Impact of Good Corporate Governance and Auditor Characteristics on Audit Quality

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ABSTRACT
A quality audit is an audit conducted by a competent and independent auditor. Competent auditor means having accounting, auditing, and information technology knowledge. Independent auditor means feeling free from conflicts of interest with any related party. Apart from competence and independence, many factors that affect audit quality should explore. This study examines the effect of good corporate governance effectiveness and auditor quality on audit quality, with the auditor as respondents. The auditors were selected based on the purposive sampling method, with the criteria of working in a Public Accounting Firm registered in the IAPI Directory and residing within the territory of the Republic of Indonesia. The results confirmed that work experience, competence, integrity, objectivity, and professionalism positively affect audit quality. However, independence does not affect audit quality. Accountants, a profession that works based on stakeholder trust, require a competent, integrity, and impartial person who is full of ethical dilemmas in the process of his work. The low competence will significantly impact audit quality and the economy. The inability of auditors to maintain public trust by opportunistic actions, ignoring norms and morality has an impact on the credibility and legality of the accounting profession.

Keywords: *GCG Effectiveness; Auditor Characteristic; Audit Quality*

1. INTRODUCTION

Relevant, accurate, and reliable financial reports will result in good decision-making. Therefore, the financial statements need to be audited by an independent CPA Firm. An audit is a systematic process to obtain and objectively evaluate evidence regarding statements about economic activities and events, intending to determine the suitability of these statements with established criteria and communicate the results to relevant stakeholders.

SA 110 (PSA No.2) of the Professional Standards for Certified Public Accountants (SPAP) [1] outlines the purpose of an audit of financial statements by an independent auditor. A financial statement audit often gives a judgment on the fairness, in all significant respects, of the financial position, results of operations, changes in equity, and cash flows in accordance with Indonesia's generally accepted accounting principles. The auditor's report is a mechanism for the auditor to present his opinion following the completion of an audit in accordance with the auditing standards established by the Indonesian Institute of Accountants. The auditor has a reasonable belief that there are no major misstatements in the financial statements, whether due to error or fraud.

Some cases of fraudulent corporate financial statements involve accountants as perpetrators. Financial statement fraud occurs when management intentionally misleads users of financial statements by manipulating financial statements in various ways outside the provisions of Financial Accounting Standards. Brooks revealed the exceptional cases of Enron, WorldCom, Xerox in the US as evidence of the failure of corporate management and auditors in carrying out their professional responsibilities. As a result, people lose confidence in public companies and the accounting profession. In Indonesia, similar cases have also occurred, such as the YPPI (Indonesian Banking Development Foundation) [2], Bank Duta [3], Bapindo [4], PT. Kimia Farma [5], Bank Lippo [6]. The auditors who participate as perpetrators of white-collar crimes are certainly experienced auditors and have held managerial positions and even partners. This accountant becomes a counselor to take advantage of gaps in financial standards and information asymmetry between corporations and stakeholders. Financial statement fraud schemes have become very sophisticated and challenging to prove their existence unless proven by themselves through bankruptcy events, underpricing during the IPO,

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complaints from the public, employees, consumers, and parties who understand the existence of irregularities.

A quality audit comes from a quality CPA firm with excellent resources, auditors, facilities, and infrastructure. In a letter issued by the Ministry of Finance of the Republic of Indonesia through the Financial Professional Development Center (PPPK) numbered S-253/PPPK/2019, the CPA Firm needs to implement the Audit Quality Indicator Guidelines. The Indonesian Institute of Certified Public Accountants (IAPI) has issued through the Decision of the Management Board. IAPI Number 4 of 2018. The Audit Quality Indicators include auditor competence, ethics, and auditor independence. Other indicators are the time use of key engagement personnel, engagement quality control, quality review result from external and internal parties, range of engagement constraints, CPA Firm organization, and governance and reward policies. . This suggestion motivated this research. Previous empirical findings prove that integrity, professionalism, independence, and objective attitudes positively affect audit quality [6]–[9]. Likewise, competence and experience empirically proved have been shown to affect audit quality [7], [10]. However, the influence of organizational factors and CPA firm governance on audit quality has not been proven and is the significance of this study.

