

**Research article**

# Determinant of Audit Quality: The Guardian and Justice Organizations (Target 16.6 SDGs)

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**Abstract.**

External auditors play a major role in supporting governments and global organizations in implementing their plans for achieving sustainable development goals. The current research determines the factors that affect audit quality of a company. The authors reviewed research articles related to the topic published in the last 30 years (1980–2020) to identify the factors that affected audit quality. Data were analyzed using the Leximancer software. It was found that the internal control system and audit tenure are the two variables that had a significant effect on audit quality. The internal control system had a relationship level of up to 92%, while the audit tenure had a level of 22%. Additionally, work rotation, workload, reputation, audit committee, and provided services were variables that had a high level of relevance with a level range of 16–19%.

**Keywords:** audit quality, Leximancer, determinant of audit quality

## 1. Introduction

Sustainable Development Goals (SDGs) have been planned in 2015 by the United Nations. This SDG is an environmental sustainability target that must be achieved by 2030 and consists of 17 target points. To support this target, the role of the private sector is needed by incorporating the SDGs into its strategy. A total of 8 of the 17 targets to be achieved are supported by the work of auditors directly. SDG targets such as gender equality, quality of education, economic growth, climate and peace movement, justice and strong institutions can be supported by the daily work of auditors.

Auditors can support government and global organizations in implementing plans for climate change. For example, auditors play a major role to urges responsibility from government or the private sector for progress towards climate goals and targets. By using integrated report to have a better understanding of climate change risks, auditors

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can help the organizations to align their business goals and objectives with preparation for climate change.

Transparency in government and companies with upholding justice are a reflection of a safe and fair society. Fraudulence and global corruption can threaten the achievement of the SDGs, halt business growth, and hinder public and foreign investment. In particular, the accounting profession helps maintaining peace and justice by upholding the principle of honesty in building the company's financial reports.

In the end, auditors play an important role as value keeper who keep the company firmly committed in achieving the values that have been made into company's vision and mission. Without the role of auditors, SDGs targets may become mere slogans in the strategy of governments and private companies. Therefore, good auditor must also support the progress in achieving SDGs.

The most significant role of professional auditors is to convey the elements of the SDGs in financial reports to be reviewed. This is because through financial reports, auditors can contribute to the achievement of the SDGs. Therefore, auditors need professionals to participate in achieving the SDGs through world agreements. Auditors are divided into several kinds of professions, such as public auditors, government auditors, educators auditors, internal auditors, sharia auditors, and tax auditors. Public auditors (external auditors) are independent parties from outside the company which in charge of auditing financial reports.

Audit has an important role as one of the company's external governance mechanism. The need for an audit arises because of agency problems and information asymmetry between management and company stakeholders. The auditing function is to issue audit reports in compliance with auditing standards and to speak with client management to get reasonable assurance that the financial reports do not include any material misstatements due to fraud or errors [1]. Quality audits play a role in producing transparent and integrity financial reports. As a result, the quality of audits performed by external auditors will have an impact on the information in financial reports used by financial reports users such as investors, regulators, creditors, and other company stakeholders in making decisions.

Because audit quality is not directly visible, the concept of audit quality is difficult to define accurately. [2] said that audit quality is the probability that the auditor discovering a major misstatement and/or violation, as well as the probability of the auditor reporting the misstatement and/or violation. According to [3], discovery of misstatements in the audit process needs enough resources that can classified as input and process. Example of input are professional skepticism, knowledge, and competence. Example of process

are assessing risk, obtaining and evaluating audit evidence, quality review, and quality control. Meanwhile, reporting misstatements requires the auditor to take appropriate action in the current context at the end of the audit process. The auditor's integrity and independence influence his or her of reporting misstatements. General Accounting Office (GAO) said that a quality audit is "an audit conducted in accordance with generally accepted auditing standards to provide reasonable assurance that the financial reports and related disclosures under audit are (1) presented in accordance with generally accepted accounting principles and (2) are not materially misstated, whether due to error or fraud" [4].

Because audit quality is difficult to measure, previous researches have used indirect indicators such as the quality of audited financial reports, which are usually measured by accrual quality [5], [6], [7], [1] and audit opinion quality. other indirect approach uses characteristics of audit firm such as size of audit firm [2], [8]), industry expertise [9], audit fee [10], audit firms economic dependence on clients, audit tenure, and audit firm reputation [11]. Other researches use service user perceptions as a measure of audit quality [12]; [13] dan [14]. These researches examine user perceptions of what important indicators indicate audit quality. These researches use audit quality indicators developed by regulators such as the PCAOB.

## 2. Method

This research examines the factors that affect the quality of audit services provided by accounting firms. This research was conducted by content analysis process of research articles to identify factors that affect audit quality. The criteria for selecting the journal articles in this research are as follows: articles related to audit quality, full text that are available online, publish in reputable journals (rating range from Q1-Q4) from 1980 to 2020 (30 years).

