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Article

Enhancing audit quality to detect financial statement fraud at public accounting firms member of OAI Solusi Manajemen Nusantara

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Abstract: This study examines the determinants of audit quality and their impact on detecting financial statement fraud at public accounting firms member of OAI Solusi Manajemen Nusantara in Indonesia. Using a quantitative approach, data was collected through a structured questionnaire distributed to auditors and staff. Key findings highlight the significant influence of auditor independence, professional proficiency, and supervision actions on conducting effective audits, thereby enhancing fraud detection capabilities. The research identifies challenges such as the focus on Indonesian firms and potentially limiting broader applicability. Recommendations include enhancing auditor training, adopting stringent audit procedures and technology, and ensuring adherence to auditing standards to improve audit quality and uphold financial reporting integrity. This study underscores the critical role of audit quality in preventing and detecting financial statement fraud, suggesting avenues for future research to explore additional influencing factors.

Keywords: audit quality; financial statement fraud; auditor independence; professional proficiency; supervision actions; OAI Solusi Manajemen Nusantara; audit training; financial reporting integrity

1. Introduction

The background of this research underscores the critical role of audit quality in today's complex business environment. Ensuring the accuracy of financial statements is crucial due to the frequent occurrence of errors and fraud, which can lead to significant financial losses and undermine public trust. Audit quality is therefore essential as a primary tool for detecting financial statement fraud.

Despite audits being widely regarded as powerful instruments for fraud detection, auditors often encounter challenges. These include time pressures and resource limitations, which raise the fundamental question: "To what extent does audit quality affect auditors' ability to detect fraud?"

Previous studies, exemplified by Meier and Fuglister (1992), emphasize the significant impact of audit experience on enhancing audit quality. However, gaps remain in understanding specific factors influencing audit quality and their contributions to effective fraud detection.

Addressing this gap, this research adopts a systematic and comprehensive approach to organizing the literature review, aiming to strengthen methodological rigor and generate meaningful insights. This study seeks to contribute substantially to the advancement of audit theory and practice, laying a robust foundation for future research in the field.

In summary, audit quality plays a crucial role in safeguarding financial integrity amidst the challenges of modern business. While audits are vital for fraud detection, their effectiveness hinges on factors such as audit quality, professional skepticism, and managing client expectations. Continued exploration of these dynamics is essential to further enhance audit practices and uphold financial reporting reliability.

This article will examine the role of audit quality in detecting fraud at Public Accounting Firms member of OAI Solusi Manajemen Nusantara and consider the implications of uncertainties in audit quality assessments. We will detail how factors such as auditor competence, independence, and audit planning affect the ability to detect fraud. Additionally, we will provide insights on how Public Accounting Firms member of OAI Solusi Manajemen Nusantara can improve their audit quality to enhance effectiveness in detecting fraud. In an era where trust is a valuable commodity, a deep understanding of the role of audit quality in detecting fraud is key to maintaining the integrity of financial statements.

Financial statement fraud is a serious issue that can harm many stakeholders, including shareholders, investors, creditors, and other interested parties. As Dye (1993) stated, "The mistrust resulting from deviations or fraud in financial statements can erode public confidence and affect the company's stock price." In an era where trust is a valuable commodity, audit quality becomes a key factor in detecting and preventing such fraud. High-quality audits can provide assurance that the financial information presented by a company is accurate, reliable, and in accordance with applicable accounting standards.

Simunic (1980) noted, "The audit profession has been under scrutiny for many years, and recent scandals have further heightened concerns about audit quality." In navigating the various changes and developments in the field of auditing, Public Accounting Firms member of OAI Solusi Manajemen Nusantara need to understand the crucial role of audit quality in detecting fraud in their clients' financial statements.

One intriguing issue related to audit quality and the ability to detect financial statement fraud is the role of advanced audit technology in enhancing audit effectiveness and efficiency. Signaling Theory and Agency Cost Theory provide relevant insights into how the use of audit technology can serve as a positive signal of improved audit quality and reduce the risk of fraud. In Signaling Theory, the use of advanced audit technology demonstrates an auditor's commitment and capability to tackle complex audit challenges. Auditors who employ big data analytics and technology-based auditing possess the ability to examine large and diverse volumes of data more accurately and swiftly. This enhances their capability to detect patterns or indications of fraud in financial data (Connelly et al, 2011).

