

Analysis of the Factors That Influence Audit Quality at Public Accounting Firms in Surabaya

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ABSTRACT

The number of cases of fraud in financial reporting, such as several examples of cases in Indonesia, indicates that several Public Accounting Firms have low audit quality. Good audit quality is produced by professional auditors in carrying out their work. The independence and content that exists within the auditor is closely related to ethics. This study aims to determine the effect of Competence, Independence, Audit Fee, Auditor Motivation and Auditor Ethics on Audit Quality in Public Accounting Firms in Surabaya. The method used in this research is a quantitative method. Determination of the research sample is by purposive sampling. Data was taken by distributing questionnaires to 13 Public Accounting Firms in Surabaya. 100 questionnaires were distributed and 83 questionnaires were returned. Data measurement was measured using a Likert scale which was then processed using SPSS version 25 software. The results of the t test show the significance of the variables that affect audit quality, including Auditor Independence and Ethics. Meanwhile, the competence, audit fee, and auditor motivation variables have no effect on audit quality.

Keywords: *Competence, Independence, Audit Fee, Auditor Motivation, Auditor Ethics*

I. INTRODUCTION

External auditor is a profession that is needed by the company. An auditor must maintain objectivity and integrity in carrying out his profession in accordance with the applicable standard rules, namely SPAP (Public Accountant Professional Standards) by IAI (Indonesian Association of Accountants). One part of the basic principles of integrity and objectivity is independence. It is important for the auditor to have the characteristics of independence in carrying out the audit.

Based on the website on the Indonesian Ministry of Finance website, there is an example of a case that was revealed in 2018. PT Garuda Indonesia recognized income from its collaboration with PT Mahata Aero Teknologi in its annual financial report where the income would be paid after the agreement was signed. This recognition affects PT Garuda's Profit and Loss. Because of this, two commissioners of PT Garuda Indonesia, Tbk did not provide their signatures on the Financial Report for the 2018 financial year (Hidayati, 2019).

The Indonesian Ministry of Finance revealed two important issues regarding audit negligence carried out by Kasner Public Accounting Firm and Tanubrata Public Accounting Firm after

undergoing an examination at the Financial Professional Development Center. The first issue concerns violations of Audit Standards (SA) – Public Accountant Professional Standards (SPAP) SA 315 (Identification and assessment of risks of material misstatement through understanding the entity and its environment), SA 500 (Audit Evidence), and SA 560 (Later events) which have an impact on the opinion of the Independent Auditor's report (LAI). The second issue revealed by the Indonesian Ministry of Finance is that the quality control system related to consultation with external parties has not been implemented optimally

The Indonesian Ministry of Finance explained the sanctions given to two Public Accounting Firm after finding defects in the annual financial report of PT Garuda Indonesia, Tbk for the 2018 financial year. Kasner Public Accounting Firm and Tanubrata Public Accounting Firm who have provides audit services on PT Garuda Indonesia, Tbk Financial Reports for the 2018 financial year. Sanctions that was given by the Indonesian Ministry of Finance to Tanubrata Public Accounting Firm regarding this case was a written warning in the form of an order to carry out mandatory improvements to the internal quality control system. Then for Public Accountant Kasner Sirumapea, the Indonesian Ministry

of Finance suspended his license for 12 months as a sanction.

The number of cases of fraud in financial reporting in Indonesia indicates that several Public Accounting Firms in Indonesia can be said to still have low audit quality. Several previous studies regarding audit quality also had inconsistent results, therefore the authors took combined variables from previous studies to present in this study. The author uses one dependent variable, namely Audit Quality, which will be tested with five independent variables, namely Competence, Independence, Audit Fees, Auditor Motivation and Auditor Ethics. The intended respondents are auditors and public accountants who work at the Public Accounting Firm (*KAP*) domiciled in the city of Surabaya.

Agency theory

Agency theory (Agency Theory) is a basic theory of the implementation of business entities used so far (Jensen, 1976). In agency theory, the principal always wants to obtain all management activities and information related to the required investment by requesting an accountability report from the agent (Sunarsih, N. S. et al., 2019). Management usually wants its performance to look good to the owner of the company (principal). But behind that, the principal also wants honest corporate financial reporting from external auditors. The

test and re-examination are intended to minimize fraud.

