

# Audit Quality and Its Factors

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**Abstract.** This study examines the determinants of Audit Quality yang dihasilkan auditor-auditor KAP in North Sumatra Province. This study uses a quantitative descriptive method. In obtaining research data, researchers will distribute questionnaires to research samples. Related to this the population in this study are all KAP in Sumatera Utara. In determining the number of samples, this study uses non-probability sampling. the responses of 80 auditors of KAP in North Sumatra Province. After that, the researcher will analyze the research data using SmartPLS. The results showed that the Audit Firm Size, Audit Tenure, dan Auditor's Independency has a positive influence on Audit Quality Keywords: Audit Quality, Auditor's Independency, Audit Firm Size, Audit Fee, & Audit Tenure

**Keywords:** Audit Quality, Auditor's Independency, Audit Firm Size, Audit Fee, & Audit Tenure

## 1. Introduction

Financial reports contain quantitative financial information that is necessary for decision-making by both internal and external stakeholders of the organization. The Financial Accounting Standards Board (FASB) asserts that financial statements must include two fundamental attributes: relevance and reliability. Measuring these two attributes is highly challenging, necessitating the involvement of an independent auditor to ensure the relevance and reliability of financial statements. This, in turn, enhances the confidence of all stakeholders in the organization. Therefore, the organization will experience a growing level of ease and efficiency in conducting its business activities [1].

When performing their responsibilities, auditors in Indonesia adhere to auditing guidelines established by the Indonesian Institute of Certified Public Accountants (IAPI) [2] in order to uphold the quality of audits. Audit standards encompass overarching principles, specific guidelines for conducting fieldwork, and criteria for reporting the findings. Furthermore, public accountants are obligated to adhere to the Code of Ethics set forth by the Institute of Indonesia Chartered Accountants (IAI) in 2021. Nevertheless, it is conceivable that an auditor committed an error. While it is possible to reduce these errors, it is not possible to identify all errors. The presence of errors in the financial accounts will have a detrimental impact on the overall quality of the audit conducted by the auditor.

Regarding the auditing standards established by the Indonesian Institute of Certified Public Accountants (IAPI), auditors are expected to adhere to certain fundamental ethical values, including independence, honesty, and objectivity. Public accountants are required to uphold their independence according to auditing standards and the Code of Ethics for the Professional Public Accountant. An independent auditor must maintain impartiality and refrain from favoring any party in order to prevent conflicts of interest.

Aside from the psychological variables of the auditors themselves, the quality of the audit can also be influenced by the attributes of the Public Accounting Firm (KAP) where they are employed. The size of the KAP is one of the factors that can impact the audit outcomes. In their study, Bae & Lee [3] found that the size of an audit firm can enhance the quality of audits, as indicated by discretionary accruals and amended opinions.

The auditor's independence and objectivity, which ultimately affect the quality of the audit, can be influenced by both the size of the Key Audit Partner (KAP) and the length of the audit tenure or the duration of the audit relationship with the client [4]. Furthermore, Adeniyi and Mieseigha [5] examined the correlation between the length of time an audit partner has been in their position and the level of audit quality. Their findings demonstrate a clear inverse correlation between the length of time an auditor serves and the quality of the audit. Furthermore, the aforementioned research demonstrates that audit costs have an impact on audit quality.

The researcher will perform a test to examine the impact of psychological aspects and characteristics of KAP on the quality of the auditor's audit. In this study, the concept of independence will encompass psychological elements, while the attributes of KAP will be represented by Audit Firm Size, Audit Fee, and Auditor Tenure.

This research is anticipated to offer both theoretical and operational advances. This research is anticipated to make a theoretical contribution to the existing body of knowledge on audit quality in Indonesia. It can serve as a reference and stimulate further research on the subject. Operational contributions made by public accountants can enhance the quality of audit services and deliver additional value to firms and the public who utilize financial statement services.

The subsequent section of this paper will present a comprehensive analysis of existing literature and propose hypotheses regarding the impact of independence, audit firm size, audit fees, and audit tenure on the overall quality of the audit. The subsequent section encompasses research methodologies, findings, and discourse. The final portion encompasses the findings and recommendations for future investigation.

