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Audit Quality Determinant at a Public Accounting Firm in Surabaya

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ABSTRACT

This study aims to examine the determinants of audit quality at a public accounting firm in Surabaya. The primary data collection method used in this research is a questionnaire method which is distributed to the Auditors of Public Accounting Firms in the Surabaya area. The data collected were 129 respondents. This research uses multiple linear analysis method with SPSS 26 data processing tool. The results of this study indicate that independence has a significant effect on audit quality. Audit experience has a significant effect on audit quality. Audit Tenure has a significant effect on audit quality.

INTRODUCTION

In the field of work, it is very important to have an auditor. Audit is a sequence of process which is conducted by auditor who has an important role, and it is a must thing to do in an organization for environmental purpose and strengthen the control, evaluation and research structure for an accounting system and evaluate policies in an organization or public company. According to (Nainggolan, 2016), audit is "an inspection which is conducted in critically and systematically by independent party, towards finance reports which are already arranged by the management along with bookkeeping records and supporting evidences, intend to get suggestions about fairness in the finance reports". One of professional benchmark from auditor nor Public Accountant Firms (PAF) is the quality of audit (Kustiawan, 2016). PAF has to be able to provide the best quality service to gain public's trust as in its independent role and also increase the value of client's company because of the ability to fill the expectation from the involved parties to serve the reliable report (E. N. Sari, 2015).

Numbers of fraud cases that happened and involved public accountant seems very detrimental for company owner nor external party. It caused untrustworthy towards audit quality by independent auditor. Many parties doubt the independence of public accountant if public keep working on audit on the same company. An example of fraud case was happened in PT. Asuransi Jiwasraya. The responsibility of job-desk awareness of auditors, they do the duty that indicate how

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an auditor to comport oneself in accordance with code of ethics or the policies in auditing. Auditors are regulated by code of ethics which is validated and monitored by profession organization. Nevertheless, how auditors behave also controlled by policies that validated by the institution where the auditor works. Both precepts are not always same for each auditor, and the professional one will be pushed to prioritize one of the precept than one another.

The problem that happened in Enron Corporation United States at 2001 was connected to the lack of independence from the auditor. That event in Enron Corporation had involved PAF Arthur Andersen (AA), because Enron Corporation has been audited by PAF AA for 20 years in a row. It caused PAF AA did not work independently towards its client and helped Enron Corporation to fraud their finance report, with the result that this kind of case caused the awareness of the importance of auditor's independence in a PAF. To prevent this kind of case happen in Indonesia, the latest policy about auditing regulations has been released by Minister of Finance RI Number 17/PMK.01/2008 about "Public Accountant Services" chapter 3 which is the improvement upon Finance ministerial decree No. 423/KMK.06/2002 and No. 359/KMK.06/2003. This policy require auditor partner rotation every 3 years and PAF rotation in every 6 years. The regulations aim to minimize financial fraud that is involving auditors.

Enron case above necessitate every stratum to re-evaluate the importance of quality in auditing. Audit tenure and auditor independence are factors that need to be considered, because the longer a PAF or auditor auditing a company, the more closeness both parties will be.

PAF benchmark also considered as an important factor in auditing quality. As in Century Bank case, the PAF which work to audit Century Bank is PAF Drs. Heroe, Pramono and PAF RSM AAJ Associates at 2008. They stated reasonable opinion without any exception, as both PAFs are not the big 4 PAF, so that DeAngelo research (1981) said that, "Audit quality from big four is proven right because big four have much more resources for dealing with their client", means the auditing quality of big 4 PAF has been proven that the big 4 have higher audit quality because they have more resources to deal with clients and they give more professional results till we expect the higher quality of audit.

Research about audit quality has been done a lot. (Djunaidi & Soepriyanto, 2018) found that the standards from client's company affect the quality audit which is proxied with company's standard. Thus, PAF's standard, audit tenure, and auditor switching that measured with dummy variable, are not giving significant effect towards audit quality which is proxied with company's standard.

Meanwhile (Rahayu & Suryono, 2016) found the result of Auditor Industry Specialization, Audit tenure, company's standard and auditor independence simultaneously affect the audit quality in manufacture company that registered in BEI at 2011-2013.

(Sari, 2020) said that Auditor client tenure, client's standard, auditor reputation and financial condition are not significantly affect with the audit opinion going concern, meanwhile debt default significantly affect with audit opinion going concern.

(Anastasia, 2016) stated that comparison before and after regulation are not significant towards audit tenure and PAF rotation affect the audit quality. Whereas at PAF specialization there are enhancement of independency and specialization auditor competence so that the audit quality becomes more remarkable.

Research continuation is a must due to find out the results to be used in a different environment and time, because the earlier research (with the same phenomenon) still having inconsistent results. This study aims to examine the determinants of audit quality at a public accounting firm in Surabaya. It is important to execute research continuation to complete the results about audit quality that have done in Indonesia. This research used independence variable, audit experience, audit tenure, and audit quality. In accordance to the background of the study, the researchers took a title "**Audit Quality Determinants at a Public Accounting Firm in Surabaya**". Problems of the study are:

1. Is independence affect significantly towards audit quality?
2. Is audit experience affect significantly towards audit quality?
3. Is audit tenure affect significantly towards audit quality?