Agency theory connecting the accounting roles that are part of it from the auditor's supervision of management performance. In agency theory, a high level of auditor competency will influence good audit quality. In addition, independent auditors really needed to be an internal mediator conflict management against asymmetric information occurs in the auditee company. Auditor independence is very important required in his role as an agent works for the principal, so that if the auditor has have an independent attitude, as much as anything motivation that comes from within and outside the auditor does not guarantee good audit quality generated by auditors in carrying out their duties.

Agency theory plays a role in regulating contract between the auditor and the client so that it can Minimize audit costs. The auditor carries out duties as an agent on orders from the principal so it is important for an auditor to understand and carry out them auditor ethics in their role.

Audit quality

Audit quality is a combination of the probability that a competent auditor uncovers fraud in his client's accounting system (De Angelo, 1981). The probability of an auditor is affected by the skill of the auditor, the

sampling process, technology and other factors. Audit quality shows that financial reports have high credibility in making decisions for users of financial reports (Triani & Yanthi, 2020).

Competence

Auditor competence is the knowledge and experience of the auditor in conducting audits carefully, thoroughly and objectively (Ningsih and Yaniartha S, 2013 in (Ardyana, 2017)). Auditor competence is a description of how the auditor can explicitly conduct an audit objectively and accurately based on experience and attention adequate and detailed.

Independence

Independence is an auditor's attitude that shows impartiality in his audit assignment. The mental attitude that is very important for the auditor to have is independence, by always applying auditor independence will be able to maintain the quality of the audit results (Hamid, 2019). Independence is a quality that requires the auditor not to act selfishly (act according to personal interests) in work, which is contrary to the principles of integrity and objectivity (Loebbecke, 1996).

Audit Fee

Audit Fee is a fee given to an auditor in carrying out his duties during his audit period. Audit fees are

also referred to as compensation for the implementation of the audit that must be received by the auditor. The quality of the Public Accounting Firm and the quality of the auditor will be largely determined by the complex nature of the fee audit service (Chung, 1988). All auditors need funds to support all needs in conducting audits. Determination of fees for this audit is the result of an agreement between the client and the auditor.

Motivation

Motivation is a desire that can lead someone to achieve a target and help someone take action effectively. Motivation can help someone in starting ideas and initiatives when we have to face failure. The most effective motivation applied is motivation arising from within an individual (Suryani, 2004).

Ethics

Every auditor has ethics as an auditor. There are many broad definitions of ethics, one definition, ethics is a set of moral principles or values (Arens, 2014). Audit Ethics is a principle and practice that forms the basis of an auditor's behavior so that the actions of an auditor are seen as respectable by society and can increase respect and dignity as well as to improve audit quality (Munawir, 2007 in (Wardhani & Astika, 2018)).

II. RESEARCH METHOD

The author uses a quantitative research methodology along with associative and explanatory research types. The influence of the dependent variable, audit quality, will be examined in the five independent variables of this study, namely competence, independence, audit fees, auditor motivation and auditor ethics. This study uses the main data from questionnaires which are distributed offline (hardcopy questionnaires) and online (in the form of g-forms) which are then completed by auditors who work (as employees) at the Public Accountant Office in the city of Surabaya. The population in this study is 450 auditors who work at Public Accounting Firms in the city of Surabaya, both head offices and branch offices. The author uses the slovin formula in calculating the number of samples. The following is an equation for calculating samples using the slovin formula according to (Sugiyono, 2018):

$$n = \frac{450}{1 + 450 (10\%)^2}$$

n = 81,81
n = 82 Responden

Dependent Variable

Audit Quality (Y)

Audit quality is a combination of the probability that a competent auditor uncovers fraud in his client's

accounting system (De Angelo, 1981).. The following are indicators of audit quality, Apriyanti (2010) in (Kusuma & Prabowo, 2019)):

- a. Field activity
- b. Auditors' skepticism
- c. Decision-making
- d. Strong commitment
- e. Client error reporting

Independent Variable

Competency (X1)