## **2 Literature Review**

### **2.1 Audit Quality**

Audit quality, as defined by DeAngelo [6], refers to the likelihood that an auditor will detect and disclose any breaches in their client's accounting system. The findings of his study indicate that larger Knowledgeable Audit Practitioners (KAPs) strive to exhibit higher levels of audit quality compared to smaller KAPs.

Audit quality is the auditor's work in examining the financial statements properly and complying with the standards that have been set. An auditor must be very concerned about the quality of his audit results because it will affect confidence in his profession. The audit quality of an auditor can be seen from the benefits of the audit and the value of the recommendations he gives to his clients. The quality of this audit is indicated by indicators, namely reliable audit reports based on established standards.

As per Bayangkara [7], audit quality refers to a methodical, autonomous, and well-documented procedure used to gather unbiased information in order to assess the degree to which the audit criteria have been fulfilled. Optimal audit quality can be attained when the

auditor diligently conforms to auditing standards and principles, maintains independence, complies with legal requirements, and upholds the professional code of ethics. The Professional requirements for Public Accountants (SPAP) are a set of principles that govern the overall requirements for auditing by public accountants. They control all aspects of assignments and emphasize the importance of maintaining an independent mental attitude.

## **2.2 Auditor's Independence and Audit Quality**

Regulation of The Audit Board of the Republic of Indonesia no. 1 of 2017 concerning State Financial Auditing Standards or SPKN explains that independence is an impartial action and is not influenced by anyone in carrying out an examination

Effendy's research [8] proves that the level of independence of an auditor does not affect the quality of an internal audit, so whether or not an auditor will not guarantee a quality audit. However, research by Suseno [9] and Agusti and Pertiwi [10] proves that the level of independence of an auditor can influence the quality of internal audits. The research also proves that the high level of independence of an auditor, the higher the possibility of increasing the quality of the resulting audit. To prove the initial conclusion, the research hypotheses that can be formed are as follows:

H<sub>1</sub>: Auditor's Independence has a positive influence on Audit Firm Size and Audit Quality

Rezaie & Shabani [11] demonstrate that larger audit firms offer superior quality audit services compared to smaller businesses. According to Rezaei and Shabani, larger auditors are less reliant on the financial situation of their specific customer. Consequently, they are inclined to oppose their clients' insistence on disclosing inaccuracies found in audits conducted by smaller firms [12]. In addition, larger audit firms are more motivated to deliver top-notch services in order to safeguard their brand name [11]. This is because they face greater reputational damage in case of audit failure compared to smaller businesses [6]. In addition, it has been found that major audit companies possess elevated levels of technical expertise and more extensive resources. Small audit businesses lack the same level of experience, competence, and knowledge as larger firms, as stated by Francis and Yu [13] Given this reasoning, we can derive the following research hypotheses:

H<sub>2</sub>: Audit Firm Size has a positive influence on Audit Quality Audit Fee and Audit Quality

Arens et al [14] define audit fees as compensation in the form of money or goods or The engagement process with a customer or other party involves the exchange of several forms to assess the risk and complexity of the assignment, as well as the level of expertise required to provide the service. This process also determines the pricing structure for the related Knowledge, Abilities, and Personal qualities (KAP). Thus, it can be inferred that while the audit fee or the remuneration received by the auditor for their professional services is important, the auditor's alignment in this regard should be given priority in the public interest. According to a study conducted by Cho, Kwon, & Krishnan [15], the magnitude of the audit fee does not have an impact on the quality of the audit performed by the auditor.

However, Aradani [16] and Kurniasih & Rohman [17] prove otherwise. The three studies prove those audit fees can affect the quality of the resulting audit. This is because there is a threat of self-interest. After all, if it is too large to pay audit fees, there are personal benefits or

if it is too large to set audit fees, it will reduce the independence of public accountants so that the image of public accountants will be tarnished. However, large audit fees can also encourage KAPs to become more independent this is because large audit fees can be made available for wider research and application and more thorough audit procedures and it is likely that audit fees received from clients are a large part of the accountant's total income. office or only a small part of the total revenue of the accounting firm.