MATERIALS AND METHODS

Research Approach

This research used quantitative method with primary data

Definition of Operational Variable

Table 1. Definition of Operational Variable

Variable	Indicator of Definition	Indicator
Independence	Independence means mental behavior that is free from any influence, uncontrolled by another party, and independent.	How long the relation with client, client's pressure, research from fellow, non audit services.
Audit experience	A knowledge which is obtained from non-formal education such as working experience.	How long doing audit, number of client, type of company
Audit Tenure	It means how long the relationship between auditor and client (company which is audited by auditor) counted by the number of years.	a) How long the engagement between PAF and client. b) How long PAF doing client regulation. c) How long the partner doing audit. d) How long partner doing regulation of audit. e) How close PAF with client.
Audit quality	Audit quality is a probability of auditor find and report the frauds in client's accountant system.	a. Reporting client's error. b. Understanding towards client's SIA. c. Commitment in finishing audit. d. Hold onto accountant and audit principle. e. Uneasily believe in client's statements. f. Careful in making decisions.

Research Location

Public Accounting firm in Surabaya.

Population

Population in this research is public accountant who work in PAF Surabaya.

Sample

Samples were taken with purposive sampling and the researchers collected 129 respondents. This research uses multiple linear analysis method with SPSS 26 data processing tool. The primary data collection method used in this research is a questionnaire method which is distributed to the auditors of Public Accounting Firms in the Surabaya.

Data Analysis Technique

Data analysis method that the researchers use was Multiple Regression Analysis (Sugiyono, 2017).

RESULTS AND DISCUSSIONS

Data Quality Check

Table 2. Validity Check

Variable	Variable Item	Correlation (r-count)	r-critical	Description
	Y1.1	.526	0.30	Valid

	Y1.2	.435	0.30	Valid
Audit Quality (Y)	Y1.3	.304	0.30	Valid
	Y1.4	.398	0.30	Valid
	Y1.5	.426	0.30	Valid
	Y1.6	.715	0.30	Valid
	X1.1	.339	0.30	Valid
	X1.2	.437	0.30	Valid
Independence (X1)	X1.3	.394	0.30	Valid
	X1.4	.371	0.30	Valid
	X1.5	.313	0.30	Valid
	X1.6	.389	0.30	Valid
	X1.7	.447	0.30	Valid
	X1.8	.370	0.30	Valid
	X1.9	.733	0.30	Valid
	X1.10	.665	0.30	Valid
	X1.11	.483	0.30	Valid
	X1.12	.392	0.30	Valid
	X1.13	.771	0.30	Valid
	X1.14	.367	0.30	Valid
	X2.1	.637	0.30	Valid
	X2.2	.707	0.30	Valid
Audit Experience (X2)	X2.3	.664	0.30	Valid
	X2.4	.618	0.30	Valid
	X2.5	.317	0.30	Valid
	X2.6	.423	0.30	Valid
	X2.7	.449	0.30	Valid
	X2.8	.319	0.30	Valid
	X3.1	.402	0.30	Valid
	X3.2	.444	0.30	Valid
Audit Tenure (X3)	X3.3	.302	0.30	Valid
	X3.4	.492	0.30	Valid
	X3.5	.330	0.30	Valid
	X3.6	.368	0.30	Valid
	X3.7	.437	0.30	Valid

Source : Processed data, 2022

In the result of validity check above, the researchers have proven that the whole statement on questionnaire items at variable (X) and variable (Y) are having coefficient correlation above 0,30 (>0,30), so that from variable (X) and variable (Y) as a whole are able to be avowed as **valid**.

Reliability Check

Table 3. Reliability Check

Variable	alpha cronbach value	Critical value	Description
Independence (X1)	.810	0.7	Reliable
Audit experience (X2)	.804	0.7	Reliable
Audit Tenure (X3)	.812	0.7	Reliable
Audit quality (Y)	.818	0.7	Reliable

Source : Processed data, 2022

According to the results above, the statement from questionnaire instruments which the researchers were used can be decided to have reliability.

Multiple Linear Regression Analysis

Table 4. Multiple Linear Regression Check

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	14.615	4.399		3.322	.001
	Independence	4.178	.066	.268	2.699	.008
	Audit experience	5.047	.111	.043	5.422	.004
	Audit Tenure	5.004	.104	.004	5.041	.008

Source : Processed data, 2022

Based on the result table, it shows that the equation the researchers found as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

$$Y = 14.615 + 4.178X_1 + 5.047X_2 + 5.004X_3 + e$$

Appertaining to the results that have found in the equation above, can be explained the meaning of regression coefficient such as:

1) Constant (a)

Constant value is 14.615. It presents that without any impact from the independent variable that is variable Independence (X1), variable audit experience (X2), and Audit Tenure (X3), so that the value in dependent variable is variable audit quality (Y) remains constant as 14.615.

