accusations by providing high-quality audits as it positively associates with a wealth of auditors' incentives and is prone to litigation. Built upon the description above, this study examines the consideration of audit risk and auditors' professional skepticism as promoting factors of audit quality with detection of financial statement fraud as the mediating variable.

2 Literature Review And Hypothesis Development

Agency Theory

Agency theory specifies that the separation of ownership and control between shareholders and management can escalate the occurrence of moral hazard, differences in risk preferences, and information asymmetry [22]; [18]. Well-designed information systems, control tools and control mechanisms are aimed at minimizing agency costs and offering maximum benefits to all parties [18]. Based on the agency's perspective, the role of the audit is to monitor management's action in implementing objectives so that the company's performance targets can be achieved [2]:

Cognitive Dissonance Theory

Cognitive dissonance theory points out that human beings basically relish consistency. Therefore, they tend to take action that do not contradict their beliefs, and they preclude themselves from the action that may be inconsistent with their attitudes. This theory encompasses numerous basic assumptions, one of which is that this theory assumes that humans have a desire for consistency in beliefs, attitudes, and behaviors. This theory demonstrates that being inconsistent with one another will psychologically result in the emergence of cognitive dissonance. It will encourage a person to minimize dissonance and prevent themselves from the information or incidents that possibly trigger

an increase of dissonance [53]. It is related to one's motivation encouraging him/her to leave the inconsistency and return it to consistency. The emphasis of this theory is about a person whose situation gets trapped in dissonance that makes him/her feel uncomfortable, and eventually that person will attempt to take action in order to get out of this discomfort. The approach of cognitive dissonance theory encompasses the gap that appears between two cognitive elements which are inconsistent and generate psychological discomfort when an auditor has two or more inconsistent cognitives, or they are incompatible with one another [63].

Audit Risk Consideration

Audit risk refers to the situation when an auditor makes an incorrect audit opinion because the financial statement contains misstated materials. Materials and risk may be used to evaluate the fairness of a financial report, which was proven by [26]. These risks could be classified into two categories: external and internal risks [51]. The former includes financial risks (including those related to the accounting standard, interest rates, foreign exchange, and credit) and market risks (risks associated with the economic environment, technological development, competition, customer demands, and regulations).

Several risks that should be taken into consideration concerning audit risk, according to [49], may include strategic and operational risks (those related to process, compliance, and human resources), financial risks (those related to treasury, credit, and trading), and informational risks (finance, operation, and technology). [11] classifies risks into highly influential risks to the company's internal environment (e.g., financial, operational, and technological effects) and external aspects (economy, environment, law, politics, market risk, and social risks).

Auditor's Professional Skepticism

In conducting an audit in the fields, it is necessary for an auditor to obey the audit procedures stipulated in the audit program. However, if the auditor only focuses on the audit program without professional skepticism, the auditor will merely detect misstatements caused by errors, and it will be difficult to detect misstatements caused by fraud in an audit report. The auditor must assume that management is dishonest or there are no honest answers [37].

The auditor's professional skepticism is associated with the auditor's attitude such as being skeptical, questioning or disagreeing with the client's assertions or generally accepted conclusions. Professional skepticism emerges as a fundamental procedure in practicing independence [41] and being conservative [48]. These two factors are pivotal to ensure that the financial statements are free from material misstatements. [25] asserted that it is principally difficult for auditors to retain professional skepticism without objective measurements.

Detection of Financial Statement Fraud

According to the Chartered Institute of Management Accountants (CIMA), fraud detection and prevention constitute a procedure to ensure a sound ethical culture and effective internal control in order to ultimately minimize fraud. Grounded on ISA 200, auditors aim to attain sufficient assurance showing that a financial statement is free from deliberate and accidental misstatements. [35] defines fraud as a deliberate manipulation committed by one or more individuals in a management team, supervisor, employee, or third party to gain advantages in an unlawful manner.

Audit Quality

There are numerous aspects associated with audit quality as mentioned by [19], namely: (1) the length of the audit, indicating that the longer the auditor conducts an audit of the same client, the lower the audit quality; (2) the number of the clients, demonstrating that if the number of the clients audited by the auditor increases, it will be followed by the increase of the quality audit; (3) the client's financial condition, which indicates that the healthier the company's condition, the higher the company's tendency in terms of pressuring the auditor to comply with the applicable standards; and (4) the third parties' review, indicating that the audit quality will increase if the third parties review the same client. The Public Accountant Professional Standards mentions that the audit performed by an auditor will result in good quality if the standards of the audit and quality control can be fulfilled. As explained by [61]), an auditor with good quality refers to the auditor who is capable of conveying accurate information.

