

Review of Audit Quality Indicators

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Abstract

Audit quality is the accuracy of the information reported by the auditor by the audit standards used by the auditor of the company's financial statements. This study aims to identify audit quality in several cases that occurred in Indonesia by using audit quality indicators in the form of ethics, people, process, output, and interaction. The research method uses a qualitative descriptive method with the object of analysis in the form of audit quality indicators. The results of this study indicate that the audit ethics quality indicators have the most influence on several cases that occurred in Indonesia.

Keywords auditing, audit quality, indicators audit

INTRODUCTION

In the world of business, financial statements have an important role in decision-making and the survival of a business entity. According to Riadi (2020), financial statements are a financial communication tool that describes the activities carried out by business entities to the parties concerned. The parties concerned have their respective roles in making decisions on a business entity. These parties are stakeholders such as shareholders, employees, suppliers, consumers, government, and other stakeholders involved in business entities either directly or indirectly (Nurul, 2020).

Every business entity is expected to be able to make financial statements that are relevant, reliable, understandable to various parties, and have comparative elements in financial statements (Natalia, 2021). This becomes a consideration for a person who works as an auditor on the audit quality of the financial statements of a business entity. In carrying out their duties as auditors, they must be professional and able to comply with audit standards by the Institute of Public Accountants (IAPI) such as general standards, fieldwork standards, and Reporting Standards. In general standards, auditors carry out professional expertise, and technical training, and maintain mental in the implementation of audits. On the other hand, in the fieldwork Standard, the auditor must plan the work as well as possible, understand the internal controls, and obtain competent audit evidence. While in reporting standards, financial statements under accounting principles, show the results of the auditor's report, disclose accounting principal information, and the auditor must contain a statement regarding the financial statements of a business entity (Ma'ruf, 2019).

A business entity presents an audit service on financial statements as evidence that the reports that have been made are not fraud and errors that were committed intentionally or unintentionally. This auditor's statement becomes a major decision made by various parties, especially for people who want to invest in the business entity. Over time, public confidence in the auditor's statement becomes less due to cases that have arisen due to the negligence of an auditor. This issue casts doubt on the quality of the audit provided is not appropriate.



The case of the Indonesian airline, PT Garuda Indonesia Tbk in 2018 became a hot topic discussed by the public regarding the quality of the audit provided was not appropriate. Starting with two Garuda Indonesia commissioners refusing to sign financial statements in 2018 that were made not based on the statement of Financial Accounting Standards (PSAK). Because of this, the Indonesia Stock Exchange (IDX) summoned the board of directors and auditors, namely the public accounting firm Tanubrata Sutanti Fahmi Bambang & Rekan (Member of BDO International). The case resulted in huge losses for Garuda Indonesia and its auditors. Each of the directors and commissioners was fined a sum of money and the auditors were sanctioned by a licensing freeze for 12 months (Imagama, 2020).

The Garuda Indonesia case made an auditor aware that an auditor must improve the quality of providing audit services to increase public confidence that the results of audit reports are reliable. Based on this background, the author is interested in researching more about audit quality with the title “Review of Audit Quality Indicators”.

LITERATURE REVIEW

Auditing

According to (*Arens Auditing 16th Edition*, n.d.), an audit is the collection of data and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. The Audit should be carried out by a competent and independent person. To conduct an audit, there must be information in a verifiable form and some standards (criteria) by which the auditor can evaluate the information.

Audit Quality

DeAngelo (1981), defines audit quality as the joint probability that the auditor will find and report irregularities in the client's accounting system. A joint probability is a possibility that the auditor can find and simultaneously report irregularities in the client's accounting system. The probability or likelihood of the auditor finding irregularities depends on the quality of the auditor's technical expertise and training (competence) while reporting misstatements depends on the auditor's independence to report to the client. Meanwhile according to Theresia Olivia (2019), audit quality is the level of ability of accounting firms to understand and explore client businesses. Competent auditors will have extensive procedural knowledge and skills when auditing. The knowledge possessed by the auditor will be able to design audit procedures properly, determine analytical risks appropriately, obtain sufficient examination evidence, and be able to complete the audit on time.

Audit Quality Indicators

According to IFAC - International Federation of Accountants (2014) a quality audit can be achieved by a team of auditors who:

1. Behave as a professional public accountant under the code of ethics of Public Accountants (Ethics).

2. Have adequate competence, knowledge, expertise, and experience and provide adequate time in carrying out audit tasks (People).
3. Carry out the audit process under the objectives, terms, and conditions within the scope of the audit contract (Process).
4. Provide useful and timely reports (Output).
5. Have a good interaction with relevant stakeholders (Interaction).

METHOD

The research method used by the study is a descriptive method with qualitative descriptive research. In this study, the approach used in the form of a deductive and the object of analysis is the audit quality indicators. Researchers collect data from documents with data collection techniques through observations of books, journals, and trusted sites.