Deviant audit fees have a detrimental effect on the overall quality of the audit. In this study, the impact of audit fees on auditor independence and audit quality is examined. The presence of negative audit fees indicates the firm's significant ability to negotiate favorable terms, whereas lower audit fees incentivize auditors to decrease their level of audit exertion. Manipulating audit fees to meet certain business goals, which will consequently diminish the quality of the audit. According to this interpretation, the research hypotheses that can be formulated are as follows:

H<sub>3</sub>: Audit Fee has a positive influence on Audit Quality

H<sub>4</sub>: Audit Fee can strengthen the influence of Auditor's Independence on Audit Quality

H<sub>5</sub>: Audit Fee can strengthen the influence of Audit Firm Size on Audit

### **2.3 Quality Tenure and Audit Quality**

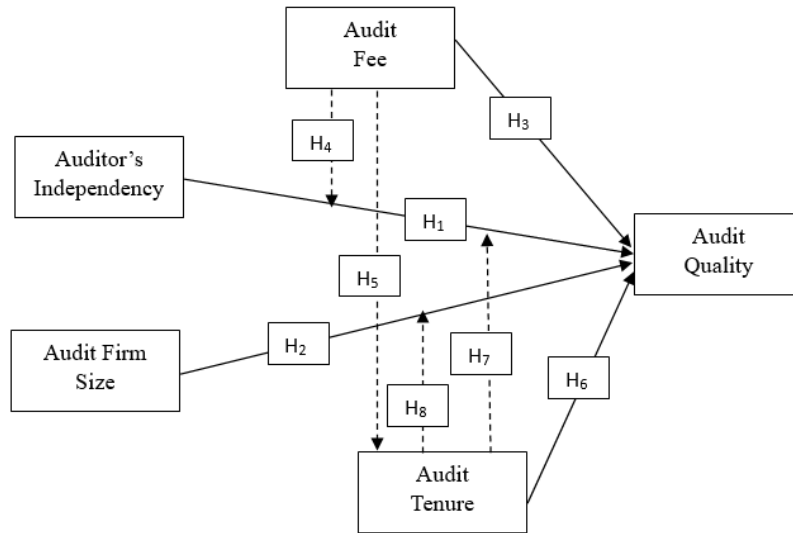
Existing research examines the relationship between audit firm tenure and various Indicators for assessing the quality of audit/financial reporting, such as discretionary or unexpected accruals and manipulation of earnings to achieve or surpass revenue projections, The study conducted by Bell et al. [18] found a direct correlation between the length of time a company has been audited and the quality of the audit for clients of the Securities and Exchange Commission (SEC). Brooks et al. [19] verified the non-linear impact of audit firm duration on audit quality. In their study, Singer and Zhang [20] discovered that the implementation of SOX has mitigated, but not completely eradicated, the adverse consequences of long-term ownership. They observed that long-term ownership resulted in a delay in identifying and rectifying misstatements. Furthermore, they discovered that the extent of the misrepresentation was directly linked to the lengthening duration of the audit firm's service. In their study, Yen et al. [21] examined a distinct context in the literature and discovered that audit companies with greater customer experience shown superior capability in evaluating the risk of information security breaches. In their study, Chu et al. [22] discovered that when audit firms have been working with clients who face a higher risk of litigation for a longer period of time, the quality of the audit decreases. When examining brief-term correlations, multiple indicators for audit quality consistently demonstrate a decline in quality during the initial years of an audit engagement [18]. The hypothesis of this research can be formulated by examining the variations in the explanations provided by these studies, with the aim of identifying the potential impact of the Audit Term on Audit Quality:

H<sub>6</sub>: Audit Tenure has a positive influence on Audit Quality

H<sub>7</sub>: Audit Tenure can strengthen the influence of Auditor's Independence on Audit Quality

H<sub>8</sub>: Audit Tenure can strengthen the influence of Audit Firm Size on Audit Quality.

