

Public Accounting Firm's Quality Control Standard In Risk-Based Perspective: Is It Important?

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Abstract: Pandemic Covid 19 has impacted every business operation worldwide and increased business risk. Auditors' responsibility to provide audit quality has become more prevalent. This study aims to get empirical evidence of auditor experience, auditor industry specialisation, and audit risk on audit quality during the COVID-19 pandemic. The research methods used quantitative with a survey approach; data gathered by a survey of Auditor. The result finds that during turbulent economic situations, the need for auditor experience and auditor's industry specialists has increased to mitigate the audit risk. Auditor experience and auditor industry specialists were needed to promote audit quality with low audit risk. The study has proved that auditor experience, industry specialisation, and audit risk impact audit quality. Assessing the auditor and public accounting firm using quality control standards from risk-based perspectives is urgently required. Other studies may investigate the issues using qualitative methods to get a deeper understanding.

Keywords: Covid-19 Pandemic; Auditor Experience; Auditor Industry Specialisation; Audit Risk; Audit Quality.

Abstrak: Pandemi COVID-19 telah berdampak pada setiap operasi bisnis di seluruh dunia dan meningkatkan risiko bisnis. Tanggung jawab auditor untuk memberikan kualitas audit telah menjadi lebih lazim. Penelitian ini menggunakan metode kuantitatif dan mengumpulkan data melalui survei auditor untuk mendapatkan bukti empiris tentang bagaimana pengalaman auditor, auditor spesialisasi industri, dan risiko audit berdampak pada kualitas audit selama pandemi. Hasil penelitian menemukan bahwa selama situasi ekonomi yang bergejolak, kebutuhan akan pengalaman auditor dan spesialis industri auditor telah meningkat untuk memitigasi risiko audit. Pengalaman auditor dan spesialis industri auditor diperlukan untuk mempromosikan kualitas audit dengan risiko audit yang rendah. Studi tersebut telah membuktikan bahwa pengalaman auditor, spesialisasi industri, dan kualitas audit berdampak pada risiko audit. Menilai auditor dan kantor akuntan publik menggunakan Standar Pengendalian Mutu dengan perspektif berbasis risiko sangat diperlukan. Studi penelitian lain dapat meneliti penggunaan standar jaminan mutu yang berbasis risiko menggunakan metode kualitatif untuk memperoleh pemahaman yang lebih mendalam.

Kata Kunci: Pandemi Covid-19; Pengalaman Auditor; Spesialisasi Industri Auditor; Risiko Audit; Kualitas Audit.

INTRODUCTION

Deteriorating economic conditions have given rise to various audit risks. Audit practices are becoming more complex, and the business world is experiencing liquidity difficulties that impact business sustainability. This condition makes the company



present financial reports that are attractive to investors (i.e., for example, the financial report presents a reasonably high level of profit) so that it will increase the entity's management's intention to manipulate financial reports to keep them looking healthy and attracting investor interest. The increase in an entity's intention to continue to be able to present profitable financial reports in conditions of economic crisis will cause an increase in potential audit risk. This potential audit risk will increase the likelihood that it can cause fraudulent financial statements. In Indonesia, many cases of audit errors are caused by violations of Audit Standards (SA) Public Accountant Professional Standards (SPAP) committed by public accounting firms' (Kantor Akuntan Publik or KAP) auditors, which have an impact on the opinion of the Independent Auditor's Report (LAI). Problematic KAPs usually do not effectively implement Audit Standards and Quality Control Systems (SPM). SPM (the Quality Control System) number 1 and SA (the Auditing Standard) number 220 regulate the quality control system in Indonesia. Section 100 of SPM (PSPM number 1) explains that the elements of an accounting firm's quality control system are independence, personnel assignment, consultation, supervision, hiring, professional development, promotions, client acceptance and maintenance, and inspection (Shahibah, Hariadi, and Baridwan 2020).

Economic conditions during the COVID-19 pandemic in early 2020 impacted social life and prompted a global economic recession. (Kathib & Nour, 2021) The COVID-19 pandemic has harmed institutional performance, decreased liquidity profits, and impacted company financial leverage; similar effects are expected to occur in the audit function. Meanwhile, (Castka et al., 2021) and (Albitar et al., 2021) argue that the COVID-19 crisis may have significantly impacted auditors and audit quality. As a result of preventive actions, auditors may not be able to perform their work as intended, which can reduce the quality of audit performance. Failure to conduct high-quality audits can lead to a lack of investor confidence in the institution (Hazaea et al., 2022).

In Indonesia, the COVID-19 pandemic has drastically changed how people work, especially with the implementation of the Large-Scale Social Restrictions (PSBB) policy that requires remote work. (Litzenberg & Ramirez, 2020) State that auditors experience difficulties in collecting audit evidence due to restrictions on staff movement and availability, thus encouraging the implementation of remote audits. Meanwhile, (Rose et al., 2017) highlighted that the importance of audit evidence in supporting the auditor's opinion on the fairness of financial statements cannot be overstated. Without strong evidence, audit risk increases and potentially leads to an incorrect opinion (Grassa et al., 2022). Consequently, auditors should adjust their approach during the pandemic, including seeking alternative audit methods.

Adhering to standards such as SA 330 (Auditor Responses to Assessed Risks) is crucial, guiding auditors in adjusting evidence collection, risk assessment, and audit procedures (Agusiady et al., 2022). (Kadous, 2018) emphasises the need for experienced auditors to ensure high-quality audits. (Moses, 2021) highlights the pandemic's impact on clients, leading to increased oversight. Auditors now require more time and consultation for going concern analysis due to the heightened economic uncertainty caused by the pandemic.

(Goddard, 2020) emphasises the importance of skilled and experienced auditors who work carefully and objectively. Auditor competence, as defined by (Xiao et al., 2020), relates to the ability to perform audits carefully and objectively. (Carvalho & da Palma, 2018) Experienced auditors tend to make fewer mistakes, with individual experience contributing to increased proficiency and efficiency. This is supported by



(Argento et al., 2018), who relate work experience to the number and duration of audits auditors perform.

Experience in auditing and accounting is a key component that enhances an auditor's expertise. The length of time working as an auditor affects the level of professionalism. According to (IAI, 2021), skill development starts with formal education and continues to develop during practice. Auditors need to learn to detect, analyse, and weigh audit risks accurately. Guidance from the KAP where the auditor works is important to ensure that the auditor can mitigate, recognise, and detect audit risks. Although long emotional relationships with clients can potentially affect audit quality, maintaining professionalism will ensure that audit quality is maintained, even after working with clients for a long time.

