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The Effect of Audit Risk towards Audit Quality through Fee Audit

Rino Sunaryono[1], Grahita Chandrarin[2], Prihat Asih[3]
[1,2,3]University of Merdeka Malang, Indonesia
Corresponding Author: Rino Sunaryono

Abstract: *The purpose of this study is to analyze the effect of audit risk towards fee audit, analyze the effect of audit risk towards audit quality, and analyze the effect audit fee towards audit quality. The sample in this study were107 public accountants in Jakarta. The result of the study shows that audit risk has effect towards audit fee, audit risk has negative effect on audit quality, audit fee has effect towards audit quality, audit risk has effect towards audit quality through audit fee in Public Accounting Firms in Central Jakarta. The implications of this study, for the auditor in order to control audit risk, the auditor needs to know the client carefully, as well as understand the ins and outs of his client's business, and for future researchers, to examine the audit risk on audit quality, by adding variables.*

Keywords: *Audi Risk,Audit Quality, Through Audit Fee*

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I. Iintroduction

Audit quality is needed by investors in planning and carrying out business activities. From the results of the audit, investors invest their business capital in companies that have good financial conditions, so that investors do not make mistake in investing their capital in the company. Audit Quality is the result of an audit conducted by the auditor by meeting the requirements and standards for auditing, that include professional qualities, independent auditors, and judgments used in carrying out audits to prepare auditors' reports (Hartadi, 2009). DeAngelo (1981) states that the audit quality of public accountants can be seen from the size of the Public Accounting Firm (PAF) that conducts the audit.Big PAF (The Big 4 accounting firms) are believed to conduct higher quality audits compared to small PAF (Non-Big 4 accounting firm). Likewise with Pratama andMerkusiwati (2015) who state that audit quality is influenced by the model formed by time budget pressure, risk of audit error, and audit contract period. Audit fees are fees paid by public accounting firms to audited companies (auditee) for auditing services performed by public accountants for financial statements (Iskak, 1999). According to Iskak (1999), factors affecting audit fees include the size of the audited company, the audit period, and the size of the PAF. Kurniasih and Rohman (2014) stated that audit fee variable had a significant positive effect on audit quality. This means that the effect of audit fees charged or paid by companies for the auditor services honorium has a greater influence on audit quality produced by independent auditors. Likewise, the results of research conducted by Yuniarti (2011) which states that audit costs significantly influence audit quality. Higher costs will improve audit quality, because audit fees obtained in one year and estimated operational costs needed to carry out the audit process can improve audit quality. Audit risk is a risk that occurs in the case of the auditor, unconsciously, not modifying his opinion as appropriate, on a financial report that contains material misstatement, which has three elements, namely default risk, control risk, and detection risk (Mulyadi, 167; 2014).The first general standard (SA section 210 in SPAP 2001) states that audits must be carried out by one or more person(s) who have sufficient technical expertise and training as auditors, while the third general standard (SA section 230 in SPAP 2001) states that in conducting audits and preparing the report, the auditor must use his professional skills carefully and thoroughly (due professional care).Lee and Stone (1995) define competency as sufficient expertise, which can be explicitly used to conduct audits objectively. Another opinion is from Dreyfus and Dreyfus (1986), which defines competence as the expertise of a person who plays an ongoing role, which moves through the learning process, from "knowing something" to "knowing how", such as from just knowledge that depends on certain rules to an intuitive statement. Bedard (1986), in Sri Lastanti (2005: 88), defines expertise or competence as someone who has extensive procedural knowledge and skills, which is shown in audit experience. Meanwhile in the same article, Shanteau (1987) defines expertise as a person who has skills and abilities at a high degree. In addition, the issuance of going concern audit reports on companies audited by large PAFs can also be said to be uniform with small PAFs. From the differences in the results of the study, we have concernto re-examine, to prove if there is an effect of the PAF size on audit quality.

Audit risk is a risk that occurs in the case of the auditor, unconsciously, not modifying his opinion as appropriate, on a financial report that contains material misstatement, which has three elements, namely default risk, control risk, and detection risk (Mulyadi, 167; 2014). Several research results prove that there arePAFs/PAs who still commit violations, and have poor audit quality on financial statements. Audit quality is a possibility that the auditor will find and report violations in the client's accounting system. The results of previous studies indicate that audit fees, audit planning, and audit risk have an influence on audit quality (Arisinta, 2013). It is similar to research conducted by Julianto et al (2016) which states that audit fees, audit planning, and audit risk have a positive effect on audit quality. Those findings are contradictto a study conducted by Hartadi (2009), who states that audit fees have a significant effect on audit quality, while audit rotation and reputation have no significant effect on audit quality. Likewise with Nindita and Siregar (2012), who stated that there was no significant effect between the size of the PAF and audit quality. Based on research gaps from Arisinta (2013), Julianto et al (2016), and Siregar (2012), we will review research related to audit risk and auditor competence on audit fees, and their implications for audit quality by PAFs in Jakarta.