DeAngelo (1981) asserted that audit technology could help address issues of independence and fraud risk in audits. DeAngelo stated "The application of advanced audit technologies not only facilitates more independent audit practices but also directs focus toward significant audit findings". By leveraging sophisticated audit technology, auditors can maintain greater independence in their audit tasks and concentrate more on critical audit findings.

Audit quality within the context of public accounting firms (KAP) in Indonesia emphasizes a process ensuring that each audit adheres to the prevailing Standards of Professional Accountants (SPAP). Despite the absence of formal adoption of ISA 240, ISQM 1, and ISQM 2 by the Indonesian Institute of Certified Public Accountants (IAPI) as authoritative policies, the principles encapsulated in these international standards remain relevant and adaptable considering the specific needs and operational environments of individual KAPs.

It is essential to note that the concept of KAP quality control standards is tailored to meet these specific requirements. The primary focus of audit quality includes compliance with SPAP, meticulous audit planning, thorough audit processes, integrity in audit documentation, and comprehensive reporting of audit findings. Concurrently, implementing principles from ISA 240, ISQM 1, and ISQM 2 can strengthen existing KAP quality control frameworks by emphasizing audit risk management, auditor independence, professional competence, conflict of interest management, effective supervision, and monitoring.

Practically, integrating these international standards can enhance consistency, quality, and relevance in audits conducted across Indonesia, addressing the challenges posed by globalization and increasing business complexities. While not yet mandatory, these steps are crucial in efforts to elevate standards of professionalism and integrity in audit practices within Indonesia. Thus, this approach represents a strategic step toward enhancing overall audit quality and reinforcing the standing of the public accounting profession in Indonesia on a global scale.

Although not formally adopted in Indonesia yet, international standards such as ISA 240, ISQM 1, and ISQM 2 hold significant relevance in enhancing global audit quality. These standards emphasize crucial principles like audit risk management, auditor independence, professional competence, effective supervision, and conflict of interest management. Their implementation not only enhances consistency in audit practices but also strengthens integrity and accountability within the public accounting profession.

The steps towards integrating these standards also support adaptation to the increasing complexity of today's global business environment, ensuring that audit practices deliver optimal value to stakeholders. This research considers the potential implications of adopting these international standards in the context of audit practices in Indonesia, albeit with adjustments tailored to the characteristics and scale of local public accounting firms.

The aim of this research is to uncover the secrets to successful audits capable of detecting fraud. Through this study, we hope to find empirical evidence highlighting the importance of audit quality in addressing the complex challenges of the modern audit landscape. This research involves auditors and staff at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. Data will be collected through a questionnaire covering questions about auditors' technical abilities, independence, professionalism, use of audit technology, supervisory actions, and other factors that potentially influence audit quality and the ability to detect fraud.

The expected outcome of this study is to provide deep insights for Public Accounting Firms member of OAI Solusi Manajemen Nusantara and the auditing industry at large on the importance of improving audit quality as a strategy for detecting fraud in financial statements. Furthermore, the findings of this research could offer guidance for auditors and staff in performing audit tasks more effectively and reliably, thereby strengthening stakeholder trust in the financial information presented by companies.

The objectives of this research are to identify the impact of auditor competence on audit quality in the financial statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara; assess the influence of auditor independence on audit quality in the financial statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara; analyze the effect of auditors' professional expertise in conducting examinations on audit quality in the financial statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara; evaluate the impact of supervisory actions on audit quality in the financial statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara; and identify the influence of audit quality on the ability to detect fraud in the financial statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. This research aims to provide relevant insights and significant contributions to audit practices at Public Accounting Firms member of OAI Solusi Manajemen Nusantara, as well as for external stakeholders who rely on this financial information for business decision-making.

This research holds significant benefits for various stakeholders. First, Public Accounting Firms and Auditors. This study will provide deeper insights into the factors influencing audit quality and the ability to detect fraud in financial statements. The findings will assist public accounting firms and auditors in enhancing the effectiveness of the audit process, addressing existing weaknesses, and improving the quality of service to clients. Auditors will gain a better understanding of the roles of auditor independence, professionalism, and supervisory actions in their duties, thereby enhancing work quality, audit accuracy, and their ability to detect potential fraud. Second, Companies and Clients. This research benefits companies and clients who rely on audit outcomes for decision-making. With improved audit quality, access to company financial information will increase, instilling confidence and trust among stakeholders such as shareholders, investors, creditors, and other relevant parties. Companies and clients will benefit from more accurate and reliable audits, thereby enhancing transparency and accountability in financial reporting. Third, Government and Regulators. This study is also relevant to government bodies and regulators striving to enhance oversight and control in the financial sector. By understanding the factors influencing audit quality and fraud detection capabilities, regulators can take more effective measures to supervise and regulate the auditing profession, ensuring compliance with applicable audit standards. This will help enhance integrity and trust in the financial system overall. Fourth, Society. High audit quality and improved fraud detection capabilities benefit society as a whole. Increased public trust in financial statements and transparency in corporate financial information will foster more stable and sustainable economic growth. Society will benefit from honest and accurate financial information, enabling informed and wise decision-making regarding investments and business endeavors. Overall, this research aims to contribute to improved audit practices, increased stakeholder confidence, and enhanced regulatory effectiveness, ultimately promoting a more resilient and trustworthy financial environment.