Hypotheses Development

The Effect of Audit Risk Consideration on Audit Quality

[66] and [6] conveyed that audit risk consideration should lead to the auditor's greater involvement in order to predict the audit risk related to assessments, such as risk and control workshops, including risk self-assessment activities. As asserted by [64], audit quality is interpreted as a possibility in which an auditor is capable of identifying and reporting material misstatements in the client's financial statement. Grounded on the Public Accountant Professional Standards, the audit performed by the auditor will be considered appropriate if the auditing standards can be fulfilled. Based on the perspective of the agency theory, auditors are perceived to have a crucial role in monitoring the corporate governance mechanism that aims at minimizing problems related to asymmetrical information between the principal and agent ([54]; [27]; [21]; [2]). [20] stated that audit risk consideration encompasses four dimensions, namely evaluation, diagnosis, conveying information, and recommendation. Based on the explanation conveyed above, the hypothesis that can be proposed in this study is mentioned below.

H1: Audit risk consideration has a positive effect on audit quality.

The Effect of Auditor's Professional Skepticism on Audit Quality

The concept of professional skepticism reflected in a standard emerges as a person's attitude that always keeps questioning, being alert or critical in conducting the whole process of auditing. As remarked by [16], audit quality is defined as a probability of auditor's quality that detects a breach in the client's accounting system, and the detected breach will be reported. [17] gave an explanation by stating that a higher audit quality will guarantee a higher financial report. [13] asserted that investors assess the auditor's competence as an indication that represents a higher audit quality. Conversely, professional audit views the compliance with audit standards as an indication representing a higher audit quality. [6] conveyed that audit quality serves as a predictor utilized to predict the emergence of fraud against Generally Accepted Accounting Principles (GAAP). Grounded on the explanations above, the hypothesis that can be stated in this study is presented below.

H2: Auditor's professional scepticism has a positive effect on audit quality.

The Effect of Detection of Financial Statement Fraud on Audit Quality

[54]; [27]; [21]; [2] explained that audit quality is considered as a corporate governance monitoring mechanism aiming to minimize the problem of information asymmetry between principals and agents. An audit or information having good quality can be attained by improving audit quality [32]. [29] pointed out that business failure is resulted from the company's inability in identifying risks. [1] conveyed that supervision undertaken by top level management or the audit committee is able to control frauds committed by management. Based on the explanation stated above, the hypothesis that can be proposed in this study is mentioned below.

H3: Detection of financial statement fraud has a positive effect on audit quality.

The Effect of Audit Risk Consideration on Detection of Financial Statement Fraud

[58] stated that misstatement emerges as a common phenomenon if its impact is insignificant. Accordingly, it can be presented in accordance with generally accepted accounting principles. As explained by [10], audit risk consideration has a significant relationship with international and public companies. However, they noted that firm size, industry, and private or public sector do not serve as significant predictors of the implementation of risk-based auditing in the planning stage of audit. Detection of financial statement fraud is related to the theories of frauds or financial statements. The Association of Certified Fraud Examiner (ACFE) categorizes frauds into three prominent branches, namely corruption, asset missappropriation, and fraudulent statement [57]. Based on the explanation conveyed above, the hypothesis that can be proposed in this study is mentioned below.

H4: Audit risk consideration has a positive effect on detection of financial statement fraud.

The Effect of Auditor's Professional Skepticism on Detection of Financial Statement Fraud

Professional skepticism serves as a crucial element in auditing financial statements, as reflected in the auditing professional standards [36]. Auditors who act skeptically will never accept the explanations conveyed by their clients without clarifications. They will give their clients some questions that should be answered so that the reason, evidence, and confirmation of the questioned object can be attained. Audit quality emphasizes the importance of professional scepticism ([41]; [47]; [50]). Without practicing professional skepticism, the misstatements that the auditors can detect are merely resulted from errors, and the auditors will encounter hindrances in terms of detecting misstatements caused by frauds since the perpetrators commonly conceal the frauds they commit.

The auditor's failure in detecting frauds is evidenced by the emergence of numerous financial scandals involving public accountants. As explained by [15], auditors should attempt to avoid being trapped in the professional scepticism setting. [50] asserted that auditor's scepticism serves as a predominant factor. Hence, auditors with more skeptical dispositions will demonstrate judgements and decisions which are more skeptical (e.g., deferring judgements and engaging in more substantive tests) than the auditors with less skeptical dispositions. Auditors who have the lower level of interpersonal trust are considered more skeptical [56]; [34], , particularly in terms of their vigilance over the possibility of fraud occurrence. Grounded on the explanation conveyed above, the hypothesis that can be proposed in this study is presented as follows.