Besides audit experience, the auditor's industry specialisation also influences audit quality. An auditor who will audit a client must understand the client's business and industry as well as the technical aspects of the audit. For example, in an insurance company audit, an auditor needs knowledge about auditing policy reserves, which is an important part of the insurance company's obligations. (Arens et al., 2019) stated that this has led many large accounting firms to form industry specialisation groups and be responsible for all audits in their speciality. With specialist auditors, it is hoped that they can detect the potential business risks that will be faced by their clients when conducting an audit to avoid errors in providing an audit opinion. However, (Eshleman & Guo, 2020) proves that auditor industry specialisation has no significant relationship with improving audit quality (Ananda & Faisal, 2023).

Previous research by (Case & Yasser, 2018) shows that quality audits occur when audits are carried out by specialist auditors with better knowledge and understanding of the client's business characteristics than non-specialist auditors. Meanwhile, Gaver and Utke stated that auditors with experience as industry specialists in conducting audits will produce higher quality audits than those with less experience as industry specialists (Gaver & Utke, 2019). Therefore, auditors with multiple clients in the same industry better understand the internal business controls, business risks, and audit risks associated with that industry. Auditors specialising in a particular industry have better skills and knowledge than auditors without specialisation. However, it should be noted that the longer an auditor audits a company, the more the audit quality decreases. This condition arises due to the lack of challenge and innovation in audit procedures, the risk of excessive cooperation, and the loss of auditor independence due to an overly familiar relationship with the client.

Audit risk is an important factor in determining audit quality. According to the (Indonesian Institute of Accountants, 2021), audit risk includes unintentional changes in the auditor's opinion on financial statements that contain material errors. (Cannon & Bedard, 2017) Audit risk occurs when the auditor fails to change the opinion on a report that contains errors. This highlighted the importance of risk evaluation in considering financial statements as a whole, where loss of crucial audit evidence may occur during the examination process.

According to (Tuanakotta, 2019), auditors need to perform a risk-based audit to identify, evaluate, and address the risk of material errors in the financial statements. This process is followed by forming an opinion based on the evidence obtained and the publication of an appropriate report. (Rose et al., 2017) emphasised the importance of the quality of audit evidence in ensuring accurate auditor conclusions. Audit risk increases when the reported information is weak or of low quality, which can lead to inappropriate



audit opinions (Albitar et al., 2021).

(Tuanakotta, 2019) shows that most Public Accounting Firms (KAP) manage risk informally, where partners engage directly with their clients. Previous research shows a relationship between detection risk and audit quality; high detection risk often leads to a decrease in audit fees, while low detection risk tends to increase audit fees (Hassani, 2021). However, (Anuwuo, 2020) noted that the relationship between audit risk and the level of audit quality tends to be positive but limited.

Audit quality involves the auditor's ability to identify errors and provide recommendations for improvement (Arum & Wahyudi, 2021). However, not all public accountants or accounting firms produce quality audits (Grassa, Obaidallah, and Hamza, 2022). According to (De Angelo, 1981), audit quality is related to the likelihood of auditors finding violations in the client's accounting system, depending on the auditor's willingness to report. (Winwin & Mubarak, 2017) define audit quality as the accuracy of information reported by the auditor according to auditing standards, including accounting violations in the client's financial statements. Good audit quality increases the reliability of financial statements. However, a restatement of financial statements indicates an audit failure and may call into question the expertise of the audit firm, impair the auditor's credibility, and ultimately affect audit quality (Mushiirah, Keshav, and Neeveditah 2018).

According to (Taman et al., 2018), audited financial statements are free from material misstatement, making them a reliable basis for decision-making (Hikmayah & Aswar 2020). (Langgeng, 2018) emphasises the importance of improving audit quality to maintain trust, create a safe investment environment, and increase economic transparency. A decline in audit quality can undermine public trust in auditors and reduce their credibility, as seen in recent cases of professional ethics violations in Indonesia.

This research reveals a new perspective on the challenges auditors face during the economic downturn, especially in the context of the COVID-19 pandemic, which has rarely been discussed before. The research focuses on understanding the impact of COVID-19 on audit practices and maintaining high audit quality in a crisis. The pandemic has changed the whole way of working, including auditing, with significant access restrictions. It challenges auditors to adapt to changing audit procedures and implement alternative audit techniques to ensure the reliability of financial statements.

The research comprehensively analyses the relationship between economic conditions, audit practices, and audit quality, particularly in Indonesia. The findings provide valuable insights into the challenges faced by auditors amid the pandemic and potential adaptive solutions to maintain high audit standards. This research's contribution is expected to increase the understanding of audit quality dynamics during the pandemic, which benefits practitioners, researchers, and stakeholders in accounting and auditing.

THEORETICAL REVIEW

Theory of Inspired Confidence. This theory was developed in 1932 by Professor Theodore Limperg. In this theory, Limperg discusses the demand and supply of audit services. According to Limperg, demand for audit services results from stakeholders' involvement in the company. These stakeholders hold management accountable for what they do for the company. However, because there is a possibility that the information provided by management may be biased due to conflicts of interest between them and stakeholders, the information must be audited. From the supply side, an auditor must be



able to provide audit services that can be trusted to satisfy stakeholders' expectations outside the organisation. Furthermore, (Limperg, 1932) stated that auditors must always try to meet public expectations so that audit results assure the parties that the financial reports presented show the actual financial condition.

Agency Theory. According to (Jensen & Meckling, 1976), agency theory explains the contractual relationship between the owner (principal) and management (agent) in the context of providing services by delegating some decision-making authority to the agent. According to (Panda, 2017), agents will better understand the company's internal conditions than principals. Meanwhile, the principal only knows company information through the agent; this is where the agency problem arises, namely information asymmetry (Panda & Leepsa, 2017). Owners want to know all the company's investments or finances, including management activities. This is done by asking management to submit an accountability report. Despite management's clear responsibility for accurate financial reporting and sound internal controls, principal-agent conflicts still occur when reporting to shareholders. Generally, management (agents) must report financial performance to shareholders (principals) through financial reports (Choudhary, 2018). Therefore, financial reports must be checked by an independent party, an audit service, to avoid management fraud.

Auditor Experience. (Faradina, 2021) states that audit experience is an experience gained from the length or number of tasks handled by the auditor. Auditors with much experience will be able to find fraud that occurs in the company and provide a better explanation than auditors with little or no experience (Wahidahwati & Asyik 2022). According to (Agoes, 2017), experienced auditors better understand financial reporting errors and can better classify errors based on audit objectives and the structure of the underlying accounting system. On the other hand, (Zahmatkesh, 2017) believes that competent auditors can apply their knowledge and experience in auditing carefully, accurately, and objectively; employing people with high experience increases audit quality by enhancing the professional competence of the auditor; auditors gain more profound knowledge and better judgment to achieve audit quality (Zahmatkesh & Rezazadeh 2017). (Chen, 2020) states that audit firms cultivate employees' expertise, skills, and behaviours through professional training. Academic educational level is an indicator of employees' theoretical knowledge. Professional training puts theoretical knowledge into practice and combines theory and practice together. Therefore, professional training fills the gap left by academic education (Y. S. Chen et al., 2020). Meanwhile, (Haeridistia & Agustin, 2019) stated that the experience gained by an auditor (flying hours) can increase his knowledge, ultimately contributing to the preparation of a quality audit report. From this research, the author makes the following hypothesis:

H1: Auditor experience has a positive effect on audit quality.