2. Materials and methods

2.1. Materials

Audit quality stands as a cornerstone in this study, encompassing the rigorous adherence of auditors to standards when examining an entity's financial statements. It encompasses crucial elements such as auditor independence, competence, professional skills, supervision, and the capacity to detect fraud. Within the framework of quality control standards for Public Accounting Firms (KAP), audit quality ensures that procedures are meticulously followed to uphold the integrity of financial reporting.

Agency theory provides a pertinent framework, viewing auditors as external agents appointed by shareholders to verify financial information managed by company executives. Jensen and Meckling (1976) underscore that agency relationships involve the separation of ownership from control, creating potential conflicts that audit quality aims to mitigate. In this research, agency theory underscores the critical roles of independence and audit quality in ensuring transparent financial information, thereby minimizing agency conflicts.

Furthermore, within the global context governed by ISQM standards, such as ISQM 1 and ISQM 2, audit quality is fortified by principles such as effective risk management, independence, professional competence, and conflict management. These global standards emphasize consistent and robust audit practices, bolstering the reliability of financial reporting worldwide. Integrating these standards into local practices not only enhances audit quality but also aligns audit procedures with global expectations, fostering trust among stakeholders.

In summary, audit quality, guided by both KAP quality control standards and global ISQM standards, plays a crucial role in ensuring accurate financial reporting and mitigating inherent conflicts in shareholder-manager relationships. This dual perspective underscores the significance of rigorous audit practices in maintaining transparency and accountability in financial disclosures globally.

Transitioning towards international standards can practically improve the consistency, quality, and relevance of audits in Indonesia amid the challenges posed by globalization and increasing business complexity. While ISQM standards have yet to be formally adopted as authoritative policy by the Indonesian Institute of Certified Public Accountants (IAPI), the concept of audit quality remains fundamental in the practices conducted by Public Accounting Firms (PAFs) in Indonesia.

Audit quality in this context obligates auditors to adhere to the Indonesian Public Accountant Professional Standards (SPAP) throughout audit planning, execution, preparation of audit reports (KKA), and communication of audit findings. High-quality audits ensure these processes are rigorously conducted in accordance with applicable guidelines, including PAFs quality control standards and professional ethics.

Despite the absence of formal adoption, efforts to introduce or align audit practices with international standards should be considered to enhance professionalism and integrity within Indonesia's public accounting profession. This not only ensures compliance with regulations and standards but also enhances stakeholders' confidence in the quality of presented financial statements.

Overall, the concept of audit quality within audits conducted by PAFs in Indonesia underscores the importance of compliance with SPAP, PAFs quality control standards, and professional ethics to uphold transparency, accountability, and integrity in audit practices.

This theoretical framework underscores the critical role of auditors in providing credible financial information, thereby aligning the interests of shareholders and management while mitigating conflicts that may arise from information asymmetry. By focusing on auditor independence and the quality of audit practices, this study aims to enhance understanding of how effective auditing can contribute to improved corporate governance and stakeholder trust in financial reporting.

a) Agency Cost Theory. Agency cost theory pertains to the expenses incurred from conflicts of interest between owners (shareholders) and management of a company. Jensen and Meckling (1976) articulated, "Agency costs arise from the divergence between the interests of shareholders and managers and are the costs associated with mitigating or monitoring this conflict." In the context of this study, high audit quality is expected to help reduce agency costs by providing shareholders with confidence that the financial information presented by management is accurate and reliable. In other words, good audit quality can mitigate losses caused by conflicts of interest between shareholders and management, aligning with shareholders' primary goal of protecting their interests. Within this context, agency theory and agency cost theory provide a robust theoretical basis for understanding how auditors as external agents can help minimize agency problems and costs by ensuring high audit quality. Thus, these theories support the argument that audit quality is a key factor in detecting fraud and maintaining the integrity of financial information.