RESULTS AND DISCUSSION

In carrying out the profession as an auditor, audit quality is something that needs to be considered. The following are cases in Indonesia that affect audit quality indicators that need to be considered by an auditor:

No	Case	Audit Quality Indicators
1.	PT Garuda Indonesia Tbk The chronology begins with two Garuda Indonesia commissioners refusing to sign financial statements in 2018. The report is stated to have been made not based on the statement of Financial Accounting Standards. The problem caused the Indonesia Stock Exchange (IDX) to call the various boards of directors to the auditor, the public accounting firm Tanubrata Sutanti Fahmi Bambang & Rekan (Member of BDO International). The incident resulted in huge losses for Garuda Indonesia and its auditors. Each of the directors and commissioners was fined a sum of money and the auditors were sanctioned with a licensing freeze for 12 months.	<ul style="list-style-type: none">• People: The auditor team did not show good technical ability in the field of accounting, especially in the application of Financial Accounting Standards used.• Process: the auditor team does not behave professionally in conducting audit work, where the financial statements are made not based on Financial Accounting Standards.
2.	PT Kereta Api Indonesia (PT KAI) Indonesian railway transportation company was caught in the case of manipulation of financial statements in 2005. The report stated the existence of	<ul style="list-style-type: none">• Ethics: The auditor team is not professional in making statements that can affect a



	<p>profits the company has suffered losses. The report has been audited by public accounting firm S. Manan and was not prepared based on financial accounting standards, the auditor states that the financial statements are unqualified. This has led to sanctions given to the public accounting firm S. Manan is freezing permits to operate for 10 months.</p>	<p>person's decision which can harm various parties.</p> <ul style="list-style-type: none"> • Process: The auditor team does not carry out the audit process thoroughly under applicable standards and regulations.
3.	<p>PT Hanson International Tbk</p> <p>In 2016, a property company in Indonesia was caught up in a case over the manipulation of financial statements. The report showed that the company's revenue rose rapidly to the point of having violated the 44 Financial Accounting Standards regarding the accounting of Real Estate Activities. Because of this, The Financial Services Authority sanctions fines on companies until the board of directors and orders to improve financial statements. For the involvement of public accounting firms Purwantono, Sungkoro, and Surja in the case, subject to freezing operations for 12 months.</p>	<ul style="list-style-type: none"> • Ethics: The auditor team does not behave professionally, with integrity, and independence in conducting audit work. • Process: The audit team did not apply the financial statements under applicable standards.
4.	<p>PT Kimia Farma Tbk</p> <p>The chronology begins at the time of PT Kimia Farma's initial public listing (IPO) in 2001. The financial statements are audited by Hans Tuanakotta & Mustofa (HTM) with applicable audit standards and report there is a large net profit. The Ministry of SOEs and the Financial Services Authority assess that the report contains elements of engineering. Then the company decided to conduct another audit, the results showed that the reported profit turned out to be lower than before, which was reduced by 24.7%. Due to the case, the company, the board of directors, and the public accounting firm-imposed sanctions in the form of payment of a sum of money.</p>	<ul style="list-style-type: none"> • Ethics: The auditor team did not behave professionally in checking the financial statements because they could not detect any errors. • People: The team of auditors who perform field work lacks technical capabilities in the audit implementation process. • Output: The auditor team has not provided a useful report due to material misstatements.

Based on the discussion of the case in this study, among the five audit quality indicators that are most influential in audit quality is ethics. Where the indicator shows whether the auditor team has behaved under the code of professional ethics of Public Accountants, and integrity, and declared its independence to the company. So that there are several inputs to improve the quality of the public accounting profession as follows:

1. Ethics
 - a. Maintain integrity and professionalism.
 - b. Maintain the code of ethics of Public Accountants.
 - c. Maintain independence.
2. People
 - a. Improving competence through Continuing Professional Education of accountants and actively updating knowledge through webinars/seminars related to the accounting profession and current issues.
 - b. Increase understanding of the client's business.
 - c. Improve staff training and better knowledge transfer.
 - d. Need to have the relevant certification.
 - e. Pay attention to the composition of audit team members to match the required experience and workload.
 - f. Minimize team member turnover.
 - g. Deepen knowledge of Information Technology in the audit process.
3. Process
 - a. Public accounting firms are expected to be able to provide suggestions/discussions related to the implementation of Statement of Accounting Standards or the latest policies.
 - b. The public accounting firm is expected to be more cooperative in meeting deadlines.
 - c. Digitizing the audit process or being able to implement alternative procedures related to pandemic conditions.
 - d. Increase efficiency in the audit process.
 - e. Audit planning needs to be improved for the better.
4. Output
 - a. The public accounting firm should be better at providing solutions for the company.
 - b. Provide forward-looking business advice.

CONCLUSION

Based on the results of the analysis and discussion that has been described, it can be concluded that an auditor has carried out his duties must be based on competence, professional attitude, and established standards, and the five audit quality indicators are very related to creating an environment that can maximize and improve the realization of consistent and good audit quality.

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