H5: Auditor's professional skepticism has a positive effect on detection of financial statement fraud.

The Effect of Audit Risk Consideration on Audit Quality through Detection of Financial Statement Fraud

[10] asserted that audit risk consideration significantly has a relationship with international companies and public companies. However, they also mentioned that company size, industry, and public sector are not significant predictors for conducting a risk-based audit in a planning stage audit. [5] explained that the basis for good quality in audit consideration is to consider materiality and risk issues since material and risk can assess the fairness of financial statements. This condition will affect the audit quality.

Misstatements are considered common if their impacts are insignificant. Thus, it is still possible to present them in accordance with generally accepted accounting principles. There are three main elements of frauds classified by the Association of Certified Fraud Examiner (ACFE), namely corruption, asset misappropriation, and fraudulent statement [57]. When auditors utilize the materialities of consideration and risk in performing an audit, it will subsequently affect the detection of financial statement frauds and have implications for the audit quality. Based on the explanations conveyed above, the hypothesis that can be proposed in this study is presented as follows.

H6:

Audit risk consideration has a positive effect on audit quality through the detection of financial statement fraud.

The Effect of Auditor's Professional Skepticism on Audit Quality through Detection of Financial Statement Fraud

When the auditor performs an audit in the fields, the auditor will follow the audit procedures listed in the audit program. However, if the auditor only focuses on the audit program without having an attitude that shows professional skepticism, the auditor will merely find misstatements caused by errors, and it is difficult for the auditor to detect misstatements caused by frauds. Auditor's professional skepticism has a prominent role in performing audit, in which the auditor cannot justify that the client's financial statements are free from fraud. However, the auditor cannot state either that the client's financial statements have the potential for fraud. Hence, the auditor should be skeptical when undertaking the client's audit financial statement.

Professional skepticism is perceived to have a pivotal element in auditing financial statements, as reflected in the audit professional standards ([36]). Audit quality highlights the importance of professional skepticism ([41]; [47]; [50]). In other words, auditors' skepticism in performing their audit may significantly affect their performance in collecting evidence and spotting misstated materials due to fraud potentials. Hence, it is expected as follows:

H7: Auditor's professional skepticism has a positive effect on audit quality through detection of financial statement fraud.

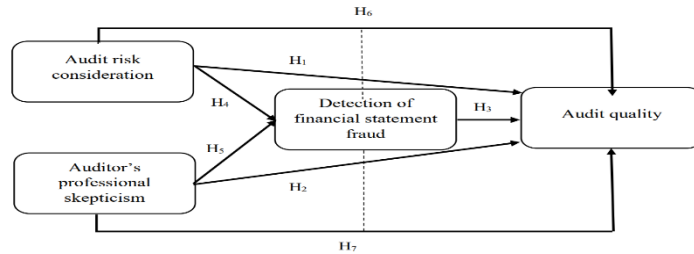


Fig. 1 Conceptual Framework3 Research Methods

Research Design

This quantitative study applied a causal effect method to examine the effect of independent variables on dependent variables. This method allows researchers to identify facts as dependent variables and scrutinizes independent variables [38].

Variable Operationalization

This study employed several variables: (1) audit risk consideration, (2) auditor’s professional skepticism as the independent variable, (3) detection of financial statement fraud as the mediating variable, and (4) audit quality as the dependent variable. Each variable was measured using a questionnaire with five response options, namely Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D), and Strongly Disagree (SD). Each response to a positive-worded statement was scored as follows: SA = 5, A = 4, N = 3, D = 2, and SD= 1. In contrast, each response to a negative-worded statement was scored as follows: SA = 1, A = 2, N = 3, D = 4, SD = 5.

Audit Risk Consideration

Audit risk consideration refers to auditors’ caution in assessing the risk of material misstatements in financial statements caused by fraud. In this regard, auditors should be professionally cautious in assessing audit risk. Risks of material misstatements consist of inherent and control risks. However, ISA 200 mentions them as a combined assessment of material misstatements. Both risks mean that financial statement potentially contains material misstatements. Detection risk refers to an auditor failing to detect misrepresented materials in a financial statement. The audit risk consists of two primary elements, namely combined assessment and detection risk. The blueprint of the audit risk consideration questionnaire is denoted as follows:

Table 1. The Audit Risk Consideration

Dimension	Questionnaire	Indicator
1. Inherent risk	1-9	(1) Business forms and types, (2) work culture, (3) degree transaction complexity, (4) the business motivation assessment, (5) previous audit reports, (6) clients’ acceptance, (7) assessment irregular transaction, (8) record of estimated balance a transaction, (9) categorization of fraudulent transaction.
2. Control Risk	10-16	(10) honest action and statement, (11) audit opinion, (12) being responsible for audit performance, (13) freedom of thought and (14) business network cooperation, (15) condition and fact complia

		recommendation, (16) assessment and recommendation of factors and impacts
3.Detection risk	17-23	(17) audit procedure, (18) planning and supervision systems, (19) risk level acceptance plan, (20) audit supervisory system, (21) audit procedure result interpretation, (22) substantive test on account balance, and (23) relationships between inherent risks and control risks.