The objectives of this study are (1) Analyzing the effect of audit risk on audit fees in Central Jakarta, (2) Analyzing the effect of audit risk on audit quality in Central Jakarta, (3) Analyzing the effect of audit fees on audit quality in Central Jakarta, and (4) Analyzing the effect of audit risk on audit quality through audit fees in Central Jakarta.

II. Theoretical Review

Audit Quality is the result of an audit conducted by the auditor by meeting the requirements and auditing standards that include professional qualities, independent auditors, and judgments used in carrying out audits to prepare auditors' reports (Hartadi, 2009).DeAngelo (1981) states that the audit quality of public accountants can be seen from the size of the PAF conducting the audit.Big PAF (TheBig 4 accounting firms) are believed to conduct higher quality audits compared to small PAF (Non-Big 4 accounting firm).Based on Public Accountant Professional Standards (PAPS), audits conducted by an auditor can be of quality if they meet the requirements or auditing standards. Auditing standards include professional qualities, independent auditors, and judgmentsused in conducting audits and preparing auditor reports.Audit fees are fees that are charged by public accounting firms to audited companies (auditee) for auditing services performed by public accountants for financial statements (Iskak, 1999). According to Iskak (1999), factors that influence audit fees are the size of the audited company, the audit period, and the size of the PAF. Furthermore, the government issued a Regulation of the Minister of Finance No. 17/PMK.01/2008 concerning Public Accountant Services which is an improvement on the Minister of Finance Decree No. 423/KMK.06/2002 and No. 359/KMK.06/2003 with reasons to maintain audit quality by limiting the period of service provision by public accountants. This is expected to get a positive reaction from investors due to the positive impact of improving audit quality. However, on the other hand, since the Minister of Finance Decree No. 423/KMK.06/2002 which was amended by Decree No. 359/KMK.06/2003 concerning Public Accountant Services is a Decree that invites a lot of attention and pros and cons from accountant practitioners, because in the Decree there is the first introduction of rotation arrangements for the practice of Public Accountants in Indonesia.Audit risk is the risk that occurs in the case of the auditor, unknowingly, not modifying his opinion as appropriate, on a financial statement that contains material misstatement, which has three elements, namely default risk, control risk, and detection risk (Mulyadi, 167; 2014).

III. Research Method

1. Research Design

The design of this study uses survey research, which is a study conducted by taking samples from the population using a questionnaire as a primary data collection instrument (Singarimbun and Efendi, 1995: 3). Primary data from this study came from public accountants in Central Jakarta as respondents.

2. Definition of Variable Operational

Audit Risk is the risk arising because the auditor unwittingly does not modify his opinion on a financial statement that contains material misstatement, which has indicators; (1) Default risk, (2) Control risk, and (3) Detection risk.

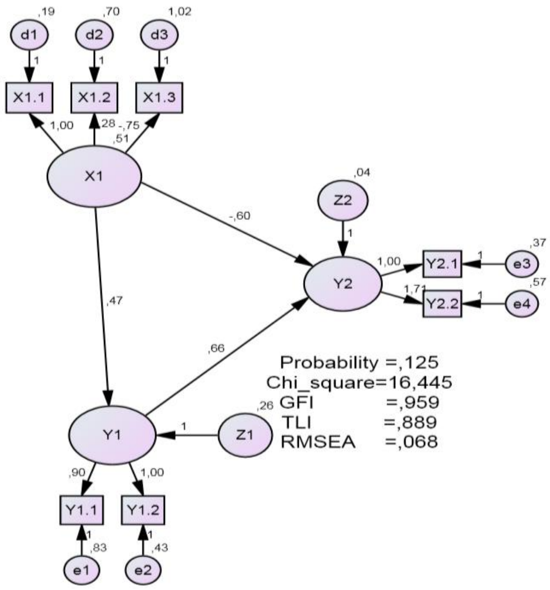
Audit feesare fees that are charged by public accounting firms to audited companies whose indicators include: (1) the size of the audited company, and (2) the audit period.

Audit Quality is the result of an audit conducted by the auditor by meeting the requirements and auditing standards, which have indicators including: (1) Professional quality, and (2) Judgments.

3. Population and Sample
The population in this study are public accountants in Central Jakarta with 107 public accountants from the total population used as research samples

IV. Result & Discussion
1. Test Result of SEM (*Structure Equation Modelling*) Model

Diagram of SEM Mode



Description:
X1. Audit Risk
$X_{1.1=}$Default Risk
$X_{1.2=}$ Control Risk
$X_{1.3=}$ Detection Risk

Y1. Fee Audit
$Y_{1.1=}$ The size of the audited company
$Y_{1.2=}$ Audit Period

Y2. Audit Quality
$Y_{2.1=}$ Professional Quality
$Y_{2.2=}$Judgments

2. Test of*goodness of-fit Indices*
Result of analysis on the*Structure Equation Modelling*was done by the assistance of a computer program named*AMOS 16 for Windows.*It was obtained that all of the *goodness of-fit Indices* criteria had met the requirements as shown in Table 1.