Auditor Industry Specialisation. According to (Arens et al., 2019), an auditor's industry specialisation is an auditor with in-depth knowledge and years of experience in the client's particular business and industry, understanding the specific accounting and auditing regulations necessary to conduct a good quality audit. They have (Wang, 2020); (Wang, 2020); (Wang, 2020); (Wang, 2020); (Wang, 2020); (Wang, 2020); (Wang, 2020); (Wang, 2020) in-depth knowledge of their client's business operations and understand the accounting and auditing regulations that apply specifically to that area of industry. According to research conducted by (Case & Yasser, 2018), a quality audit is



carried out by a specialist auditor with better knowledge and understanding of the client's business characteristics than non-specialist auditors. However, (Cassell C. et al., 2019) have a different opinion; their research results found that, before the financial crisis, the banking auditor industry specialisation was associated with higher audit quality and more timely audits. However, during the financial crisis, research showed that industry specialisation of banking auditors was associated with lower audit quality and less timely audits (Cassell et al., 2019).

The size of a KAP's market share can measure its industrial specialisation. An auditor is classified as an expert if his market share is at least 10 per cent of registered clients in a particular industry (Gaver & Utke, 2019). This opinion is supported by (Atmojo & Sukirman, 2019), who state that KAPs with a high reputation are synonymous with large KAPs and are considered independent and professional capabilities toward clients. This is because KAPs have little economic dependence on clients.

(DeFond et al., 2018) have focused on examining the effect of audit office specialisation and or audit office size on audit quality and found that larger audit firms and industry specialists provide higher audit quality because they have rich resources to plan audit engagements more completely and sophisticated audit experiences to perform audit engagements more prudently (Wang, 2020). (Taqi M et al., 2020) stated that audit firms that have many clients in a similar industry will be able to provide an in-depth understanding of the unique audit risks arising from a particular industry. The large size of the KAP explains the auditor's ability to act independently and professionally towards clients because they are not too dependent on clients (Hidayah et al., 2021). Audit firms with fewer clients in a specified industry may not have the critical mass to keep up with new developments. Considering the definition above, auditors who specialise in a particular industry can better understand the characteristics and risks of their client's business operations than those who do not. An accounting firm is considered an industry speciality if its market is at least 10 per cent of the registered clients in a particular industry that performs quality audit work. So, auditor industry specialisation is an important component for performing quality audit services because industry expertise may provide excellent opportunities to conduct high-quality audits on many companies with similar requirements. By focusing on one sector, auditors are more equipped to use auditing techniques to uncover fraud and improve the quality of audits (Alharasis et al., 2023). Based on this research, the author created a research hypothesis:

H2: Auditor industry specialisation has a positive effect on audit quality.

Audit Risk. According to SA section 312 (PSA No. 25), audit risk is when the auditor unknowingly does not change his opinion appropriately on financial statements that contain material misstatements. (Cohen Wright, 2017) stated that there is a risk that an auditor gives an incorrect opinion on the direction of the company's financial statements, so the financial statements may not be a 'correct' expression of the company's business." According to (Askary et al., 2018), audit risk is the possibility that an auditor would provide an unsuitable judgment regarding the direction of the financial statements due to drawing erroneous conclusions throughout the audit process.

(Tuanakotta, 2019) states that audit risk is the risk of providing an incorrect opinion on financial reports that contain material misstatements. (Anowuo, 2020) also has a similar opinion, namely that audit risk arises when auditors do not disclose material



errors in financial reports, resulting in reports that do not reflect the actual situation accurately and impartially. (Turetken et al., 2019) stated that when auditors with the same level of thoroughness examine doubtful evidence in an audit process, auditors who audit high-risk companies will be more likely to miss the required evidence in the financial statement. Auditors must have a critical attitude in assessing audit evidence, which then considers the adequacy and suitability of the available evidence so that the audit evidence can obtain high confidence (Pham et al., 2017). Meanwhile, (Agustin, 2020) stated that auditors generally learn to assess audit risk through "learning by doing" and experience, thus making them pragmatic. Based on previous studies, the following hypothesis was developed.

H3: Audit Risk Hurts Audit Quality.

Audit Quality. Audit quality is defined as a public accountant's capability to detect and report material misstatements in the client's financial statements (Suseno & Nofianti 2018). According to (Pratiwi et al., 2020), audit quality is the probability that the auditor will find and report violations in the client's accounting system that occur. Audit quality is the result obtained from the auditor's audit process on financial reports to detect misstatements in financial reports. An auditor must pay attention to the quality of his audit because high audit quality will produce financial reports that can be trusted for their truth. A qualified auditor is responsible for auditing the financial information of the corporation and providing recommendations for the managerial level to improve operations management, risk management, inside control, and other related operations (Y.-H. Chen; Wang and Liu, 2023). (Francis, 2023), on the other hand, uses discretionary accruals as a measure of audit quality. Discretionary accruals indicate earnings management behaviour, which also measures the quality of accruals. Low accrual quality indicates that the auditor cannot limit management's freedom, which indicates poor audit quality. In addition, large KAPs have higher audit quality because they have fewer discretionary clauses (Francis, 2023).

The literature review above became the basis for formulating this research hypothesis, explained in Figure 1 as the research framework.