Auditor's professional skepticism

Professional skepticism refers to auditors' responsibility to implement and maintain skepticism during the working period. Auditors need to exhibit skepticism when obtaining and evaluating audit proof during the audit process ([37]). The blueprint of professional skepticism questionnaire is denoted as follows:

Table 2. Professional Skepticism

Dimension	Questionnaire	Indicator
1.Questioning mind	1-3	(1) rejecting information unless the evidence is available, (2) questioning anything visible or heard, (3) asking about audit confidence
2.Suspension of judgment	4-6	(4) avoid making quick decision, (5) considering information, (6) listening to colleague's opinion
3.Search for knowledge	7-9	(7) finding new information, (8) being interested in learning, (9) asking questions to seek information
4.Interpersonal understanding	10-15	(10) being curious about client's behavior, (11) understanding client behaviors, (12) action (13) skills, (14) understanding, and (15) being optimistic
5.Self determination	16-18	(16) acceptance tendency, (17) listening to explanation, (18) assurance

Detection of Financial Statement Fraud

Financial statement fraud that cannot be detected early by external auditors is likely to trigger the occurrence of a serious scandal resulting in negative impacts on numerous parties. Public trust in the quality of the service given to the accountants emerges as the need of public trust in the service quality that they will provide regardless of what an individual has committed [65]. As pointed out by [25], internal auditors with higher professional scepticism have a tendency to conduct research on the information that can assist them in detecting frauds. Hence, it is believed that there is a

tendency that auditors with higher professional scepticism will perform audit procedures which are more appropriate than the auditors with lower professional scepticism [9]. The blueprint of audit risk consideration questionnaire is demonstrated as follows:

Table 3. Detection of Financial Statement Fraud

Dimension	Questionnaire	Indicator
1. Fraud-related knowledge	1-3	(1) auditors' adequate knowledge, (2) knowledge for assessing mod and technique of fraud (3) understanding of fraud characterization
2. Capability Detection Stage	4-10	(4) early detection ability by Internal supervisory unit, (5) understanding auditee's operational style, (6) Tracking auditee history of fraud, (7) identifying parties possibly committing fraud, (8) identifying factors leading to fraud, (9) identifying fraud in au program, (10) communicating fraud identification and making recommendation.

Audit Quality

Public Accountant Professional Standard states that the audit performed by an auditor is deemed to have a high quality if it meets the auditing and quality control standards. An auditor with good quality should be able to provide accurate information [61]. The information should be able to detect and report breeches, yet it removes the phrase 'market-assessed' that is closer to the perceived audit quality. Audit quality indicators are presented as follows.

Table 4. Audit quality

Dimension	Questionnaire	Indicator
1. Technical quality	1-7	(1) due professional care, (2) misstatement detection, (3) supervisi (4) understanding of audit risk, (5) consistency, (6) designing a observing, (7) audit report transparency
2. Service quality	8-12	(8) compliance with the standards, (9) adherence to audit progr (10) public accountants' rights, (11) attention to threat, (12) determining service fee

Data Source

Data sources in this study include primary and secondary data. The respondents were senior auditors with public accounting licenses in Public Accounting Firms in Indonesia, registered in Indonesian Institute of Certified Public Accountants (IICPA) until 2020.

Population

The study population was auditors in Public Accounting Firms registered in IICPA. There were 619 registered public accounting firms. This study also included the firms' branch offices that obtain a branch business permit from the ministry of finance. The branch office can only be led by a public

accountant in that public accounting firm. There were 1.369 active members with the public accounting license (IAPI, 2020).

Sample

Respondents were recruited by directly sending the questionnaire to auditors registered in IICPA. The probability sampling technique was applied as it allows researchers to possibly obtain a number of auditors deemed representative to public accounting firms in Indonesia.

In determining the number of samples, the Slovin formula was applied. The Solvin formula was denoted below;

$$n = \frac{N}{1+Ne^2} \quad (1)$$

Based on the formula and 10% margin of error, the sample size of the study was:

$$n = \frac{1.369}{1 + 1369(0.10)^2}$$

In other words, the number of respondents in this study should be at least 94 active auditors registered in IICPA.

