

Factors Affecting the Quality of Audit

Case Study at Inspectorate Central Lombok Regency

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Abstract: This paper aims to examine and obtain empirical evidence about whether due professional care, independence of the auditor and auditee characteristics affect the audit quality at Inspectorate of Central Lombok regency. This paper refers to the results of previous research. This is an explanatory research with purposive sampling method of interpretation. The questionnaires were distributed to 45 respondent. The data was tested by analysis tools SmartPLS 3.0. Based on the field test results found that due professional care auditor has positive and significant effect on audit quality, while Independence and characteristics of auditee did not significantly effect on audit quality. The results of this test further will be retested on the next research by the number of samples and a wider factors affecting the quality of audit.

1 INTRODUCTION

Undang – Undang no 32 tahun 2004 on Regional Government said that the area has the authority to regulate and manage their own affairs and interests of local communities in accordance with the legislation. It requires regions to make up various aspects of governance including institutional and financial problems apply in areas of accountability and transparency to achieve good governance, There are three main aspects that support the creation of good governance (good governance), namely monitoring, control and inspection (Mardiasmo, 2005).

Quality Audit is very important because of the audit results public as stakeholders can determine whether the government has used the funds in accordance with procedures and standards applicable (Rai 2008 ; 32), For local government, the quality of auditing are expected to reduce the findings of a loss of area and improve the performance of Unit (SKPD), while for the auditee in this regard SKPD, quality auditing are expected to improve the value for money (economy, efficiency, and effectiveness). However, the fact that the findings of the area loss are never decreased significantly and the type of findings Inspectorate against SKPD as auditee recur-ring annually that indicate SKPD cannot apply the concept of value for money.

The findings were always appearing in any Audit Reports are incomplete document, the mark up price,

payment of goods / services which exceed the market price, and fictitious service trips (LHP Central Lombok District Inspectorate, 2017).

In some studies that have been done about the quality of audits states that audit quality is determined by two things: the competence and independence (Christiawan 2002 Alim et al 2007). DeAngelo (1981) defines the quality of audits as the probability that the auditor will find and report violations to the client's accounting system. It is strengthened with the opinion of Donald R. Deis and Giroux (1992), which explains that the probability of finding a violation depends on the technical ability of auditors (competence) and the probability of reporting a violation depends on auditor independence.

In research Singgih & Bawono (2010) and Febriyanti (2014) says that due professional care positive effect on audit quality, while Saripudin, Netty and Rahayu (2012) in his research indicates that due professional care does not affect the quality of the audit. Not only is it as contained in the study Setyaningum (2012) quality audit cannot be separated from the object of the audit itself or commonly called the auditee,

This test combines the variables used by previous researchers to analyze the impact on audit quality improvement. This study was done considering the number of cases is now questioning the quality of the audit.

Based on the explanation of the problem in the quality of audits and previous research studies so that this test will examine and provide empirical evidence the independence of auditors, auditors and due professional care, the characteristics of the auditee effect on audit quality, this test analyzed by the Agency Theory approach. The results of this test will be used as the basis for a retest in thesis research with larger samples and improve other variables that affect the quality of the audit.

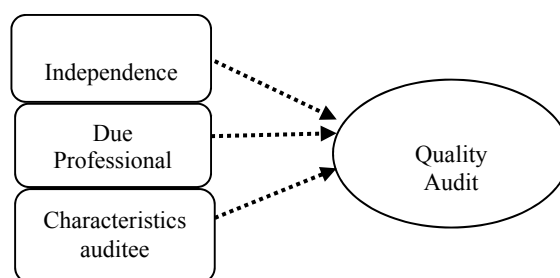


Figure 1: Research model.

2 LITERATURE REVIEW

2.1 Theoretical Basis

Agency theory developed by Jensen and Meckling (1976) in Elfarini (2007: 15) tried to explain the conflict of interest between the management agent and the owner as well as the other entities in the contract (e.g. creditors) as the principal.