Table 1: Score of*goodness of-fit Indices* and*cut off* SEM Model

Criteria	Cut-of Value	Result of Test on the Model	Description
Chi square	Expected to be less	16.445	Good
Significance of Probability	≥ 0.05	0.125	Good
CMIN/DF	≤ 2.00	1.495	Good
RMSEA	≤ 0.08	0.068	Good
GFI	≥ 0.90	.959	Good
TLI	≥ 0.90	.889	Good

The test of t (CR) effect of audit risk towards audit quality through audit fee.

Table2: Test on Hypothesis

Variables			Direct	Indirect	Total	Probs
Audit Risk	→	Audit Fee	0.465		0.465	0.005
Audit Risk	→	Audit Quality	-,597	0.366	0.526	0.036
Audit Fee	→	Audit Quality	0.656		0.098	0.035
Audit Risk	→	Audit QualitythroughAudit Fee	0.465	0.656	0.27	0.041

The statistics of significance on alpha level as much as 5%

V. Result & Discussion

Audit risk is formed from indicators of the Auditor understands that there are misstatements in the financial statements, the Auditor is able to carry out due professional care, the Auditor knows whether the misstatement exceeds the amount that can be received by the auditing, the Auditor understands whether misstatements can be prevented or detected in a timely manner by the client's internal control, The auditor has adequate planning, PAF makes appropriate assignments in the engagement team, and the Auditor applies professional skepticism.The results of the data analysis show that the indicator "The auditor applies professional skepticism" provides the largest contribution to audit risk, followed by the indicator "The auditor knows whether misstatements exceed the amount that can be accepted by auditing" and "The auditor understands whether misstatements can be prevented or detected correctly time by client internal control". This means that the more the auditor applies professional skepticism, the more he can control audit risk.Auditor competence is formed from indicators of Auditors must understand job professionalism in accordance with financial accounting standards (FAS), Auditors must carry out professionalism in accordance with Public Accountants Professional Standards (PAPS), Frequently conducting audits will produce good audit quality, and Auditors have handled various kinds of clients so as to make the audit results better.

The results showed that the indicator "the more clients that have been dealt with made the audit results better" gave the biggest contribution, followed by the indicator "Frequently conducting audits will produce good audit quality" and "Auditors must carry out professionalism in accordance with professional accountant standards public (PAPS)". This means that the more clients that have been dealt with, the more competent the auditors are.

Audit fees is formed from indicators of “the PAF get a greater amount of audit fees”,“The smaller the company that is audited with fewer transactions, PAF gets a relatively small amount of audit fees”, “PAF gets a large amount of audit fees when auditing over a period of time”, and “the PAF gets a relatively small audit fee when auditing in a relatively short time”.

The results showed that the indicator "PAF gets a large amount of audit fees when auditing over a long period of time" gave the biggest contribution, followed by the indicator "The larger the company being audited, PAF gets the audit fee in a larger amount" and "The smaller the company which is audited by a small transaction, PAF gets an audit fee in a relatively small amount ". This means that the longer the time needed for the audit, the greater the fee obtained by PAF.

The effect of audit risk on audit fees on PAF is reflected in the default risk, with the indicators "the auditor understands the misstatement in the financial statements" and "the auditor understands that there are no misstatements in the financial statements" so as to increase the acquisition of large audit fees when auditing process take a long time, and the auditor gets a relatively small audit fee when the auditing process is in a relatively short time.

The effect of audit risk on audit quality on PAF is reflected in the default risk, with the indicators "the auditor understands the misstatement in the financial statements" and "the auditor understands that there are no misstatements in the financial statements" so that they are unable to draw conclusions based on the obtained audit evidence and are unable to evaluate the management judgments.

The effect of audit fees on audit quality on the PAF is reflected in the audit period, with the auditor's indicator getting a relatively small audit fee when auditing in a relatively short time, the auditor is able to make conclusions based on audit evidence obtained, and the auditor is able to evaluate management considerations.

The effect of audit risk on audit quality through audit fees is reflected in default risk, with the indicators "the auditor understands misstatements in the financial statements" and "the auditor understands the absence of misstatements in the financial statements" so as to increase the acquisition of audit fees in large amounts when auditing in a long period of time, and the auditor gets a relatively small audit fee when auditing in a relatively short time, so that the quality of the audit can be improved by the auditor being able to make conclusions based on the audit evidence obtained and the auditor is able to evaluate management's considerations.

VI. Conclusion

Audit risk reflected in default risk can increase the acquisition of audit fees in large amounts. Audit risk reflected in default risk is unable to draw conclusions based on audit evidence obtained. Audit fees reflected in the audit period are able to make conclusions based on audit evidence obtained. Audit risk reflected in default risk can increase the acquisition of audit fees in large amounts when auditing over a long period of time, so that the quality of the audit can be improved by the auditor being able to draw conclusions based on audit evidence obtained.

Audit risk will always be faced by the auditor. Therefore, to be able to control audit risk, the auditor needs to know the client carefully. The auditor needs to know the ins and outs of his client's business, and it is recommended that future researchers review the audit risk of audit quality, for instance by adding variables.

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