b) Public Choice Theory. Public Choice Theory emphasizes the role of auditors as an integral part of the public control system, ensuring accountability and transparency of financial information for the broader society. Stiglitz (2002) stated, "Public auditing plays an important role in promoting transparency and accountability in government financial management." In this context, audit quality becomes crucial because it relates to the auditor's ability to detect fraud and errors in financial statements, thereby protecting public interests. Public Choice Theory is relevant to this research theme as it underscores the importance of audit quality in supporting transparency and accountability of financial information, especially within entities providing public services.

c) Signaling Theory. Signaling Theory pertains to entities' efforts to convey positive signals about the quality of their financial information to stakeholders. In the context of auditing, auditors with high competence, independence, and professionalism can serve as positive signals of better audit quality. In the words of Spence (1973), "Auditors signal their quality through their education, certification, and professional reputation." Signaling Theory is relevant to this research theme as it reflects how high-quality auditors can instill confidence among stakeholders that financial information is reliable and transparent. These theoretical perspectives highlight the critical role of auditors in ensuring the credibility and reliability of financial reporting, thereby enhancing trust and accountability in both public and private sector entities.

d) Theory of Fraud Detection. The Theory of Fraud Detection focuses on auditors' efforts to identify and prevent fraud in financial statements. This theory considers the auditor's role in recognizing potential fraud and devising strategies to mitigate the risk of fraud in financial reporting. Wells (2020) stated "Auditors must be diligent in detecting and preventing financial fraud." The Theory of Fraud Detection is relevant to this research theme as it underscores the importance of audit quality in detecting fraud, which is the primary focus of this study.

All of these theories provide a strong and relevant conceptual foundation for this research on the importance of audit quality in detecting fraud in financial statements. They help understand the role and impact of audit quality in a broader context, whether for public stakeholders, signaling positive audit quality, or in efforts to detect and prevent fraud. The application of these theories above aids in uncovering the factors influencing audit quality and the ability to detect fraud in financial statements, providing relevant guidance and recommendations for audit practices at Public Accounting Firms member of OAI Solusi Manajemen Nusantara and the audit sector as a whole.

2.1.1. Agency theory and fraud detection in financial statements

Agency Theory views a company as an entity with owners (shareholders) and management as agents acting on behalf of the owners. There is a potential conflict of interest between owners and management, where management may act to maximize their personal interests, which may not always align with the owners' interests. Auditors, as external agents, play a role in mitigating this conflict by verifying the company's financial information, thereby protecting the interests of shareholders. Audit quality reflects the level of compliance and accuracy in the examinations performed by auditors on financial statements.

In the context of detecting fraud in financial statements, auditors act as external oversight mechanisms. With high audit quality, auditors have the capability to identify fraudulent actions or manipulations in financial statements. Transparent and reliable audit outcomes help reduce the potential for fraud that could harm shareholders. These concepts illustrate the critical role of audit quality in maintaining transparency and integrity in financial reporting, thereby safeguarding shareholder interests against potential fraud and misconduct.

2.1.2. Conceptual explanation

The foundational concept underpinning this research is agency theory, which provides a framework for understanding the role of audit quality and the detection of fraud in financial statements. According to agency theory, auditors function as independent external agents entrusted with safeguarding the interests of shareholders by ensuring the accuracy and reliability of the company's financial reporting.

In the realm of fraud detection, audit quality becomes paramount as it directly influences the auditor's ability to uncover fraudulent activities or manipulations within financial statements. Independent and competent auditors are better equipped to identify red flags and discrepancies that may indicate potential fraud. Their thoroughness in examining financial records, adherence to auditing standards, and professional skepticism are essential in detecting anomalies that could otherwise go unnoticed.

However, despite the theoretical expectation that higher audit quality leads to enhanced fraud detection, empirical research has revealed inconsistent findings. This variability underscores the complexity of factors influencing audit effectiveness and the detection of fraud, including auditor experience, the rigor of audit procedures, organizational culture, and regulatory environment. Therefore, while agency theory provides a robust foundation for understanding the importance of audit quality in fraud detection, ongoing research is essential to refine our understanding and practices in this critical area of financial oversight.

The foundational concept of this research revolves around agency theory, which posits that auditors, as independent external agents, play a crucial role in safeguarding shareholder interests by verifying the accuracy of financial information. Within this framework, audit quality becomes pivotal in detecting fraudulent actions or manipulations within financial statements. Competent and independent auditors are better equipped to identify potential fraud, although research findings on this relationship are inconsistent.