Data Analysis Method

Descriptive statistics are functioned to provide an overview on the profile of the research sample data. The descriptive statistics employed in this study encompassed the descriptions of the respondents. To calculate descriptive statistics, Microsoft Excel program was used, so that the calculation can be easily performed. This study employed SEM technique using an analytical tool, namely SmartPLS 3.2.2. Hence, there were two models that were evaluated, namely outer and inner models.

1.Measurement Model Evaluation (Outer Model)

Outer model evaluation is utilized to determine the specification of the relationship between constructs and their indicators. The outer model is aimed at testing the validity and reliability of the research instrument. Validity test encompasses convergent and discriminant validities. A loading factor value is used in this study to measure the convergent validity. As asserted by [30], loading factor value that denotes $> 0,50$ is practically considered significant.

The cross-loading value of each indicator in a variable differs from the indicator in other variables and gathers on the variable referred to with a loading value of > 0.5 . Additionally, this study employed a reliability test through cronbach's alpha and composite reliability. The rule of thumb in the cronbach's alpha and composite reliability values must be higher than 0.7, so that the reliability test can be met by the constructs or variables ([30]Jr et al., 2008).

2.Structural Model Evaluation (Inner Model)

The inner model evaluation was performed to test the proposed hypotheses. [33] asserted that the inner model evaluation uses R2 for the dependent variable, and path coefficient or t-values (p-value) for the significance test of variables within the structural model. The higher the R2, the better the

prediction of the proposed model. The path coefficient was > 1.64 for one-tailed hypothesis test with alpha 5% [33]. Meanwhile, in the mediation effect test, the parameter of significance tests can be seen from the total effect table, since the mediation effect test does not only test the direct effect of independent variable on dependent variables, but it also tests the indirect effect of the two variables through the mediator.

4 Results And Discussion

Results

Most respondents were male (56%). Their age ranges from 26 to 43 years old (56%). Most respondents' educational background was bachelor's degree (51%) and most of them have worked for more than five years (51%).

Measurement Model Evaluation (Outer Model)

The outer model was evaluated using ability and reliability tests. Figure 2 denoted the path analysis diagram.

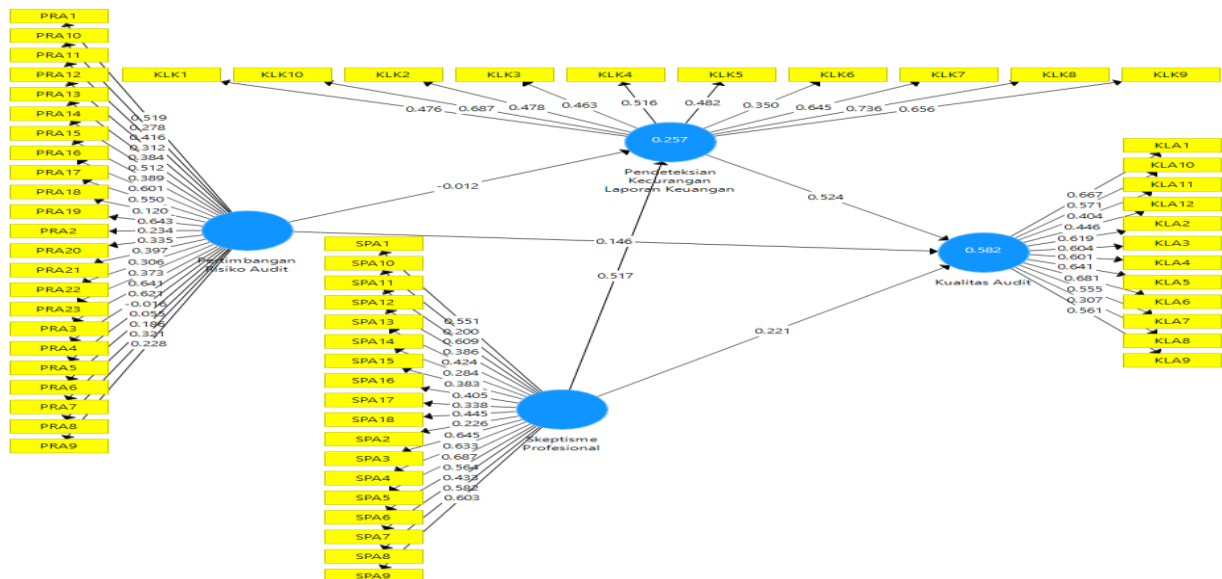


Figure. 2 Path Analysis

Table 5 indicated valid and invalid factor loading of each variable. Invalid factor loading value was subsequently eliminated and revised in the inner model to assure that the final version of the model met the validity criteria with the factor loading higher than 0.50.