Viewed from the standpoint of agency theory above. The relationship between the community and the government is like the relationship between principal and agent. Society is the principal and the government is the agents. Principal authorizes the setting to the agent and providing resources to the agent (in the form of taxes and others). As a form of accountability for the authority given, agents provide accountability reports to the principal. Because it does not know what is actually done by the agent (the case of information asymmetry), the principal needs a third party that is able to convince the principal that what is reported by the agent is true. In the position as a third party is actually the auditor is expected to play a major role. Given that some (or even most) report given by the government is a form of financial information. Auditors have an important position on the grounds that; (1) have access to financial information, (2) have access to information management, (3) independent, (4) have received professional training, and (5) can be obtained (No) (Jones, 1990).

In this test, the author will provide empirical evidence of the factors that affect audit quality as a third-party auditor to analyze the variables independence and due professional care on the auditor and auditee characteristics (agent) striving to audit quality produced by the auditors in the form of audit reports where the purpose of the audit is to reduce the agency conflict between agent and principal (society). Based on the theoretical study and previous studies, the research model developed by the authors can be seen from Figure 1 below:

2.2 The Research Hypothesis Formulation

Mardiasmo (2005) suggested that the examination (audit) is an activity undertaken by the party that has the competence and independence to examine whether the results of the government's performance in accordance with established standards. The auditor's professional proficiency to perform demanding professional scepticism in auditing activities (Rai, 2008: 51).

Several studies on the quality of audits that have been done to conclude the different findings about factors that affect audit quality. Research conducted by Singgih and Bawono (2010) concluded that the independence, due professional care and accountability, both simultaneously and partially influence on audit quality. Setyaningrum (2012) in his research concluded that the characteristics of auditors consisting of educational background, professional skills, and continuing professional education are partially not affect the quality of the audit. While the characteristics of the auditee only the size of the local government which proved negative effect on the quality of the audit, the auditee characteristics that form the complexity of local government is not proven effect on audit quality.

Zawitri (2009) found that due care Professional Skeptical negatively associated significant and positive attitude is not significantly associated with perceived audit quality. Ardini study (2010) concluded that the competence, independence, accountability and motivation together have a significant effect on audit quality. Then partially accountability has a positive and significant impact on audit quality.

The independence is often also referred to as a mental attitude that is free from influence, not control and is not dependent on the other party. Independence high attitude will produce quality audit reports and accountable. Based on these explanations, the first hypothesis in this test are:

H1: Independence of the positive effect to audit quality

Due Professional Care the other is absolute attitude that must be owned by an auditor. This means that an auditor must have a careful attitude and earnest in their profession as an auditor in order to produce quality audit reports. Accuracy and precision requires the auditor to exercise professional scepticism, which is an attitude that requires the auditor to think critically about the audit evidence that is by always questioning and evaluating audit evidence that, be careful in the task, and not careless in conducting examination and have perseverance in carrying out the responsibility. Based on the explanation, the second hypothesis in this test are:

H2: Due care professional's positive effect on audit quality

Accountability indicates Characteristics auditee public sector can be seen from SKPD size and complexity of the organization. SKPD size refers to the number of managed funds, the greater the funds managed by the greater demand for transparency (Setyaningrum, 2012). While the complexity of the organization includes a number of fields or echelon III who served. The more complex an organizational structure, the more comprehensive SKPD duties and authority owned. Often auditors become more alert and apply the high scepticism attitude toward auditees have a big budget and a complex organizational structure. Based on the explanation, the third hypothesis in this test are:

H3: Characteristics auditee take effect positive the quality audit

3 METHODS

3.1 Population and Sample

This test is used to experiments in central Lombok regency government because it has the largest population among the other districts in the island of Lombok.

Sample interpretation technique in this test method with probability sampling technique was giving the same opportunity or chance for every element of population being a member (Creswell: 220) such was the case in thi test using 45 respondents i.e. Functional official auditor and functional P2UPD.

3.2 Method of Data Collection

Data collection was done with questionnaire survey based development from previous risets roommates strongly correlated with variables in this test. Questionnaire is a set of questions arranged systematically so that the same questions can be submitted to every respondent. The questioner is an effective instrument of the data collection can be gotten standards because the data can be ac-counted for analysis needs comprehensively re-searched about a population characteristic (Suprinto, 2000). In a test pilot, questioners are transferred directly to a Functional official auditor and functional P2UPD Becomes roommates sample of this research.