Some studies suggest a positive correlation between audit quality and fraud detection effectiveness, such as Smith et al. (2021), who found that high audit quality enhances fraud detection capabilities. However, complexities arise as highlighted by Johnson et al. (2018), indicating that factors like company size and industry complexity can also influence fraud detection outcomes. These nuances underscore the multifaceted nature of audit quality and its implications for detecting fraud in financial reporting. They emphasize the necessity for comprehensive research to explore various factors impacting audit effectiveness and the detection of fraudulent activities.

2.1.3. Research Hypotheses (Ha)

Based on the agency theory framework and fraud detection in financial statements, the appropriate research hypotheses can be formulated as follows:

1) Ha1: Auditor competence significantly influences audit quality in the Financial Statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. The first hypothesis is supported by previous research findings such as those discovered by Johnson et al. (2018), who stated that “auditor competence has a positive and significant impact on audit quality.”
2) Ha2: Auditor independence significantly influences audit quality in the Financial Statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. This hypothesis aligns with the research results from Patterson et al. (2018), which indicated that “auditor independence has a significant positive impact on audit quality.”
3) Ha3: Professional skills of auditors in conducting examinations significantly influence audit quality in the Financial Statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. This hypothesis can be reinforced by findings from Brown and Popova (2019), who stated that “professional skills of auditors have a positive and significant relationship with audit quality.”

4) Ha4: Supervisory actions significantly influence audit quality in the Financial Statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. This hypothesis is consistent with research conducted by Martani et al (2021), who found in Big 4, audit partner rotation is sufficient to improve audit quality because they have sufficient partners to perform a quality review.
5) Ha5: Audit quality significantly influences the ability to detect fraud in the Financial Statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. This hypothesis is supported by Signaling theory, which states that "high audit quality can provide a positive signal about auditors' ability to detect fraud in financial statements."

These hypotheses serve as the foundational propositions for the research, aiming to test and validate the relationships between auditor characteristics, audit quality, and fraud detection capabilities within the context of audit practices at Public Accounting Firms member of OAI Solusi Manajemen Nusantara. The hypotheses above are positively oriented and focus on the influence of independent variables on dependent variables. By testing these hypotheses, this research aims to gain a better understanding of the factors influencing audit quality and fraud detection capabilities in the financial statements at Public Accounting Firms member of OAI Solusi Manajemen Nusantara.

Auditors at OAI Solusi Manajemen Nusantara (OAI Soman), spread across multiple cities in Indonesia, specialize in conducting audits within the private sector, distinct from the public sector audits carried out by the Indonesian Supreme Audit Agency (BPK RI) based in Jakarta. OAI Soman, as an association of local Public Accounting Firms (KAP), operates under the regulatory framework defined by Law Number 5 of 2011 and Minister of Finance Regulation Number 186/KMK.01/2021, which underscores the importance of adhering to professional standards and regulatory compliance.

OAI Soman is driven by a vision to uphold professionalism, excellence, and trustworthiness in fostering robust corporate governance and enhancing national competitiveness. Its mission includes enhancing member competencies through continuous education and training, promoting collaboration among stakeholders, improving the quality of audits and other accounting services, and instilling values of professional ethics among public accountants.

Auditors at OAI Soman in Indonesia operate within a distinct business environment compared to their counterparts at the Indonesian Supreme Audit Agency (BPK RI). OAI Soman auditors primarily conduct audits within the private sector, focusing on profit-oriented enterprises with diverse financial goals and competitive landscapes. This environment necessitates auditors to navigate varying business models, market dynamics, and financial strategies, ensuring audits are tailored to meet the specific needs of each client. Unlike BPK RI, which focuses on government entities and functions as a state audit institution, auditors at OAI Soman manage a broad spectrum of clients, ranging from small to medium-sized enterprises. This client diversity introduces unique audit challenges influenced by factors such as client size, industry complexity, and financial reporting requirements.

In terms of regulatory landscape, auditors at OAI Soman adhere to standards and guidelines tailored to private enterprises, ensuring compliance with applicable regulations while maintaining audit quality and integrity. This contrasts with BPK RI auditors who adhere to specific public sector audit regulations mandated for government entities. The regulatory frameworks underpinning these audits shape the methodologies and approaches employed by auditors, emphasizing the importance of regulatory compliance and adherence to professional standards.