1.

Convergent validity test

The outer model hypothesis test result showed that all indicators of audit risk consideration,

auditors' professional skepticism, financial statement fraud detection, and audit quality have met the convergent validity criteria as the factor loading exceeded 0.50.

Discriminant validity test

The discriminant validity was tested by viewing the cross-loading value. The cross-loading value of each variable indicator differs and gathers to the variable with loading > 0.5.

Reliability Test

The reliability test was undertaken through PLS algorithm iteration. The rule of thumb in the reliability test was the Cronbach's alpha and composite reliability must be higher than 0.7 [30].

Table 5. The reliability tests

Variable	Cronbach Alpha	Composite Reliability	R Square
Audit Risk Consideration	0.760	0.832	
Auditor's Professional Skepticism	0.822	0.867	
Detection of Financial Statement Fraud	0.761	0.848	0.141
Audit Quality	0.790	0.834	0.692

Structural Model Test (Inner Model)

Table 5 demonstrated that the R² value of financial statement fraud detection and audit quality was 0.141 and 0.692, respectively. In other words, detection of financial statement fraud is affected by audit risk consideration and auditor's professional skepticism by 14.1%. Meanwhile, the audit quality was affected by audit risk consideration, auditor professional skepticism, and financial statement fraud detection comprising 69.2%. PLS bootstrapping was applied to test the hypothesis. Figure 4.5 showed the structural model (PLS Bootstrapping).

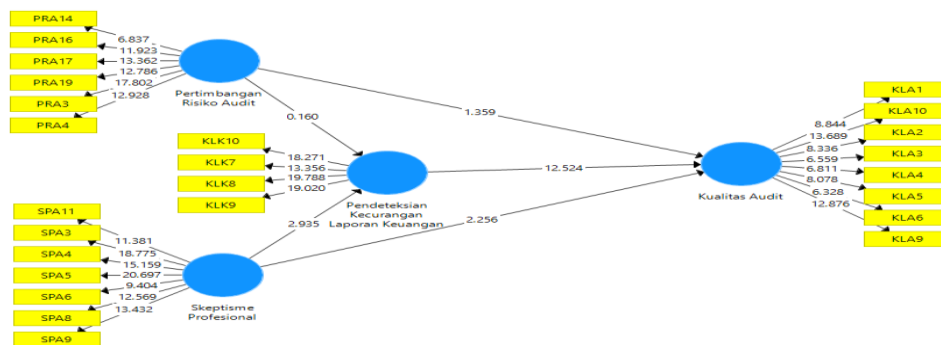


Figure. 3 Structural Model Diagram (PLS Bootstrapping)

Table 6. Path Coefficient (Bootstrapping PLS)

	Original Samples	Sample Mean	Std. Deviation	T-Statistics	P-Values
Audit risk consideration -> Audit quality	0.098	0.099	0.072	1.359	0.175
Auditor's professional skepticism -> audit quality	0.169	0.166	0.075	2.256	0.025
Detection of financial statement fraud -> audit quality	0.701	0.705	0.056	12.524	0.000
Audit risk consideration -> detection of financial statement fraud	0.017	0.033	0.109	0.160	0.873
Auditor's professional skepticism -> detection of financial statement fraud	0.360	0.358	0.123	2.935	0.003

Table 6 denoted the test result of the first hypothesis (H1) stating that audit risk consideration positively affected audit quality. The result indicated that the coefficient (β) of the effect of audit risk consideration on audit quality comprised 0.098; with t-statistics of 1,359 (< 1.64) and p-value was 0.175 (> 0.05). Hence, the audit risk consideration did not significantly affect audit quality, demonstrating that H1 was not supported.

H2 mentioned that auditor's professional skepticism has a positive effect on audit quality. The result attained in this study indicated that the coefficient (β) of the effect of the auditor's professional skepticism on the audit quality was 0.169; the t-statistics comprised 2.256, and the p-value was 0.025. The t-statistic value was $2.256 > 1.64$; and the p-value was $0.025 < 0.05$. This result demonstrated that auditor's professional skepticism positively and significantly affected audit quality. Hence, H2 was supported.

H3 mentioned that detection of financial statement fraud has a positive effect on audit quality. The result of this study indicated that the coefficient (β) of the effect of detection of financial statement fraud on audit quality was 0.701; meanwhile t-statistics comprised 12.524; and p-value was 0.000. The t-statistics value was $12.524 > 1.64$; and the p-value was $0.000 < 0.05$. It demonstrated that the detection of financial statement fraud positively and significantly affected audit quality. In other words, H3 was supported.