2) Independence (X1)

Positive value of coefficient is 4.178 between variable Independence (X1) and variable audit quality (Y). It can be interpreted that, the variables have positive relation. So it can conclude that, if variable Independence (X1) increase a denomination, thus variable audit quality (Y) will happen an escalation as well as 4.178.

3) Audit experience (X2)

Positive value of coefficient is 5.047 between variable audit experience (X2) and variable Audit quality (Y). It can be delivered that, the variables have positive relation. In such manner, it can accomplish that if variable Audit experience (X2) increase a denomination, so that variable audit quality (Y) will happen an escalation as well as 5.047.

4) Audit Tenure (X3)

Positive value of coefficient 0.029 between variable Audit Tenure (X3) and variable Audit quality (Y). This matter it can adjudge that, the variables have positive relation. The conclusion is, if variable Audit Tenure (X3) increase a denomination, so that variable audit quality (Y) will happen an escalation as well as 0.029.

**Hypothesis Examination
Determinant Coefficient Check (R²)**

Table 5. Test Result R Square

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.889 ^a	.984	.862	2.135	3.916

Source : Processed data, 2022

According to the table, the researchers have discovered that the correlation of coefficient value R is 0,889 or close-by 1. It means that there is strong correlation between independent variable that involve variable Independence (X1), variable Audit experience (X2), and Audit Tenure (X3), towards dependent variable that is audit quality (Y).

Accordingly multiple determinant analysis, in distinction to the table, the researchers learned that the percentage of the independent variable impact against dependent variable was shown by R square value is 0,984. In short, multiple determinant coefficient $0,984 \times 100\% = 98,4\%$ and the rest $100\% - 98,4\% = 1,6\%$. It means that the ups and downs variable dependent is the audit quality (Y) affected by independent variable that is variable Independence (X1), variable audit experience (X2), and Audit Tenure (X3) in the amount of 98,4%. Meanwhile the rest is 1,6% affected by another variable which are not investigated by this research.

Test T (Partial Test)

Table 6. Partial Test Result (Test T)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	14.615	4.399		3.322	.001
	Independence	4.178	.066	.268	2.699	.008
	Audit experience	5.047	.111	.043	5.422	.004

Audit Tenure	5.004	.104	.004	5.041	.008
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Source : Processed data, 2022

1. The test which used multiple linear regression on the independence influence hypothesis towards audit quality shows significant in the amount of 0,008, less than 0, 05. So that **H1** which is stated that variable Independence (X1) partially has an effect to audit quality (Y) **accepted**.
2. The test which used multiple linear regression on the audit experience influence hypothesis facing audit quality indicates that the significant value as 0,004, less than 0, 05., so that **H2** which is stated that variable audit experience (X2) partially has an effect to audit quality (Y) **accepted**.
3. The test which used multiple linear regression on the audit tenure influence hypothesis towards audit quality describes that the significant value 0,008, less than 0, 05, so that **H3** which is stated that variable audit tenure (X3) partially has an effect to audit quality (Y) **accepted**.

Discussions

1. Independence significantly affect Audit quality

The results of this study fit with the research that had conducted by (Rahayu & Suryono, 2016). They stated that independence has significant effect towards audit quality. The effect of their correlation is positive. In addition, the more independence level of auditor, the more the level of audit quality will be. Moreover it is supported by the research held by (Anastasia, 2016). She found that the interaction between independence and etiquette of auditor affect significantly towards audit quality. This matter means that audit quality is supported by how far the auditor could stay underpressure, and face the problems ethically.

2. Audit experience significantly affect Audit quality

This research is established by a research conducted by (Agustin, 2011) she said that Audit experience has significant effect towards audit quality. Experienced auditors assumed that they might have better audit quality than junior. It happens because experience build up the ability to be better technically or psychologically. This research also supported by a research by (Fermana, 2015) she conclude that audit experience has proper positive influence to audit quality. Because the more experienced an auditor is, the better the audit quality will be.

3. Audit Tenure significantly affect Audit quality

It is a must for auditors to maintain their credibility and professional etiquette at work. In the other hand, auditor also have to deal with every pressure from client when making business decisions. Audit tenure is the time period when the PAF engaged with the same client. Research about audit tenure have been done by (Nainggolan, 2016) who found that audit tenure is giving a lot of positive impact to audit quality.

CONCLUSIONS AND SUGGESTIONS

Conclusions

Independence is giving significant impact to audit quality. Audit experience affects positively to audit quality. Audit Tenure significantly is contributing positive effect to audit quality.

Suggestions

Based on the conclusions, there are some suggestions for auditors PAF in Surabaya. Researchers hope auditors can improve the audit quality by optimize working experience in auditing finance reports that have done. It surely will improve audit quality.

Auditor also have to keep the independence and create good relation with client. Regarding the time being is also important to consider well, because a short time job affects the quality of the results. The risk of job's complexity become crucial consideration for giving audit fee which is absolutely affect the audit quality. For the next researchers who will conduct an inquiry in audit quality, it is essential to prescribe the research to develop in a further way by acknowledge another

variables which are have not been researched that indicate are having impact to audit quality such as professionalism, educational level and others.

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