In conducting content analysis, this research uses Leximancer software. Leximancer is a CAQDAS (Computer Assisted Qualitative Data Analysis) program that processes text documents and determines the relationship between words through occurrence of information, such as repetition, position, and frequency of words [15]. Leximancer filters word populations from text documents that showing weighted term classifications and relationships between keywords. From this population, a concept map is generated that describes the level of connection between keywords in the text that being analyzed [16]. Leximancer processes the degree of correlation between concepts and how close the concepts related each other [16].

Leximancer output shown in several forms such as tables and figures. This output shows the measurement results such as the frequency, strength, and importance of a word or theme. Until now, Leximancer is used in many researchers in accounting, business, and education [17]; dan[18]. The statistis results, themes, and relationships between themes that produced by Leximancer can be a suggestions for researchers to identify what factors influence audit quliaty and how big the relation between these factors to audit quality. The advantage of Leximancer compared to the manual analysis process is the capacity of the journal that Leximancer can process. Leximancer is more likely to be able to identify concepts and themes related to audit quality, including themes that may be missed if going through the manual data. The identified factors and the strength of their relationship with the concept of audit quality as seen from the count and likelihood through the processing results with the Leximancer software can be seen as follows.

### 3. Results and Discussion

Leximancer 4.5 is a software that can map themes and concepts that can be applied to the analysis of literature . Based on the research that has been collected previously, the results of data processing are obtained to find the determinants of the audit quality. The results of data processing using Leximancer shows on table 1 and Figure 1.

Based on the table above, the factors that affect audit quality includes:

1. Control system, audit tenure
2. Work rotation, workload, reputation, audit committee, provided services
3. Litigation process, knowledge, skills, system, size, competition, independence, audit fee, work environment, work culture, risk, control, specialization
4. Non-audit services, regulations, communication, skepticism, integrity, legality, governance, work experience, standards, conservatism, ethics, technology, performance, compelixity, fraud
5. Commitment

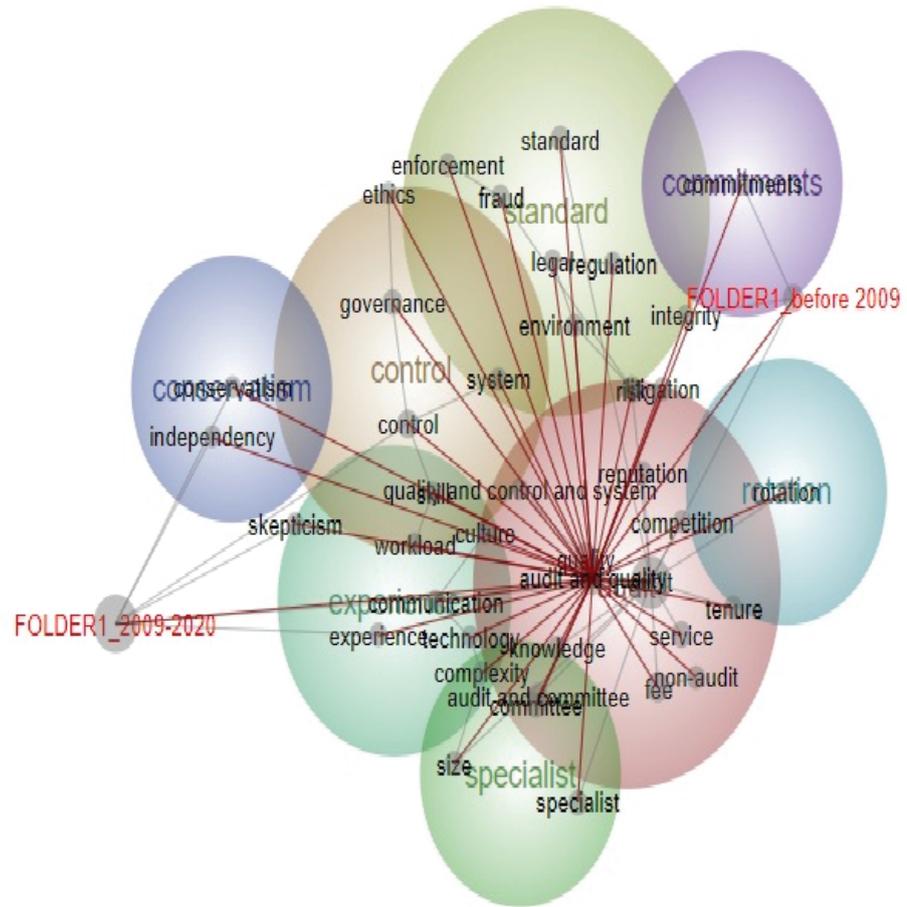
Control system and audit tenure are variables that fall into the high category in determining audit quality. Internal control system has level of up to 92%. If the client's internal control is good, the audit process can be carried out better, so that the resulting audit quality is also better. If the client's internal audit is bad, the auditor must work

TABLE 1: The likelihood value for concept which related to audit quality.