Competence is the auditor's knowledge and experience in conducting audits carefully (Ningsih and Yaniartha S, 2013 in ((Ardyana, 2017)). The following are competency indicators according to Sukriah, et al. (2019) in (Putra, G et al., 2020)):

- a. Quality of personal auditors
- b. General knowledge of auditors
- c. Auditor special skills

Independence (X2)

Independence is a quality that requires the auditor not to be selfish or take sides in the audit (Arens and Loebbecke, 1996 in (Ardyana, 2017)). The following are indicators of Independence according to Elfriani (2007) in (Hamid, 2019)):

- a. Tenure audits
- b. Pressure from Clients
- c. Peer Reviews
- d. Non Audit Services

Audit Fees (X3)

Audit fees are fees for performing audits that must be received by the auditor (Arens, A. A., Elder, R. J., & Beasley, 2011). The

following are indicators of audit fees according to Wahyudi (2012) in (Kusuma & Prabowo, 2019)):

- a. The complexity of the services provided
- b. Audit Risk
- c. Required effort
- d. KAP Cost Structure
- e. KAP size

Auditor Motivation (X4)

Motivation is a desire or desire that can lead individuals to take action effectively (Putra, G et al., 2020). The following are indicators of auditor motivation:

- a. Aspiration level to be realized through a quality audit
- b. toughness
- c. Tenacity
- d. Consistency

Auditor Ethics (X5)

Ethics is a set of moral principles or values. (Arens, et al, 2014 in (Trisyanto, 2020)). The following are indicators of audit fees according to Gustiawan (2015) in (Lismawati et al., 2021):

- a. Integrity
- b. objectivity
- c. Competence
- d. confidentiality
- e. Professional Conduct

Data Analysis Technique

Measurement of the questionnaire measured by Likert scale. In this research, data analysis used validity test, reliability test,

classic assumption test, and hypothesis test with SPSS 25.

III. RESULTS AND DISCUSSION

Table 1. Questionnaire Data

Information	Amount
Distributed questionnaires.	100
Unreturned questionnaire	(15)
Rejected questionnaire	(2)
Returned questionnaire (used)	83
<i>Respon rate</i>	83%

Source: data processed by author, 2023

This research in its data collection through two stages. The first stage was distributing 100 copies of the questionnaire to all respondents. The second stage was to withdraw the questionnaire after 1 month of distributing the questionnaire. Of the 100 copies of the questionnaire that were divided, the questionnaires that were returned were 83 copies.

Validity test

Table 2. Competency Variable Validity Test Results

Item	Pearson Correlation	Sig.
X1.1	0,813	0,000
X1.2	0,683	0,000
X1.3	0,492	0,002
X1.4	0,517	0,001
X1.5	0,735	0,000
X1.6	0,844	0,000

Source: data processed by SPSS, 2023

All indicators of competency variables have a significance value of less than 0.05. Therefore, all statement indicators on the Competency variable are declared valid.

Table 3. Independence Variable Validity Test Results

Item	Pearson Correlation	Sig.
X1.1	0,603	0,000
X1.2	0,801	0,000
X1.3	0,764	0,000
X1.4	0,817	0,000
X1.5	0,773	0,000
X1.6	0,628	0,000

Source: data processed by SPSS, 2023

All indicators of independence variables have a significance value of less than 0.05. Therefore, all statement indicators on the independence variable are declared valid.

Table 4. Fee Audit Variable Validity Test Results

Item	Pearson Correlation	Sig.
X1.1	0,607	0,000
X1.2	0,666	0,000
X1.3	0,684	0,000
X1.4	0,737	0,000
X1.5	0,556	0,000
X1.6	0,502	0,001

Source: data processed by SPSS, 2023

All indicators of Fee Audit variables have a significance value of less than 0.05. Therefore, all statement indicators on the Fee Audit variable are declared valid.

Table 5. Auditors Motivation Variable Validity Test Results

Item	Pearson Correlation	Sig.
X1.1	0,610	0,000
X1.2	0,748	0,000
X1.3	0,712	0,000
X1.4	0,681	0,000
X1.5	0,466	0,003
X1.6	0,548	0,000
X1.7	0,584	0,000

Source: data processed by SPSS, 2023

All indicators of Auditors Motivation variables have a significance value of less than 0.05. Therefore, all statement indicators on the Auditors Motivation variable are declared valid.