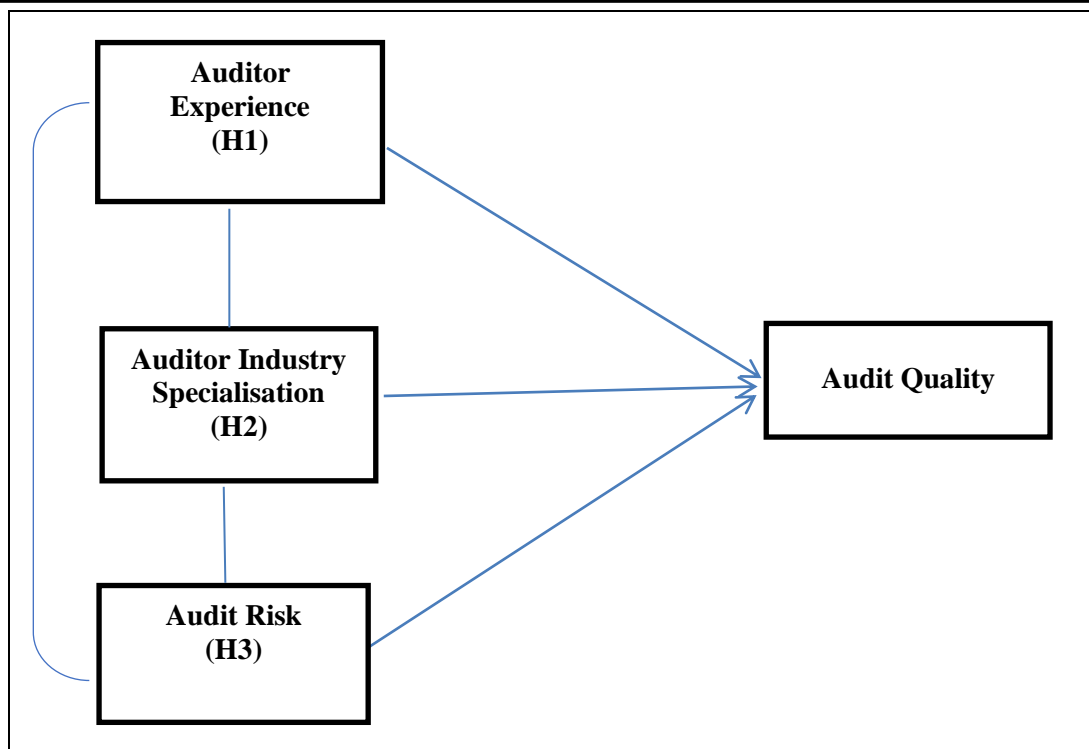


Figure 1. Research Model
 Source: Data Proceed by Authors

METHODS

This research uses a descriptive verification method with a quantitative approach and a survey design. The population of this study includes external auditors who work at KAP in DKI Jakarta. In total, 607 people were selected using the simple random sampling method in 2022, so the sample size was obtained using the convenience sampling method. This research includes several stages: distributing questionnaires, data codification, and data analysis.

This research tests the hypothesis using the Structural Equation Modeling (SEM) and Partial Least Squares (PLS) methods. Multivariate analysis, SEM combines factor analysis and regression (correlation) analysis to assess the relationship between model variables, both the relationship between indicators and their constructs and the relationship between these constructs. On the other hand, (Ghozali, 2018) stated that PLS is a variance-based SEM method that replaces the covariance-based SEM approach. The PLS method was used to analyse this research. The analysis was carried out in two stages, where each indicator's construct validity and reliability were tested. Then, the structural model is tested to determine whether the correlation between constructs or the influence between variables can be measured using the PLS t-test.

RESULT

Description of Research Variables. This research involved 101 respondents. Based on the data collection results, the following describes the characteristics of respondents according to KAP size, age, gender, formal education, length of service, and position in KAP.

Based on the results of the analysis of the Research Variable Description, it can be concluded that:

The description of the auditor experience variable produces an overall average score of respondents' answers 4.784, which illustrates that overall, the auditor's experience is good but still needs to be improved in terms of carrying out assignments as an auditor, understanding the specifics of the client's industrial field, following developments in the latest economic conditions, and accepting clients by considering the credibility of prospective clients.

The description of the auditor industry specialist variable produces an average value of 4.314, which illustrates that overall, the auditor industry specialist is good. However, 90 per cent of audit assignments are carried out in specific industries where the average value is low, namely 3.644, which illustrates that the percentage of work outside the auditor's specialisation is quite large. This can reduce audit quality because they are not working in their industry speciality.

The description of the audit risk variable shows that the overall average score of respondents' answers is 4.342. This shows that auditors understand audit risks in carrying out their duties, but understanding the difficulties and obstacles in detecting material misstatements due to errors or deficiencies still needs improvement.

The description of the audit quality variable shows that the overall average score of respondents' answers is 4.494, which illustrates that overall, audit quality is good, but in terms of allocating adequate time to Key Engagement Personnel and review from clients of the same profession (fellow auditors) in the team to assess the audit procedures that have been carried out still need to be improved.

PLS SEM analysis. This research will analyse the influence of auditor experience, auditor industry specialisation, and audit risk on audit quality using SEM PLS analysis. The stages in SEM PLS analysis consist of Drawing a path diagram according to the research model framework. **Second**, an outer model test must be carried out to assess the validity and reliability of indicators in measuring the variables (constructs). **Third**, Assessing the goodness of fit model to ensure that the data processed fits with the estimated model so that the sample used can provide a picture of the actual condition of the population and **Fourth**, Carrying out inner model testing, which is the stage of testing the influence between variables as a tool for testing research hypothesis (Hair et al., 2021).

This research model contains three latent variables: auditor experience variables, auditor industry specialisation, and audit risk. All of these variables are first-order latent constructs measured with several measurement indicators, where the auditor experience construct is measured with five measurement indicators, the auditor industry specialisation construct is measured with two measurement indicators, and the audit risk construct is measured with two. Using this operational definition as a reference, the estimated SEM-PLS model specifications in this research are as follows:



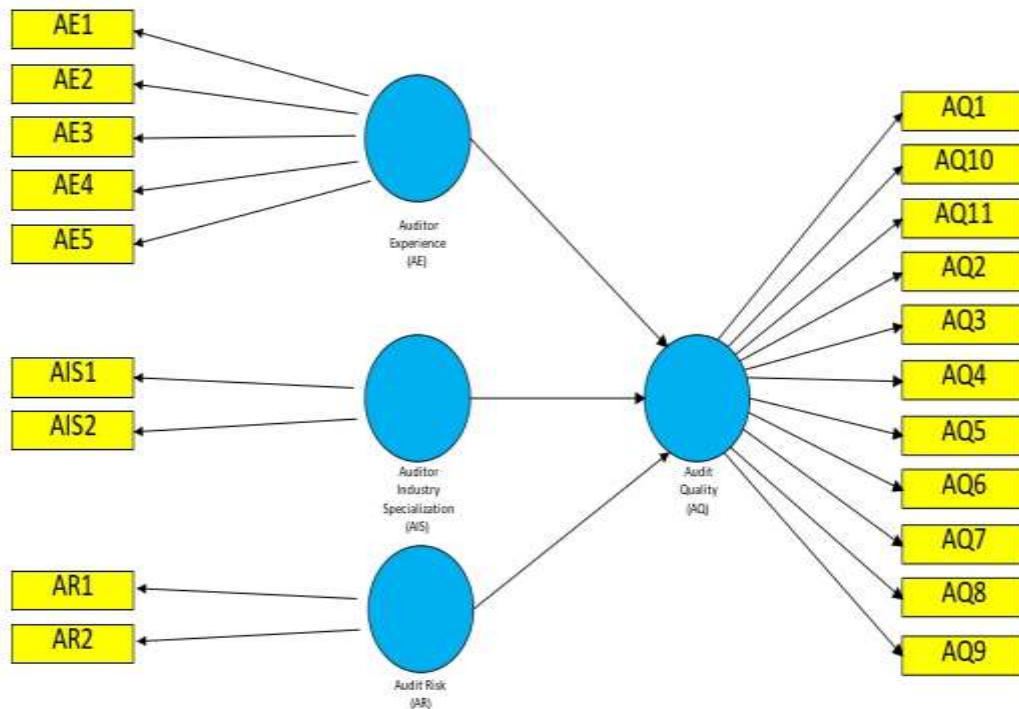


Figure 2. SEM PLS Model Specifications

Source: Data Proceed by SmartPLS, 2022

Outer Model Testing. At this stage, the measurement model is tested for convergent validity, discriminant validity, and composite reliability.