Concept	Word count	Likelihood
Quality	16429	75%
Audit	16429	22%
Tenure	705	22%
Rotation	425	19%
Workload	86	19%
Reputation	573	19%
Audit and Committee	919	18%
Committee	919	17%
Service	1197	16%
Litigation	503	15%
Knowledge	406	15%
Skill	101	15%
System	308	15%
Size	811	14%
Competition	196	14%
Independency	9	13%
Fee	2029	13%
Environment	294	12%
Culture	37	12%
Risk	1377	12%
Control	1571	12%
Specialist	883	11%
Non-Audit	264	10%
Regulation	198	10%
Communication	62	10%
Skepticism	95	10%
Integrity	84	9%
Legal	227	9%
Governance	884	9%

hard to produce a better audit quality, there is a possibility that the auditor cannot find fraud that exists within the company, and auditor could not gave the appropriate opinion. The audit tenure has likelihood level of 22%. The longer the tenure of the audit, the competency of the auditor to find misappropriation of financial statement is higher, because the auditor has a better understanding of the client’s industry and the client’s internal controls.

Rotation, workload, reputation, audit committee, services provide is the second category. The five variables have a high level of relevance with a probability of 16-19%. Rotation, workload, and reputation have a 19% probability rate. With the rotation of



**Figure 1:** Result of mapping concepts and themes about determinants of audit quality.

public accounting firms or audit partner rotation, auditor independence will increase, so that the resulting audit quality will be better. Workload means the workload faced by the auditor. The higher the auditor’s burden, the lower the audit quality because the time and energy allocated for each job is decreasing. The audit committee has a likelihood rate of 18%, and the services provided have a likelihood rate of 16%. The more effective the audit committee, the better the audit quality produced because there is an audit committee that always monitors the work of the external auditor

The next group is the litigation process, knowledge, skills, system, size, competition, independence, audit fees, work environment, work culture, risk, control, specialization. Variables that also affect audit quality are litigation processes, knowledge, skills, systems. The four variables have the same level of relevance, namely 15%. With the litigation process, the auditor will be more careful in conducting the audit, because there is a possibility that the litigation process will be faced if the audit conducted is not of high quality. Good knowledge and skills of the auditor will be able to improve the quality of the audit provided. Firm size and competition (both between auditors and between audit

firms) have a likelihood level of 14%. Firm size affects audit quality. If the client company is large, the internal audit usually gets better, so the quality of the audit provided is getting better.

The attitude of independence and audit fees are at the next variable with a 13% relevance level. The more independence of the auditor in conducting the audit, it means that the auditor conveys the actual condition of the financial statements of the company, so that users of financial statements do not make mistakes in using the information contained in the financial statements. The higher the audit fee, usually the quality of the resulting audit is better because the auditor can perform all audit procedures according to audit standards.

The variables of work environment, work culture, risk, and control have the same level of relevance of 12% to audit quality. The control variable as independently, only has a relationship that is not too high, but when combined with the system concept it will be high, namely 92%. This shows that the intended control is the existing control system. The auditor's specialization variable also contributed 11% to the resulting audit quality. If the auditor is a specialist, the auditor has a better understanding of the client's industry so that the resulting audit quality is better.

Non-audit services, regulations, communication, skepticism, integrity, legality, governance, work experience, standards, conservatism, ethics, technology, performance, complexity, fraud. Variables such as non-audit services, regulations, communication, auditor skepticism a relevance level of 10%. Meanwhile, integrity, legality, work experience, and standards are variables with relevance level below 10%, which is 9%. Variables that also has a relevance level below 10% are conservatism, ethics, and technology which all of them has a 8% level of relevance. For performance, complexity, and fraud variables, respectively, the levels of relevance are 7%, 7%, and 6%. The last variable that has a relationship with audit quality is commitment, but this variable has relevance level below 5%, which is only 2%.

## 4. Conclusion

This research aims to determine the factors that affect quality. This research was conducted by content analysis process of research articles to identify factors that affect audit quality within a period of 30 years (from 1980 to 2020) using the Leximancer software. This research found that internal control system and audit tenure are variables that have the high category in determining audit quality. Internal control system has a likelihood level of up to 92%, while the audit tenure has likelihood level of 22%. Work

rotation, workload, reputation, audit committee, provided services. These five likelihood has a high level of relevance with a likelihood level of 16 - 19%.

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