H4 stated that audit risk consideration has a positive effect on detection of financial statement fraud. The result of this study indicated that the coefficient (β) of the effect of audit risk consideration on detection of financial statement fraud was 0.017 with t-statistics comprising 0.160; and p-value was 0.873. The t-statistics value was $0.160 < 1.64$; and p-value was $0.873 > 0.05$. It demonstrated that audit risk consideration did not have a significant effect on detection of financial statement fraud. Hence, H4 was not supported.

H5 mentioned that auditor's professional skepticism has a positive effect on detection of financial statement fraud. The result of this study indicated that the coefficient (β) of the effect of auditor's professional skepticism on detection of financial statement fraud was 0.360; the t-statistics comprised 2.935; and p-value was 0.003. The t-statistics value was $2.935 > 1.64$; and p-value was $0.003 < 0.05$. This result demonstrated that the auditor's professional skepticism significantly and positively affected the detection of the financial statement fraud. In brief, H5 was supported.

Table 7. Total Effect (Bootstrapping PLS)

	Original Samples	Sample Mean	Std. Deviation	T-Statistics	P-Values
Audit risk consideration -> Audit quality	0.111	0.122	0.108	1.021	0.308

Auditor's professional skepticism -> audit quality	0.421	0.417	0.110	3.843	0.000
Detection of financial statement fraud -> audit quality	0.701	0.705	0.056	12.524	0.000
Audit risk consideration -> detection of financial statement fraud	0.017	0.033	0.109	0.160	0.873
Auditor's professional skepticism -> detection of financial statement fraud	0.360	0.033	0.123	2.935	0.003

Table 7 denoted the test result of the hypothesis stating that audit risk consideration has a positive effect on audit quality through financial statement fraud detection. The result showed that the coefficient (β) of the effect of audit risk consideration on financial statement fraud detection comprised 0.017 with t-statistics of 0,160 (< 1.64), and p-value was 0.873 (> 0.05). It indicates that audit risk consideration did not significantly affect the detection of financial statement fraud. The coefficient (β) of the effect of financial statement fraud detection on audit quality was 0.701 with t-statistics of 12.524 (< 1.64), and p-value comprised 0.000 (< 0.05), indicating that the detection of financial statement fraud positively and significantly affected audit quality. Lastly, the coefficient (β) of the effect of audit risk consideration on audit quality was 0.111 with t-statistics of 1,021 (< 1.64) and p-value was 0.308 (> 0.05), demonstrating that the audit risk consideration did not significantly affect audit quality. These three test results showed that financial statement fraud detection did not mediate the effect of audit risk consideration on audit quality. In other words, H6 was not supported.

H7 mentioned that auditor's professional skepticism positively affects audit quality through financial statement fraud detection. The result indicated that the coefficient (β) of the effect of auditor's professional skepticism on financial statement fraud detection comprised 0.360 with t-statistics of 2.935 (> 1.64), and p-value was 0.003 (< 0.05). It demonstrated that the auditor's professional skepticism positively and significantly affected financial statement fraud detection. The coefficient (β) of the effect of financial statement fraud detection on audit quality was 0.701 with t-statistics of 12.524 (< 1.64), and p-value comprised 0.000 (> 0.05), indicating that the financial statement fraud detection positively and significantly affected audit quality. The coefficient (β) of the effect of audit risk consideration on audit quality was 0.421 with t-statistics of 3.843 (> 1.64), and p-value was 0.000 (< 0.05), indicating that the auditor's professional skepticism positively and significantly affected financial statement fraud detection. These three test results showed that financial statement fraud detection mediated the effect of auditor's professional skepticism on audit quality, indicating that H7 was supported.

Discussion

The Effect of Audit Risk Consideration on Audit Quality

The result attained in this study indicated that audit risk consideration has no significant effect on audit quality. As conveyed by [64], audit quality emerges as a possibility in which an auditor is capable of detecting and reporting material misstatements in a client's financial statement. Audit risk consideration should be able to lead to the auditor's greater involvement in terms of predicting the audit risk which is associated with assessments, such as internal control and risk self-assessment activity. Based on the Public Accountant Professional Standards, the audit performed by the auditor will be considered appropriate if the auditing standards can be met. One of the factors triggering the inability of audit risk consideration in affecting audit quality is due to the company's good internal

control, in which it subsequently minimizes the audit risk undertaken by the auditor.