The convergent validity test is carried out by looking at the loading factor value of each indicator on the construct. For confirmatory research, the loading factor limit used is 0.700, while for exploratory research, the loading factor limit used is 0.600, and for development research, the loading factor limit used is 0.500. Because this research is confirmatory, the loading factor limit used is 0.700. Apart from looking at the loading factor value of each indicator, convergent validity must also be assessed from the AVE value of each construct. All constructs in the PLS model are declared to have met convergent validity if the AVE value of each construct is more than 0.500.

Discriminant validity ensures that each concept of each latent variable is different from other variables. The model has good discriminant validity if the squared AVE value of each exogenous construct (values on the diagonal) exceeds the correlation between that construct and other constructs (values below the diagonal).

Construct reliability can be assessed from Cronbach's Alpha value and the Composite Reliability value of each construct. The recommended composite reliability and Cronbach's alpha values are more than 0.700. However, in development research, because the loading factor limit used is low (0.500), low composite reliability and Cronbach's alpha values are still acceptable as long as convergent validity and validity are met.

Furthermore, a path diagram shows the effect of the independent variables on the dependent variable. **Figure 3** shows the path diagram results.

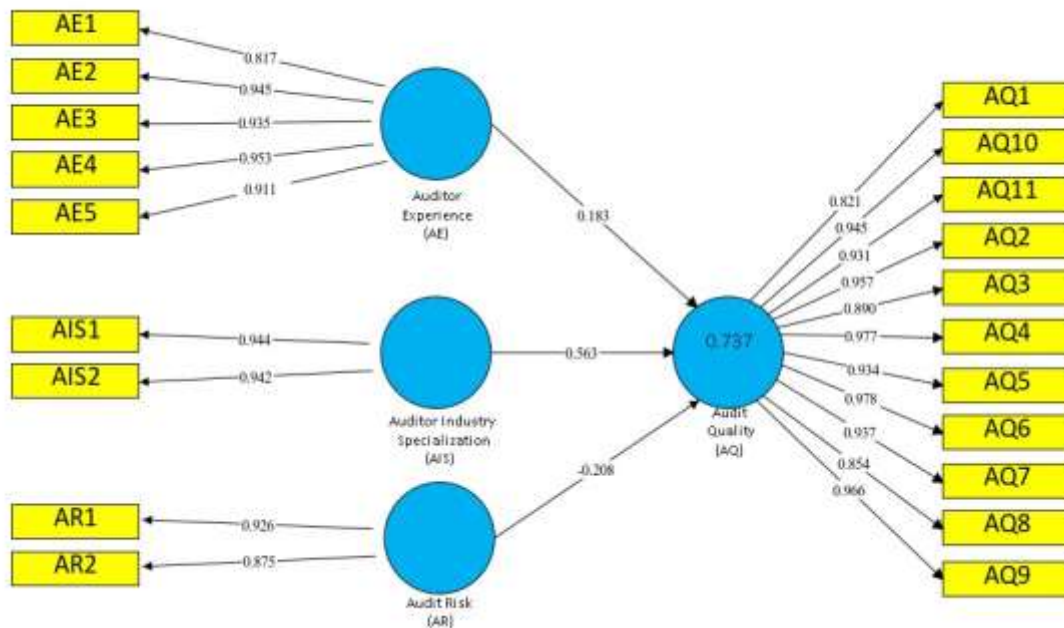


Figure 3. Path Diagram

Source: Data Proceed by SmartPLS, 2022

Validity Test. The validity test used the Smart PLS software to estimate the factor loading shown in the model path diagram. Based on the results of this test, the overall indicator value is higher than 0.700 (**Table 1**). The data in this study are valid.

Table 1. Convergent Validity Test Results

Variable	Indicator	Loading Factor	AVE	Convergent Validity
AE	AQ1	0.821	0.861	valid
	AQ10	0.945		valid
	AQ11	0.931		valid
	AQ2	0.957		valid
	AQ3	0.890		valid
	AQ4	0.977		valid
	AQ5	0.934		valid
	AQ6	0.978		valid
	AQ7	0.937		valid
	AQ8	0.854		valid
	AQ9	0.966		valid
AE	AE1	0.817	0.835	valid
	AE2	0.945		valid
	AE3	0.935		valid
	AE4	0.953		valid
	AE5	0.911		valid
AR	AR1	0.926	0.812	valid
	AR2	0.875		valid
AIS	AIS1	0.944	0.889	valid
	AIS2	0.942		valid

Source: Data Proceed by SmartPLS, 2022



The Discriminant Validity according to the cross-loading value is displayed in **Table 2**. The results of the discriminant validity test show that all indicator numbers have the highest index for their constructs but not for other constructs. Therefore, it can be concluded that all indicator numbers meet the requirements for discriminant values.

Table 2. Discriminant Validity according to Cross Loading value

	AQ	AE	AR	AIS
AQ1	0.821	0.655	0.679	0.713
AQ10	0.945	0.682	0.635	0.739
AQ11	0.931	0.693	0.584	0.877
AQ2	0.957	0.664	0.723	0.812
AQ3	0.890	0.571	0.622	0.696
AQ4	0.977	0.664	0.651	0.797
AQ5	0.934	0.763	0.646	0.861
AQ6	0.978	0.680	0.656	0.776
AQ7	0.937	0.700	0.639	0.796
AQ8	0.854	0.592	0.520	0.647
AQ9	0.966	0.724	0.574	0.771
AE1	0.613	0.817	0.416	0.640
AE2	0.695	0.945	0.563	0.698
AE3	0.588	0.935	0.500	0.656
AE4	0.625	0.953	0.506	0.663
AE5	0.764	0.911	0.642	0.749
AR1	0.680	0.569	0.926	0.627
AR2	0.531	0.472	0.875	0.536
AIS1	0.794	0.733	0.628	0.944
AIS2	0.782	0.681	0.598	0.942

Source: Data Proceed by SmartPLS, 2022

Apart from using the Fornell Larcker test and cross-loading, discriminant validity can be assessed by looking at the HTMT (Heterotrait-Monotrait Ratio) values between constructs. HTMT is an alternative method recommended for assessing discriminant validity. This method uses a multitrait-multimethod matrix as the basis for measurement. The HTMT value should be less than 0.900 to ensure discriminant validity between two reflective constructs. In this test, the construct in the PLS model is declared to have met discriminant validity if the HTMT value between that construct and other constructs does not exceed 0.900.

The Discriminant validity according to HTMT values is presented in **Table 3**. All constructs in the PLS model meet the requirements for discriminant validity, as shown in **Table 3**. The HTMT value between constructs does not exceed 0.900.