3.3 Method of Data Analysis

The data gotten from the result questioners was managed with using SmartPLS 3.0. SmartPLS was chosen because it was Able to help the writer to get scores of latent variables for prediction. Chin and Newsted (1999 in Ghozali and Latan) explained that the formal model of latent variables in PLS Described explicitly with the aggregate linear variable from its observation or indicators. Weight estimation to create a component of the latent variable score was gotten from inner and outer of the model specifically. The result was the residual variance from the endogenous variable minimized.

4 RESULTS AND DISCUSSION

4.1 Test of Outer Model (Evaluation of Measurement Model)

Evaluation of the model or the outer measurement models used to score the construct validity and reliability. To measure the convergent validity can be seen from loading factor for every construct factor. In hair and friends (2013), he said that scores of loading factor of 0.7 must be more than minimally because latent variables can explain 50% variants for every indicator. Loading factor in this test can be seen at the picture below:

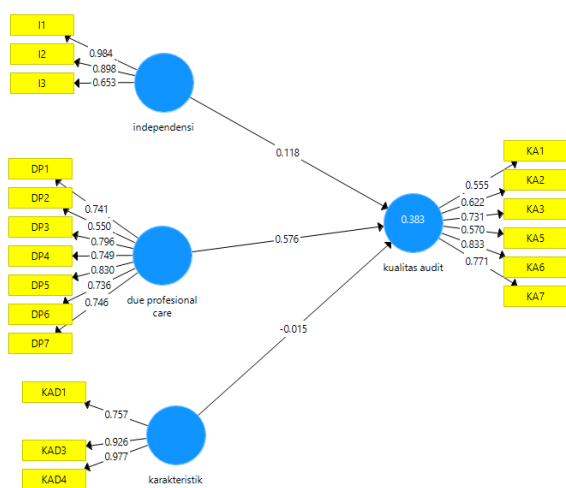


Figure 2: Load factor.

Based on the loading factor of the above, it can be seen that there is the indicator value is less than 0, 70. This is because of the indicator on low or indicator data variation with nearly the same value. In Hair and friends said that loading must be from 0.40 to 0.70 among Considered to be defended. Therefore indicators of independence of auditors, auditors and due professional care, the characteristics of the auditee because convergent validity have fulfilled all loading factors were upper than 0.50.

Next from the test of discriminate validity can be seen at the cross loading with comparing the correlation between its indicator construct correlations and the other indicators such as at table 1. Be-low:

Table 1: Cross loading.

	DP	I	KAD	KA
DP1	.748	0.259	-0.149	.448
DP2	.773	0.345	-0.172	0.384
DP3	.789	0.312	0.061	0.554
DP4	0.739	0.345	-0.033	0.509
DP5	0.822	.193	-0.137	0.512
DP6	0.745	0.184	-0.135	0.376
DP7	0.754	0.256	-0.204	.449
I1	0.319	.917	-0.140	.309
I2	.220	.820	-0.083	0.126
I3	0,004	.636	0,040	-0.041
KA1	0.338	0.164	-0.492	0.611
KA2	0.594	.329	-0.271	.649
KA3	0.277	.220	0,032	.690

KA4	0,270	0.102	0,002	0.537
KA5	.409	0.354	-0.019	.807
KA6	0.411	.181	-0.194	0.754
KAD1	0,139	-0.057	-0.532	0,072
KAD2	0.204	0.135	-0.896	.178
KAD3	.220	0.167	-0.913	0.192

Source: PLS outputs; 2017

From this table, we can see that the construct correlation of due professional care with its indicators has higher correlation score Compared with the indicator of the quality of the audit with the other constructs. This Showed that reflective indicator has fulfilled discriminant validity.

While the reliability test aims to prove the accuracy, consistency, accuracy in measuring instruments build. To measure the reliability can be done with composite reliability with a score of more than 0.7 for confirmation study. Results of reliability can be seen in the table below:

Table 2: Results of validity and reliability test.