2. METHOD

This study hypothesizes the effect of good corporate governance and auditor characteristics on audit quality. The Data was obtained via questionnaires from auditors of Public Accounting Firms (CPA) registered at the 2019 IAPI Directory in Indonesia.

Audit quality is an audit detection and report of material misstatements. Audit quality in this study was measured using 5 statement/question items. Corporate governance is defined by the Indonesian Institute for Corporate Governance as a process and structure applied in company operations, increasing the value of the company or organization in the long term while considering stakeholders' needs. Corporate governance variable measurement adopts from the previous study of Chahine and safieddine [11].

Audit experience is the auditor's skills obtained during the auditor's audit assignment for a certain period and different examination objects to increase expertise for the auditor. According to Molina and Wulandari [12], audit experience is the auditor's knowledge based on personal experience. The audit experience consists of two dimensions, length of service and audit assignments, with seven statements.

Auditor competency has three leading indicators: personal auditors' quality, general knowledge, and special skills possessed by auditors, which were adapted from Sukriah et al. [13]. Three statement items represent personal quality indicators, four represent general knowledge, and three represent special skills. The statement items were modified based on Sukriah et al. [13]. Auditor independence has three indicators, the relationship between auditors and auditees, independence in carrying out work, and independence in reporting. Four statement items represent the relationship between auditors and auditees, indicators of independence in the implementation of work are represented by four statement items, and two represent indicators of independence in reporting. The statement items were modified based on Sukriah et al. [13].

Auditor integrity is a quality measure based on public trust. It is a benchmark for members in testing all decisions taken so that auditors are required to have an honest and transparent attitude, be wise, brave, and be responsible in carrying out their audits. In this research, integrity uses seven statements.

Objectivity means that an auditor should not allow bias or be influenced by other parties for his decision-making to perform his audit task. In this study, objectivity was measured using five statements.

Auditor professionalism is an attitude and behavior that auditors must possess to fulfill audit assignments, be responsible, earnestness as expected. In this study, professionalism was measured using five statements.

3. RESULT AND DISCUSSION

3.1. Results

This study tests good corporate governance effectiveness and auditor quality on audit quality. The Simple Regression Analysis tests are present at Table 1.

The results of hypothesis testing in Table 1 show that Audit experience, competency, objectivity, and auditor professionalism positively affect Audit Quality. GCG effectiveness, independence, and integrity do not affect Audit Quality. A discussion of these findings is presented next.

Table 1 Hypothesis Testing

Variables	Expected Sign	Coefficient	Sign
GCG Effectiveness	+	-0.032	0.429
Audit Experience	+	0.095	0.005*
Competency	+	0.108	0.004*
Independency	+	-0.42	0.215
Integrity	+	0.007	0.908
Objectivity	+	0.443	0.000*
Auditor Professionalism	+	0.24	0.000*
Constanta		1.745	
Adjusted R Square		0.791	
Sign F Test			0.000

Dependent Variable: Audit Quality
*) significant at 5%

3.2. Discussion

The findings revealed that audit quality is positively influenced by work experience, competence, integrity, objectivity, and professionalism. GCG effectiveness, independence, and integrity, on the other hand, have no effect on audit quality. Audit quality is unaffected by independence and integrity. Accountants are professionals who rely on the public's trust. Auditors encounter numerous pressures, including self-interest conflicts with public objectives. Public pressure hopes that the auditor becomes a moral agent and preserves honesty, independence, and integrity. The government, as a regulator, is putting pressure on the auditors, the CPA company it represents, and the investing community. Client pressure for financial statements that fit the client's wishes as a source of money for the CPA business. Auditors face additional pressure from KAP, the employer's employer, who is concerned with the outcome of the auditor's work.