Table 6. Auditors Ethics Variable Validity Test Results

Item	Pearson Correlation	Sig.
X1.1	0,714	0,000
X1.2	0,747	0,000
X1.3	0,737	0,000
X1.4	0,564	0,000
X1.5	0,755	0,000
X1.6	0,767	0,000
X1.7	0,745	0,000
X1.8	0,782	0,000

Source: data processed by SPSS, 2023

All indicators of Auditors Ethics variables have a significance value of less than 0.05. Therefore, all statement indicators on the Auditors Ethics variable are declared valid.

Table 7. Audit Quality Variable Validity Test Results

Item	Pearson Correlation	Sig.
Y1	0,592	0,000
Y2	0,685	0,000
Y3	0,477	0,002
Y4	0,685	0,000
Y5	0,788	0,000
Y6	0,629	0,000
Y7	0,742	0,000
Y8	0,694	0,000
Y9	0,674	0,000
Y10	0,694	0,000

Source: data processed by SPSS, 2023

All indicators of Audit Quality variables have a significance value of less than 0.05. Therefore, all

statement indicators on the Audit Quality variable are declared valid.

Reliability test

Table 8. Fee Audit Variable Validity Test Results

Variable	Cronbach's Alpha	N of Items
Competence	0,767	6
Independence	0,808	6
Fee Audit	0,670	6
Auditors Motivation	0,731	7
Auditors Ethic	0,863	8
Audit Quality	0,855	10

Source: data processed by SPSS, 2023

All variables in this study were declared reliable with a reliability test value of > 0.6. So that the questionnaire from these variables can be used for further research.

Normality test

This normality test will determine whether the residual value in the regression model is normal or not. The significance level used is $\alpha = 5\%$. The value in the Asymp.Sig($\alpha=5\%$) > Sig (2-tailed) column is the decision-making criterion for Kolmogrov-Smirnov.

Table 9. Normality Test Results

		Unstandardized Residual
N		83
Normal Parameters	Mean	,0000000
	Std. Deviation	3,03441483
Most Extreme Differences	Absolute	0,082
	Positive	0,082
	Negative	-,061
Asymp. Sig. (2-tailed)		0,200cd

Source: data processed by SPSS, 2023

The Table of Normality Test Results above shows that the Asymp. Sig. (2-tailed) that is equal to 0.200. This value indicates that Asymp. Sig. (2-tailed) is greater than the significance ($0.200 > 0.05$). So that the assumption of normality of the data in this study is fulfilled.

Multicollinearity test

The results of the multicollinearity test can be concluded from the VIF (Variant Inflation Factor) and tolerance values. Any regression with a tolerance score greater than 0.1 and a VIF value lower than 10 is considered problem free.

Table 10. Normality Test Results

Variable	Collinearity	
	Tolerance	VIF
Competence	0,530	1.886
Independence	0,455	2.197
Fee Audit	0,546	1.833
Auditors Motivation	0,325	3.081
Auditors Ethics	0,543	1.841

Source: data processed by SPSS, 2023

The tolerance value for the Competency variable is 0.530, Independence is 0.455, audit fees are 0.546, auditor motivation is 0.325 and auditor ethics is 0.543. All tolerance values generated are > 0.10. While the VIF value for the Competency variable is 1.886, Independence is 2.197, audit fees are 1.833, auditor motivation is 3.081 and auditor ethics is 1.840. All VIF values are also < 10. Thus, the results of the multicollinearity test show that the data that the authors use are free from multicollinearity problems in the regression model.

Heteroscedasticity test

By using the scatterplot graph, this study assesses heteroscedasticity. This test evaluates whether there is an unequal residual variance between two observations that are different from each other.