Table 3. Discriminant validity according to HTMT values

	AQ	AE	RA	AIS
AQ				
AE	0.743			
AR	0.770	0.666		
AIS	0.898	0.819	0.785	

Source: Data Proceed by SmartPLS, 2022



Construct reliability can be assessed from Cronbach's Alpha value and the Composite Reliability value of each construct. The recommended composite reliability and Cronbach's alpha values are more than 0.700, but in development research, because the loading factor limit used is low (0.500), low composite reliability and Cronbach's alpha values are still acceptable as long as the requirements for convergent validity and discriminant validity has been met.

Cronbach's alpha and Composite reliability are 0.700 in **Table 4**, indicating that all variables are considered reliable.

Table 4. Cronbach Alpha and Composite Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
AQ	0.983	0.985	0.985	0.861
AE	0.950	0.957	0.962	0.835
AR	0.771	0.804	0.896	0.812
AIS	0.875	0.875	0.941	0.889

Source: Data Proceed by SmartPLS, 2022

Model goodness of fit testing is used to evaluate the suitability of the PLS model that has been built with the data being analysed to provide an accurate picture of the situation in the actual population. When the R-squared value is greater than 0.670, it indicates that the PLS model can make predictions on endogenous variables. On the other hand, if the R-squared is in the range of 0.330 to 0.670, then the PLS model can be categorised as quite strong or moderate. However, if the R-squared ranges from 0.190 to 0.330, it indicates that the PLS model has a low ability to predict endogenous variables.

Table 5 shows the model's R-Square predictive relevance results. EB-R Squared is 0.577 (moderate), and EI-R Squared is 0.571 (weak) because the R Squared model is included in the strong EB type; this shows that this SEM PLS model has sufficient or moderate model strength.

Table 5. R Square

	R Square	R Square Adjusted
EB	0.589	0.577
EI	0.581	0.571

Source: Data Proceed by SmartPLS, 2022

The results of the Q-Square predictive relevance of the model are shown in **Table 6**. Q-Square values from 0.020 to 0.150 indicate a low level of predictive relevance, Q-Square from 0.150 to 0.350 indicates that the model has moderate predictive relevance, and Q-square more than 0.350 represents a high level of predictive relevance. The analysis results in Table 5 show that the Q-Square KA is 0.632 (large category), which means that overall, the SEM PLS model has a good predictive fit.

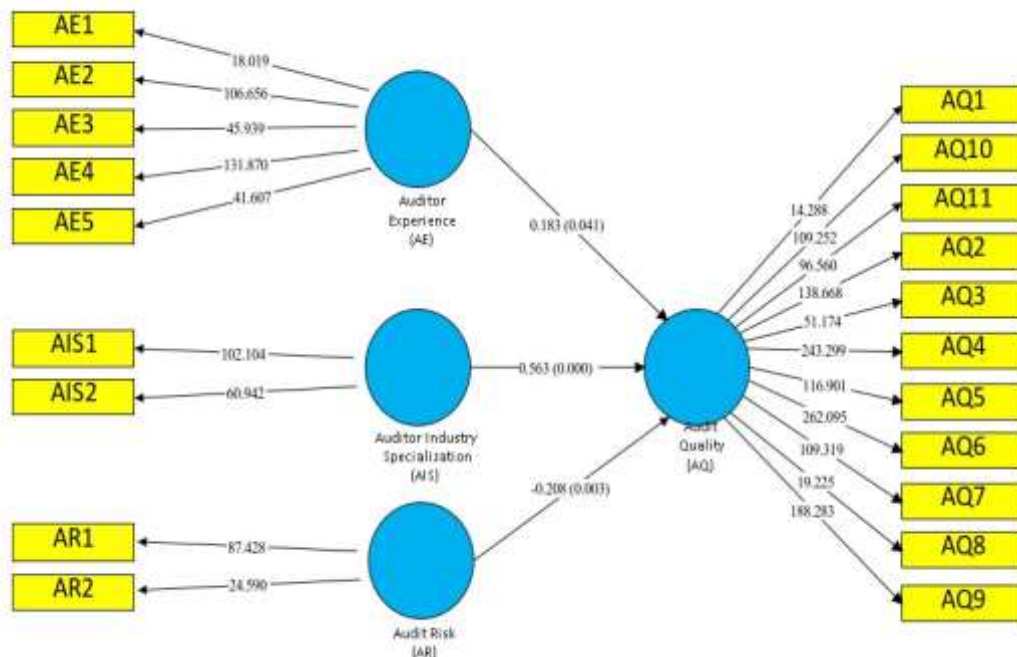


Table 6. Q Square Model

Variable	S	SSE	Q ² (=1-SSE/SSO)
AQ	1111.000	409.080	0.632
AE	505.000	505.000	
AR	202.000	202.000	
AIS	202.000	202.000	

Source: Data Proceed by SmartPLS, 2022

Figure 4 shows The magnitude of the influence between variables based on the PLS model was estimated with the bootstrap technique on 500 samples, as shown in **Figure 4**. In SEM-PLS analysis, the magnitude and direction of the direct influence can be seen from the p-value, T-statistic, and path coefficient that connects endogenous to exogenous. Suppose the p-value is less than 0 or more than 1.645 (1-tailed t-value, α 5 per cent). In that case, it can be concluded that the exogenous variable significantly influences the endogenous variable with the direction of influence following the sign related to the coefficient. Furthermore, if the p-value is more than 0.050 and the T-statistic less than 1.645 (1-tailed t-value, α 5 per cent), then it can be concluded that the exogenous variable does not have a significant influence on the endogenous variable (Hair et al., 2021).


Figure 4. Bootstrapping Model Estimation Results

Source: Data Proceed by SmartPLS, 2022

The Path Coefficients table (**Table 7**) is derived from the results of research data processing using Smart PLS. Auditor experience positively and significantly impacts Audit Quality, expressed by sig.= 0.041 less than 0.050, T-statistic 1.742 less than 1.960, and a positive path coefficient of 0.183. This means that more experienced auditors have higher audit quality, and less experienced auditors have lower audit quality.

Auditor Industry Specialisation has a positive and significant impact on Audit Quality as indicated by sig. of 0.000 less than 0.050, T-statistic 5.903 more than 1.960, and a positive path coefficient of 0.563, meaning that auditors with extensive experience as Industry Specialists Auditors will produce better audits. Quality auditors who are not industrial specialists tend to produce less qualified audits.

Audit risk has a negative and significant effect on audit quality, indicated by sig. = 0.003 less than 0.050, T statistic 2.717 more than 1.960, and a negative path coefficient of -0.208. This means that the higher the Audit Risk, the lower the Audit Quality, and vice versa.