Based on these hypotheses, the following is the conceptual framework of this research:



**Fig 1.** Conceptual Framework

### 3 Research Methods

This study is elucidatory. Explanatory study is a type of research that seeks to elucidate the cause-and-effect relationship between independent and dependent variables. The population under consideration in this study comprises all Knowledge, Attitudes, and Practices (KAPs) in North Sumatra. The study sample consists of an individual member of the Auditor who provides responses and answers to organized questions and statements either by the researcher or the Likert Questionnaire. The samples in this study were gathered via Nonprobability Sampling. This study also used SmartPLS to examine the idea.

### 4 Results and Discussion

#### 4.1 Results

**Table 1.** Descriptive Variable

Variable	N	Min.	Max.	Average	Std. Deviation
Auditor's Independence	80	1	5	4	0.901
Audit Firm Size	80	1	5	2	0.776
Audit Fee	80	2	5	3	0.546
Audit Tenure	80	1	5	4	0.863
Audit Quality	80	2	5	3	0.667

Following the Descriptive Analysis, the researcher will proceed with conducting a Validity Test and a Reliability Test. A validity test is a method used to determine the accuracy and reliability of a questionnaire that will be utilized to measure study variables. Furthermore, the reliability test is employed to assess the consistency of a questionnaire, serving as an indicator of a variable. A questionnaire is considered reliable when an individual's response to a statement is constant or stable throughout time. The subsequent findings pertain to the Validity Test and Reliability Test conducted in this study.

	Cronbach's Al...	rho_A	Composite Rel...	Average Varian...
Audit Fee (AF)	0.284	0.284	0.736	0.583
Audit Firm Size...	0.432	0.502	0.768	0.628
Audit Quality (...)	0.716	0.713	0.824	0.541
Audit Tenure (...)	0.704	0.761	0.815	0.530
Auditor's Indep...	0.118	0.129	0.685	0.529
Moderating Eff...	1.000	1.000	1.000	1.000
Moderating Eff...	1.000	1.000	1.000	1.000
Moderating Eff...	1.000	1.000	1.000	1.000
Moderating Eff...	1.000	1.000	1.000	1.000

Fig 2. Convergent Validity & Composite Reliability

Hair et al. (2014) state that while doing convergent validity testing, researchers might use an AVE value of 0.5 as the threshold for successfully completing the test. According to the findings of the convergent validity test shown in the table above, each study variable has an Average Variance Extracted (AVE) value of 0.5. The variable "Audit Audit Fee" has a value of 0.583, "Audit Firm Size" has a value of 0.628, "Audit Quality" has a value of 0.541, "Audit Tenure" has a value of 0.530, and "Auditor's Independence" has a value of 0.529. Furthermore, to assess the dependability of the respondent's data, the researcher may employ a Composite dependability value of 0.6 as a criterion for passing the reliability test [23]. According to the findings of the reliability test shown in the table above, all of the variables in this study have been demonstrated to pass the test for dependability.

When assessing discriminant validity, the evaluator will utilize the loading value of an indicator variable, which is then compared to the loading value of other variables. This comparison can alternatively be referred to as the cross-loading value, wherein the loading value of the initial variable indicator must surpass the loading value of other variables. The findings of the comparison are displayed in the table above. The table demonstrates that the discriminant validity test criteria have been satisfied, as the loading value of the starting indication surpasses the loading values of the other indicators [24].

	R Square	R Square Adjus...
Audit Quality (...)	0.472	0.412

**Fig 3. R-Square**

The table indicates that the R-Square value is 0.472. This number can be used to measure the magnitude of the impact or correlation between research components. The R-Square value in this study measures the degree to which the elements of Auditor's Independence, Audit Firm Size, Audit Fee, and Audit Tenure impact Audit Quality [23].

	Original Sampl...	Sample Mean (...)	Standard Devia...	T Statistics (JO/...	P Values
Audit Fee (AF) ...	-0.060	-0.035	0.124	0.481	<b>0.631</b>
Audit Firm Size...	0.290	0.284	0.122	2.368	<b>0.018</b>
Audit Tenure (...)	0.398	0.394	0.133	2.993	<b>0.003</b>
Auditor's Indep...	0.337	0.332	0.116	2.912	<b>0.004</b>
Moderating Eff...	0.099	0.100	0.143	0.690	<b>0.491</b>
Moderating Eff...	-0.083	-0.098	0.134	0.616	<b>0.538</b>
Moderating Eff...	-0.067	-0.036	0.102	0.656	<b>0.512</b>
Moderating Eff...	0.115	0.130	0.092	1.242	<b>0.215</b>

**Fig 4. Hypothesis Testing**

In testing the hypothesis, researchers can use the P-Value as a standard for whether or not an independent variable affects the dependent. When the P-Value value is less than 0.05 then the variable can be declared influential [24].