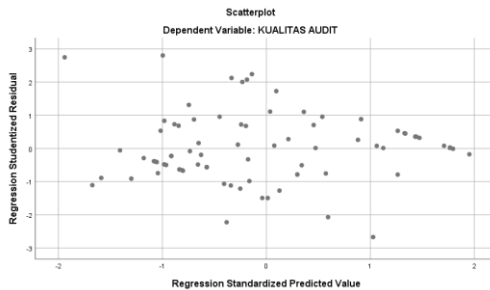


Image. 1
Heteroscedasticity Test Results

The data shows that the points on the Y axis are spread both above and below the number 0 according to the test using the Scatterplots above. This shows that the regression model does not have heteroscedasticity symptoms.

Hypothesis Test

Coefficient of determination

The correlation value and the coefficient of determination which indicate the strength of the relationship between the independent variable and the dependent variable, can be used to conclude the results of multiple linear regression.

Table 11. Normality Test Results

Model	Adjusted R Square	Std. Error of the Estimate
1	0,475	3,13139

Source: data processed by SPSS, 2023

The adjusted R Square value is 0.475, according to the analysis of the test results of the coefficient of determination in table 4.13. Thus, the

variables of competence, independence, audit fees, auditor motivation, and auditor ethics which amount to 47.5% can explain audit quality. While 52.5% of the remaining factors are influenced by variables outside the study.

T-test

The hypothesis will be accepted if the probability t value is < 0.05 , while the hypothesis will be rejected if the probability t value is > 0.05 . The t-table value in this study is 1.992. So, if the tcount value is > 1.992 the hypothesis will be accepted, while the hypothesis will be rejected if the t-count probability value is > 1.992 .

Table 11. Normality Test Results

Variable	t	Sig.
Competence	0,768	0,445
Independence	2,146	0,035
Fee Audit	0,182	0,856
Auditors Motivation	-0,476	0,635
Auditors Ethics	4,801	0,000

Source: data processed by SPSS, 2023

The results of hypothesis testing 1 can be seen in the table above. The competency variable has a significance value of 0.445 and a tcount of 0.768. The significance value of the Competency variable is $0.445 > 0.05$ and the tcount < 1.992 indicates that H1 is rejected.

The results of the second hypothesis test can be seen in table 4.14. The Independence variable has a significance value of 0.035 and a tcount of 2.146. The significance value of the Independence variable is

0.035 < 0.05 and the tcount > 1.992 indicates that H2 is accepted.

The results of the third hypothesis test can be seen in table 4.14. The Audit Fee variable has a significance value of 0.856 and a tcount of 0.182. The significance value of the Audit Fee variable is 0.856 > 0.05 and the tcount < 1.992 indicates that H3 is rejected.

The results of the fourth hypothesis test can be seen in table 4.14. Auditor Motivation Variable has a significance value of 0.635 and tcount of -0.476. The significance value of the Auditor Motivation variable is 0.635 > 0.05 and the tcount < 1.992 indicates that H4 is rejected.

The results of testing the fifth hypothesis show that the significance value of Auditor Ethics is 0.000 and tcount is 4.801. The significant value of the auditor's ethics variable is 0.000 < 0.05 and the value is > 1.992, which means H5 is accepted.

IV. CONCLUSION

Based on the results of the testing and discussion that the researchers have described in this study, the conclusions in the study entitled "Analysis of Factors Influencing Audit Quality in Public Accounting Firms in the City of Surabaya" are as follows:

1. Competence has no significant effect on audit quality at public accounting firms in the city of Surabaya.
2. Independence has a significant positive effect on audit quality at

public accounting firms in the city of Surabaya.

3. Audit Fee has no significant effect on Audit Quality at Public Accounting Firms in the City of Surabaya.
4. Auditor motivation has no significant effect on audit quality at public accounting firms in the city of Surabaya.
5. Auditor Ethics has a significant positive effect on Audit Quality at Public Accounting Firms in the City of Surabaya.

An independent auditor is an auditor who presents his audit report honestly, transparently and is not biased towards any party. Independent auditors always uphold auditor ethics in carrying out their duties. The size of the audit fee and motivation will not affect the principle of an auditor's independence.

A limitation of this research is the lack of reach of respondents with various positions. This is because the period for distributing questionnaires by respondents is during peak seasons, so many Public Accounting Firms do not accept questionnaires.

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