The Effect of Auditor's Professional Skepticism on Audit Quality Audit

The result of this study demonstrated that the auditor's professional skepticism has a positive and significant effect on audit quality. The concept of professional skepticism reflected in the standards encompasses the auditor's action that keeps questioning, being alert or critical in performing the whole process of auditing. As asserted by [17], a higher audit quality will guarantee a higher financial statement. Additionally, [13] stated that investors assess the auditor's competence as an indication of a higher audit quality. Meanwhile, professional audit believes that the indication of a higher audit quality is represented or reflected by the compliance with the auditing standards. The skeptical attitude shown by the auditor will increase the audit quality since the auditor will always keep questioning, being alert and critical in auditing the client's financial statement.

The Effect of Detection of Financial Statement Fraud on Audit Quality

The result of this study indicated that the detection of financial statement fraud positively and significantly affects audit quality. Audit quality is perceived to be a control mechanism that aims to minimize the occurrence of asymmetrical information between the principal and agent. Information with good quality can be optimized by increasing the audit quality [32]. [29] conveyed that a business failure is resulted from the company's inability in identifying risks. As pointed out by [1], the control performed by top level management or audit committee has a possibility to control the fraud committed by management. The higher the auditor's capability in detecting the financial statement fraud, the higher the audit quality.

The Effect of Audit Risk Consideration on Detection of Financial Statement Fraud

This study indicated that audit risk consideration has no significant effect on detection of financial statement fraud. [58] explained that a misstatement is considered reasonable if its impact is insignificant, so that it can be presented in accordance with generally accepted accounting principles. A higher internal control system demonstrates that the client audited by the auditor has a low material misstatement. As a result, it lowers the audit risk consideration on the financial statements. Additionally, it may lower the sample applied in the audit. Accordingly, audit risk consideration will not affect the detection of financial statement fraud if the internal control system is effective.

The Effect of Auditor's Professional Skepticism on Detection of Financial Statement Fraud

The result attained in this study exhibited that auditor's professional skepticism significantly and positively affected the detection of financial statement fraud. Professional skepticism is perceived to be a pivotal element in auditing financial statements, as reflected in the auditing professional standards. Skeptical auditors will not simply accept their clients' explanations. The auditors will ask their clients about some questions in order to attain the reason, evidence, and confirmation related to the questioned object. Accordingly, the auditors will always prioritize their critical attitude when auditing their clients' financial statements. The more critical the auditors in performing their audit, the better their audit quality. It is due to the fact that they will attempt to find out adequate audit evidence in terms of conveying audit opinions.

The Effect of Audit Risk Consideration on Audit Quality through Detection of Financial Statement Fraud

The result of this study indicated that the detection of financial statement fraud cannot mediate the effect of audit risk consideration on audit quality. As conveyed by [5], a good audit consideration

is grounded on the consideration related to materiality issues and risks since these aspects may assess rationality in financial statements. Misstatements are considered reasonable if their impacts are insignificant. As a result, they can be presented in accordance with generally accepted accounting principles. If the internal control system is effective, it will minimize the audit risk. It implies that the potential of financial statement fraud will decrease, and it subsequently affects audit quality.

The Effect of Auditor's Professional Skepticism on Audit Quality through Detection of Financial Statement Fraud

The result attained in this study exhibited that the detection of the financial statement fraud can mediate the effect of auditor's professional skepticism on audit quality. Auditors who are in charge of conducting their audits in the fields should comply with the audit procedures stipulated in the audit program, and they should show their skepticism. The emergence of this situation is due to the fact that auditors do not agree that their clients' financial statements are free from fraud. In the meantime, auditors do not blame that their clients' financial statements have the potential of fraud. Hence, the auditor's skeptical attitude will increase the detection of financial statement fraud, and it will ultimately have an implication for the audit quality.

5 Conclusions

This study aimed to estimate the effects of audit risk consideration and auditor's professional skepticism on the audit quality mediated by detection of financial statement fraud. The results attained in this study are summarized in the following conclusions.

1. Audit risk consideration has no significant effect on audit quality. Hence, H1 is not supported.
2. Auditor's professional skepticism has a positive and significant effect on audit quality. Therefore, H2 is supported.
3. Detection of financial statement fraud significantly and positively has an effect on audit quality. Hence, H3 is supported.
4. Audit risk consideration has no significant effect on detection of financial statement fraud. In other words, H4 is not supported.
5. Auditor's professional skepticism has a positive and significant effect on detection of financial statement fraud. Therefore, H5 is supported.
6. Detection of financial statement fraud has no significant effect on audit risk consideration and audit quality. In other words, H6 is not supported.
7. Detection of financial statement fraud significantly and positively has an effect on auditor's professional skepticism and audit quality. Hence, H7 is supported.

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