Furthermore, the IAI/IAPI accounting professional association, which enforces professional norms and evaluates accountants' and KAP's work, provides ethical rules with very subjective interpretations. These demands were present throughout his auditing career. They required a struggle to satisfy all of these stakeholders and avoid various forms of bribery, both subtle and abusive. Public accountants' transgressions include auditing without working papers, providing views without working papers, and purchasing and selling accountants' signatures. This heinous behavior happens as a result of the auditor's high moral hazard, auditee requests, inadequate supervision, limited audit standards, and the existence of an unhealthy mechanism in the allocation of money in public accounting services.

This study's findings are remarkable. In his professional life, the auditor has been able to interpret and apply the accountant's code of ethics. Integrity, objectivity, professionalism, and proficiency are basic professional ethical principles that every accountant must follow. The integrity principle states that in professional and corporate relationships, each practitioner must be firm, honest, and fair. The practicing accountant must not deal with reports, communications, or other information that is suspected of being materially false or misleading, or with information that has to be revealed. According to the objectivity principle, every practitioner must avoid subjectivity, conflicts of interest, and undue influence from multiple parties that could impair his professional judgment, competence, and skepticism. To provide competent professional services to the public, the principle of competence necessitates that every practitioner maintains and employ appropriate professional knowledge and expertise. Professional prudence and care necessitate that each practitioner behaves and acts cautiously, thoroughly, and promptly in accordance with the assignment's criteria. Professional behavior dictates that all practitioners follow all applicable laws and regulations and refrain from engaging in conduct that could harm the profession. As an expression of its responsibilities to service receivers, third parties, other members, personnel, employers, and the general public, the need to avoid behavior that can discredit the profession should be met. All of these ethical norms contribute to higher-quality audit results.

Independency, integrity, and GCG do not affect audit quality. A professional accountant should behave ethically. However, some conditions potentially reduce ethical behavior. Threats to compliance with basic principles of professional ethics include, firstly, threats of self-interest due to financial reasons, dependence on income from one client, close business relationships, fears of losing clients, professional fees contingent on assurance engagements. Secondly, self-review threats arise from past work that the practitioner is responsible for re-evaluating. The threat arises because of significant error discovery, reporting of accountant's involvement in data preparation of financial reporting audited, members of the audit team being the client's officers (past or current), members of the audit team have employed by the client, directly to the subject of the engagement. Thirdly, advocacy threats, threats due to statements of attitudes or opinions that reduce the objectivity of practitioners. This threat arises from accountants promoting shares of their clients' entities providing legal advice to audit clients involved in litigation cases and disputes with third parties. Forth, threats of intimacy arise because of feeling emotionally close to the client so that they sympathize with the interests of other parties. This threat arises from accountants having family relations (directly and indirectly) with officials in the client's company, receiving preferential treatment because of the closeness of the client and the long-standing engagement relationship with the CPA firm. The last, threats of intimidation, threats due to restrictions on practitioners to be objective. These threats arise from the termination of employment or replacement of the engagement team, threats of litigation, threats of reducing the scope of work to reduce the number of professional service fees.

4. CONCLUSION

This study presents empirical evidence on the role of competence in auditor performance. Accountants, as a profession that relies on stakeholder confidence, demand a skilled, honest, and impartial person who faces ethical quandaries on a daily basis. The lack of competence will have a substantial impact on audit quality and the economy. The incapacity of auditors to preserve public trust through opportunistic actions, disregarding standards and morality, has an impact on the accounting profession's legitimacy and legality.

The results of this study provide reinforcement Financial Professional Development Center (PPPK) numbered S-253/PPPK/2019, and the CPA Firm has to implement the Audit Quality Indicator Guidelines [14]. The implementation of the Audit Quality indicator guide aims to improve audit quality and a form of communication between CPA firm's service users and other stakeholders.

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