Table 7. Results of the Direct Effect Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
AE -> AQ	0.183	0.183	0.105	1.742	0.041
AR -> AQ	-0.208	-0.205	0.076	2.717	0.003
AIS -> AQ	0.563	0.568	0.095	5.903	0.000

Source: Data Proceed by SmartPLS, 2022

Figure 5 Adjusted R square Audit Quality of 0.737 indicates that 73.700 per cent of the audit quality variable is influenced by auditor experience, auditor industry specialist, and audit risk, while other variables outside auditor experience, auditor industry specialist, and audit risk influence 26.300 per cent.

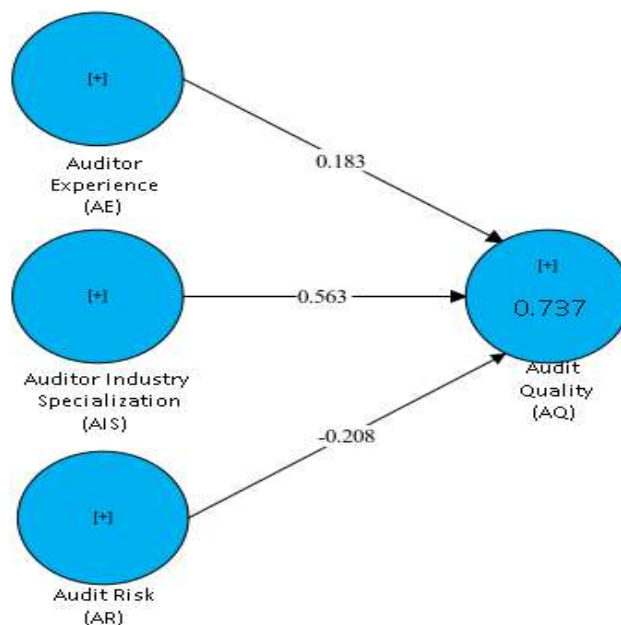


Figure 5. Adjusted R Square Audit Quality

Source: Data Proceed by SmartPLS, 2022

Table 8 shows the hypothesis test results of variables in this study, which is based on the results of SEM-PLS analysis. The following is a summary of the hypothesis test results from this research:



Table 8. Hypothesis Test Results

Hypothesis	Path Coefficient	T Statistics	P Values	Conclusion
Auditor experience has a positive effect on audit quality	0.183	1.742	0.041	accepted
Auditor Industry Specialisation has a positive effect on audit quality	0.563	5.903	0.000	accepted
Audit risk hurts audit quality	0.208	2.717	0.003	accepted

Source: Data Proceed by SmartPLS, 2022

For the first hypothesis, the results of the SEM-PLS analysis show that the p-value of the influence of auditor experience on audit quality is 0.041, less than 0.050, the T-statistic is 1.742, smaller than 1.960, and the path coefficient is positive 0.183. This suggests that more auditor experience means better audit quality and less auditor experience means lower audit quality. The lower the auditor experience, the lower the audit quality. This supports the conclusion that hypothesis 1 from this study can be accepted.

For the second hypothesis, the results of the SEM-PLS analysis show that the p-value of the influence of auditor industry specialisation on audit quality is 0.000 less than 0.050, with a T-statistic of 5.903 more than 1.960 and a positive path coefficient of 0.563, meaning that auditors with extensive experience as Industrial Specialist Auditors will produce higher quality audits. In contrast, auditors who are not Industry Specialists tend to produce less quality audits. This supports the conclusion that hypothesis 2 of this study can be accepted.

For the third hypothesis, the results of the SEM-PLS analysis show that the p-value of the influence of audit risk on audit quality is 0.003 less than 0.050, with a T-statistic of 2.717 greater than 1.960 and a negative path coefficient of -0.208. This shows that the higher the audit risk, the lower the audit quality; conversely, the lower the audit risk, the higher the audit quality. This supports the conclusion that hypothesis 3 of this research can be accepted.

DISCUSSION

Effect of Auditor Experience on Audit Quality. The results of hypothesis testing show that there is a positive relationship between Auditor Experience and Audit Quality. How does auditor experience affect their ability to identify and handle audit challenges arising from pandemic situations, such as access restrictions and changes in the work environment?

Experience has been seen as an important factor in predicting auditor performance and the quality of their audits. An auditor with sufficient experience will better understand and know various problems in depth and more easily keep up with increasingly complex developments, including supervising and examining audit assignments. The flying hours the auditor owns in auditing a company's financial statements have a significant effect. Various clients have different organisational structures, different fields of business, and different client behaviours.

An auditor's experience is gained through many assignments and continuing professional education, seminars, training, and other skill-supporting activities that increase his knowledge. Although an auditor's ability in other fields, such as business and



finance, is very good, an auditor does not become reliable if he does not have sufficient education and experience in auditing, so the auditor will not have good audit performance.

Auditors with experience in auditing improve their ability to obtain relevant information, detect errors, and find the causes of errors. The number of inspection tasks performed makes auditors more thorough, able to learn from past mistakes, and fast in completing tasks.

The "Auditor Experience" construct includes indicators such as years of experience, number of clients handled, participation in professional training, and level of certification. Analysis of this construct shows that experienced auditors can identify audit problems, develop relationships with clients, and produce better audit quality than less experienced auditors.

Experienced auditors can better adjust audit strategies during the pandemic, manage materiality risks, improve audit efficiency, and communicate better. Auditor experience is crucial in improving audit quality, especially in unexpected situations such as the COVID-19 pandemic. Thus, the findings from this study can strengthen the understanding that auditor experience plays a crucial role in improving audit quality, especially in unexpected situations such as the COVID-19 pandemic.

The results of this study are consistent with previous research by (Zahmatkesh, 2017), which shows that auditor experience improves audit quality by increasing auditor expertise and knowledge. Meanwhile, Haeridistia and Agustin (2019) state that auditor experience affects audit quality because auditors carry out audits in accordance with their knowledge.

The results also confirm that auditor experience is critical to determining audit quality. This implies the importance of considering auditor experience in audit practice for public accounting firms, company management, regulators, and other stakeholders. Public accounting firms can improve auditor training, company management can select auditors with appropriate experience, and regulators can update relevant audit guidelines and standards.

Compared to the results of similar studies, these findings are consistent with many previous studies that confirm the positive influence of auditor experience on audit quality. Previous studies highlight the role of experience in reducing audit risk, increasing compliance with audit standards, and improving the quality of audit findings. However, some studies may show different results depending on methodologies and research contexts. Therefore, evaluation of these findings needs to consider other research and the specific context of each study.

Effect of Auditor Industry Specialization on Audit Quality. The hypothesis test results show that auditor industry specialisation affects audit quality.

Are auditors with industry specialisation likely more effective in identifying potential problems and providing relevant recommendations to their clients based on a deep understanding of the industry during the pandemic?