No.	variable	reliability		Explanation
		composit e reliability (0.60 to 0.70)		
1	DP	0.909		Valid and Reliable
2	I	0.726		Valid and Reliable
3	KAD	.654		Valid and Reliable
4	KA	.787		Valid and Reliable

Source: PLS outputs; 2017

From the table above, this can be explained that the construct variable of due professional care, independence, the characteristics of the auditee and audit quality have more than fulfilled the reliability score of 0.70 for every variable (Ghozali & Latan: 77).

4.2 Hypothesis Testing

Hypothesis test results can be seen in Table 3 below where the results obtained from the bootstrap test with SmartPLS 3.0 software to see the support of the hypothesis.

Table 3: Land coefficient.

	Original Sample (O)	Samples Mean (M)	Error standard	T Statistics	value P	Conclusion
I KA →	0111	0113	0172	0642	0521	rejected
DP KA →	0579	0553	0117	4953	0000	be accepted
KA KAD →	-0016	0005	0211	0077	0939	rejected

Source: Output PLS 2017

Result of the first hypothesis test Showed that independency did not influenced of quality audit, this can be seen from Table 3 in the t-statistic was 0.642 less than 1.64 t-table this can therefore be concluded that the first hypothesis was rejected. P-value was 0.521 more than 5% alpha means that significant.

Result of the second hypothesis test Showed that positively influenced due professional care to-ward the management of audit quality in the which T-Statistic score of due professional care was 4.953 more than T-Table 1.64 this can therefore be concluded that the second hypothesis was accepted. P-value of 0.000 was smaller than 5% alpha means that significant.

Result of the third hypothesis test Showed that the auditee characteristic did not influence quality of audits in the t-statistic was 0.077 less than 1.64 t-table this can therefore be concluded that the third hypothesis was rejected. P-value of 0.939 was smaller than 5% alpha means that significant.

4.3 Effect of Independence the Quality Audit

The auditor's independence is one of the important factors to produce high-quality audit. The independence by Halim (2003: 46) is a mental attitude that is owned by the auditor to be impartial in conducting the audit. Research conducted by Alim et al. (2007) showed that the competence and independence of a significant effect on audit quality, but it is not the same as the results of the statistical analysis in this study is that independence has no significant effect on audit quality.

According Widhiarso (2011) there are seven reasons why the test was not significant statistically, namely: 1) the presence of outliers; 2) a model that does not fit; 3) the small sample size; 4) the effect of intervening variables; 5) pre-requisite analysis are not obeyed; 6) differing contexts; 7) measuring devices that are less valid and reliable.

4.4 Effect of Due Professional Care the Quality Audit

Based on statistical analysis in this study it was found that the second hypothesis (H2) due care professionals have a significant positive influence quality of the audit. In other words, the auditor should implement professional scepticism in auditing activities, which the auditor is always questioning and critically evaluating audit evidence the results of audits of quality expected. (Rai, 2008: 51), the results of this study are supported by research con-ducted Singgih & Bawono (2010) and Febriyanti (2014) says that due professional care positive effect on audit quality.

4.5 The Influence of the Characteristics of the Auditee the Quality Audit

Results of the analysis showed that characteristics of the auditee have no significant effect on audit quality. This contrasts with research conducted by Setyaningrum (2012) in "Analysis of the factors that affect the quality of BPK-RI audit" to see that not only the factor of the auditors that affect audit quality, but from the auditee is also believed to affect the quality of the audit. The results showed that the characteristics of the auditor and auditee characteristics together affect audit quality.

5 CONCLUSIONS

Based on the testing results of data analysis shows that due professional care positive effect on audit quality, so as to obtain results of quality audit reports required accuracy and prudence - carefulness auditor. Whereas the independence and the characteristics of the auditee has no significant effect on audit quality inspectorate central Lombok district.

The results of these tests are expected to be a reference to the author of the thesis by adding more variables and samples and improve analysis of the

data is higher (Ghozali & Latan) to obtain better results and improve other factors in that.

Although the implications of these tests may be suggestions for local governments in central Lombok in Indonesia in particular and government in general to improve the quality of audits in order to achieve good governance.

Restrictiveness from this test will give direction for next Researchers in thesis research to be Able to test the implication from quality audits.

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