Based on this, the table above proves that Audit Firm Size, Audit Tenure, and Auditor Independence can improve audit quality. In other words, only Hypotheses 1, 2, and 6 have a positive and significant effect on Audit Quality.

## 4.2 Discussion

The results of the interpretation of the research hypothesis tests ( $H_1$ ,  $H_2$ ,  $H_3$ ,  $H_4$ ,  $H_5$ ,  $H_6$ ,  $H_7$ , &  $H_8$ ) proposed can be seen as follows:

### Auditor's Independence and Audit Quality

Based on the hypothesis testing figure above, Auditor's Independence has a P-Value value of  $0.004 < 0.05$ . This is in line with the results of research by Rahmina & Agoes [4], Suseno (2013), Agusti & Pertiwi (2013), James and Izien (2014). However, this study does not support Effendy [25] in improving audit quality. Auditor's Independence has a positive influence on Audit Quality ( $H_1$ ).

### **Audit Firm Size and Audit Quality**

Furthermore, Audit Firm Size has a P-Value of  $0.018 < 0.05$ . The results of this study support the research conducted by Raezaie & Shabani [11]. The research proves that a larger KAP will provide higher quality audit services. This research is also supported by Choi et al. [12], and Francis & Yu [13]. Audit Firm Size has a positive influence on Audit Quality ( $H_2$ )

### **Audit Fee and Audit Quality**

When evaluating the hypothesis mentioned above, the Audit Fee has a P-Value of 0.631, 0.491, and 0.538, which are all greater than 0.05. This demonstrates that the Audit Fee does not have the ability to enhance or reinforce the impact of the Independent Auditor and Audit Firm Size on the quality of the audit. The findings of this research are corroborated by Cho, Kwon, & Krishnan [15]. This research demonstrates that the audit fee has no impact on the quality of the audit conducted by an auditor. Contrary to the claim, Ardani [16], and Kurniasi & Rohman [17] provide evidence that contradicts it. The presence of an Audit Fee does not contribute positively to the level of Audit Quality, as indicated by Hypothesis 3 ( $H_3$ ). The Audit Fee does not have the ability to enhance the impact of Auditor's Independence on Audit Quality ( $H_4$ ). The presence of an Audit Fee does not enhance the impact of Audit Firm Size on the quality of an audit ( $H_5$ ).

### **Audit Tenure and Audit Quality**

Finally, the length of time an auditor spends on an audit might impact the quality of the audit they deliver. Nevertheless, the duration of an audit engagement does not enhance the impact of auditor independence and the size of the audit firm on the quality of the audit. This is supported by the P-values of 0.003, which is less than 0.05, and 0.512 and 0.215, both of which are greater than 0.05. The findings of this study are corroborated by the research conducted by Bell et al. [18] which demonstrates a positive correlation between audit tenure and the quality of audits conducted by the SEC. In addition, Brooks et al. [19], Singer & Zhang [20], Yen et al. [21], and Chu et al [22] prove the same thing. Audit Tenure has a positive influence on Audit Quality ( $H_6$ ). Audit Tenure cannot strengthen the influence of Auditor's Independence on Audit Quality ( $H_7$ ) Audit Tenure cannot strengthen the influence of Audit Firm Size on Audit Quality ( $H_8$ )

## **5 Conclusion**

The study was carried out on a sample of 80 Knowledge, Attitude, and Practice (KAP) auditors located in the Province of North Sumatra. This study aims to offer empirical information about the impact of auditor independence, audit firm size, audit fees, and audit period on the quality of audits. The test results demonstrate that auditor independence, audit tenure, and audit firm size have an impact on audit quality. Nevertheless, the impact of auditor independence and audit firm size on audit quality cannot be enhanced by audit fees and audit tenure.



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