Specialist auditors reflect the auditor's expertise in conducting audits. With extensive experience, auditors will be faster and more precise in detecting discrepancies or errors in the client's financial statements compared to auditors who do not have specialisation. This ability comes from the auditor's experience in auditing his clients and studying the activities that exist in the industry. The number of clients the auditor has handled certainly affects the knowledge and abilities possessed. These advantages make auditing more effective and efficient, increasing audit quality.



Auditors with many clients in the same industry better understand the company's internal controls, business, and audit risks. Specialisation in a particular industry gives auditors more skills and knowledge than non-specialist auditors.

Research by (Evgeny Petrov et al., 2022) shows that auditors specialising in an industry tend to understand internal controls, business risks, and audit risks in greater depth. Industry specialisation improves audit quality, especially when measured by how accurately the audit report reflects the company's fundamental value. However, the impact may vary depending on how audit quality is measured, especially in investors' perception of the report's usefulness. The study confirms that industry specialisation strengthens auditors' understanding of business characteristics and risks, improving audit quality.

The "Auditor Industry Specialization" construct includes indicators that reflect the auditor's knowledge, experience, certifications, and understanding of a particular industry. These indicators have significant implications for the quality and relevance of the resulting audits. First, auditors' level of knowledge about a particular industry can affect their ability to understand the client's business context, industry dynamics, and specific issues that may affect the financial statements. With in-depth industry knowledge, auditors can provide sharper and more relevant insights during the audit process.

Auditor industry specialisation includes knowledge, experience, certifications, and understanding of a particular industry. The auditor's in-depth knowledge of the client's business dynamics and issues affecting the financial statements significantly affects audit quality. Considerable experience in the same industry enables auditors to identify specific risks and understand business practices in depth, improving audit efficiency and the ability to identify issues.

Industry-specific certifications increase auditors' confidence in assessing the industry's technical and regulatory aspects. Auditors' understanding of industry risks affects their ability to design appropriate audit procedures. With the combination of knowledge, experience, certifications, and understanding of industry risks, auditors provide relevant audit services, build stakeholder trust, and significantly contribute to effective and reliable audit services.

Specialised auditors have a deeper understanding of industry challenges and trends, allowing them to identify risks better and select appropriate audit procedures. Their ability to provide relevant recommendations and high credibility helps clients face uncertainty with more confidence. In this pandemic, industry-specialised auditors are instrumental in ensuring that audits remain efficient and relevant and provide clients with timely guidance to manage risk and prepare for recovery.

With a deep understanding of the industry, auditors can better overcome challenges, provide relevant recommendations, and enhance their credibility as experts in the field. This not only maintains high audit quality but also helps clients navigate uncertainty and plan recovery steps in the future.

Findings support the hypothesis that specialist audits significantly improve the quality of financial reporting. The results provide empirical evidence consistent with the hypothesis that auditor industry specialisation improves audit quality. Conversely, specialist auditors will produce better-quality audits than non-specialist auditors (Gaver & Utke 2019).

Compared to similar research findings, this study is consistent with other research indicating that industry specialisation contributes to audit quality. However, some studies



may show different results depending on varying methodologies, samples, and research contexts. Involving indicators in each construct can enrich the research analysis by providing a more detailed understanding of the relationship between auditor industry specialisation and audit quality.

Effect of Audit Risk on Audit Quality. The hypothesis test results show that Audit Risk has a negative effect on Audit Quality.

Auditors focus on areas where the likelihood of error or failure is high, especially those that can affect the fairness and objectivity of financial reports. Pittman et al. (2019) explain that audit risk arises when financial statements are presented relatively when, in fact, they are not, possibly due to a lack of objectivity or the auditor's inability to detect errors. (Anuwuo et al., 2020) state that this risk includes components of financial statements with incorrect assertions and the auditor's failure to disclose these errors. (Zamboni & Litschig, 2018) emphasise the importance of auditors assuring that financial statements are free from errors, with the primary goal of the audit being to reduce risk to an acceptable level. Furthermore, (Tuanakotta, 2019) warns that high audit risk can reduce audit quality because the evidence collected may be insufficient to detect material errors that could affect the audit outcome.

How do auditors identify and evaluate risks affecting audit quality during the pandemic?

The COVID-19 pandemic has brought various significant risks to audit practices, directly affecting audit quality. First, there has been a change in materiality risk due to significant economic fluctuations, which affects auditors' assessment of errors or discrepancies in financial statements. Second, access limitations and evidence gathering become challenging due to physical restrictions and working remotely, which may increase the risk of auditors being unable to identify potential errors or fraud. Third, significant changes in companies' business and operational risks during the pandemic require adaptation of audit procedures to remain relevant and effective in identifying new emerging risks.

Auditors must enhance their precision and adaptability in addressing risks during the COVID-19 pandemic. Strengthened communication with corporate management and other stakeholders is necessary to mitigate risks and maintain audit quality. Additionally, careful evaluation of internal controls, the company's ability to continue its operations, and a deep understanding of changes in management assumptions are essential for upholding appropriate audit standards and addressing pandemic challenges.

The "Audit Risk" construct encompasses the complexity of financial transactions, regulatory changes, uncertainty in audit planning, and organisational compliance. Transaction complexity poses a source of risk, while regulatory changes introduce new uncertainties. Auditors must carefully manage risks, ensuring that audits remain effective and provide accurate information to stakeholders. With a deep understanding of risks, auditors can design relevant audit strategies, contribute significantly to the company, and maintain audit quality amidst challenges.

So, Audit Risk directly affects Audit Quality. The higher the audit risk, the lower the quality, and vice versa. High audit risk indicates the presence of material errors in the client's financial statements, requiring a broader scope of audit procedures by the auditor.

The results of this study agree with (Segal, 2017), who states that audit risk arises when financial statements are not accurate, fair, and objective and auditors fail to disclose material misstatements. (Costa et al., 2023) found an inverse relationship between audit risk and materiality, where high audit risk implies low materiality.



CONCLUSION

This research concludes that auditor experience has a positive influence on audit quality. The more experience the auditor has, the better the audit is performed, but the less experience the auditor has, the worse the audit. Auditor industry specialisation positively impacts audit quality; Specialist auditors produce higher quality audits, while non-specialist auditors produce less quality audits. Meanwhile, audit risk affects audit quality. The greater the audit risk, the more difficult it is for the auditor to find errors in the financial statements. The study showed that audit quality increases with lower audit risk.

Advice for auditors. To carry out good quality audits, auditors must master the audit field both in terms of practice and theory, understand auditing standards, have the best possible understanding of the client's industry, and for KAPs to strictly implement Quality Control Standards (SPM) and for Regulators to always peer review of the work carried out by KAP. The Indonesian Institute of Public Accountants (IAPI), in organising Continuing Education Programs (PPL), Seminars, and Workshops, should present industry experts as resource persons so that professional accountants can understand the characteristics of each type of industry to improve and develop their professional competence.

Suggestions for further research: Future research can be more varied. It is recommended that different research objects or independent variables be used. Research can also include other factors impacting audit quality as part of its analysis.

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