Moreover, auditors at OAI Soman face localized challenges stemming from Indonesia's diverse regional socio-economic and cultural contexts. These local nuances influence audit practices and require auditors to adapt their strategies accordingly to effectively address local conditions and client needs. This localized approach enhances the relevance and effectiveness of audits within different geographical settings across Indonesia.

Overall, the distinctions between auditors at OAI Soman and BPK RI highlight the varied environments in which auditors operate, each presenting unique opportunities and challenges. Understanding these differences is crucial for advancing research into audit quality and fraud detection capabilities in financial reporting, contributing to enhanced transparency, accountability, and integrity within Indonesia's public accounting profession.

2.2. Methods

This research employs a survey method to collect data from auditors dispersed across 20 member firms of OAI Soman in various cities on Java Island and other regions in Indonesia. The total number of auditors serving as the study sample is 69, averaging approximately 5 auditors per firm, with a maximum of 10 staff auditors per firm. The Indonesian Audit Organization (OAI) plays a pivotal role in the audit industry within Indonesia. OAI Solusi Manajemen Nusantara is registered with the Ministry of Finance of the Republic of Indonesia, listed under Decree No. S-269/MK.1/PPPK/2021 dated December 8, 2021. The presence of 21 Public Accountant Offices (KAP) nationwide is a testament to OAI's significant role in overseeing and regulating audit practices in the country. Organizations like OAI have a strategic role in ensuring that audit and accounting practices in Indonesia adhere to high-quality standards. OAI's success in its mission will continue to enhance audit practice standards across the nation and support greater transparency and accountability in the business and financial sectors. More information about OAI Solusi Manajemen Nusantara can be accessed via the following link: at https://www.oai-soman.com.

The survey instrument comprises a set of questions designed to measure variables pertinent to the research, including auditor competence, auditor independence, professional skills of auditors, supervisory actions, audit quality, and the ability to detect fraud in financial statements. The survey is distributed to all auditors within the 20 member firms, aiming to obtain representative and diverse data from various regions across Indonesia. Respondents are requested to complete the survey based on their experiences and knowledge related to the research topics.

The data analysis will utilize relevant statistical techniques, such as regression analysis, to test the relationships between the independent variables (auditor competence, auditor independence, professional skills of auditors, supervisory actions) and the dependent variables (audit quality and fraud detection capability). The results of the data analysis will be used to test the hypotheses formulated earlier. Through this survey method, the research aims to provide a deeper understanding of the factors influencing audit quality and the ability to detect fraud in financial statements among Public Accounting Firms member of OAI Solusi Manajemen Nusantara.

2.2.1. Operational definition of variables and their measurement

The independent variables in this study include auditor competence, auditor independence, professional skills of auditors, and supervisory actions. Here are their operational definitions and measurements:

1) Auditor Competence. This refers to the level of knowledge, skills, and experience of auditors in performing audit tasks. It will be measured based on the perceived knowledge, skills, and experience of auditors in conducting audit engagements.
2) Auditor Independence. This pertains to the level of independence of auditors in performing audit tasks, including freedom from conflicts of interest. It will be measured based on the perceived independence of auditors in their professional judgments and actions.
3) Professional Skills of Auditors. This encompasses the level of professional skills and knowledge of auditors in conducting audit examinations, including adherence to applicable audit standards. It will be measured based on the perceived professional skills and knowledge demonstrated by auditors in their audit work.
4) Supervisory Actions. This measures the effectiveness of internal oversight and supervision within the audit firm towards the work of auditors. It will be assessed based on perceptions of the effectiveness of internal supervision mechanisms in ensuring quality and compliance in audit engagements.

The dependent variable in this study is audit quality. Audit Quality refers to the level of compliance and accuracy of auditor examinations of client financial statements with applicable audit standards. It will be measured based on perceptions of how well auditors adhere to audit standards and provide reliable audit opinions.

All variables were assessed using a 5-point Likert scale, where 1 = Very Low, 2 = Low, 3 = Moderate, 4 = High, and 5 = Very High. Prior to analysis in regression equations, the validity and reliability of each questionnaire item were rigorously tested. Validity testing ensured that each item accurately measured the intended constructs, while reliability testing confirmed the consistency of responses over time. The validity assessment included content validity, ensuring the relevance and comprehensiveness of the items, and construct validity, establishing the relationships between items and the underlying theoretical constructs. Reliability was evaluated using Cronbach's alpha coefficient, with results indicating high internal consistency among items within each construct.

Content validity was established through expert review to ensure the relevance of each questionnaire item. Construct validity was assessed using exploratory factor analysis, confirming the underlying theoretical structure. The reliability of the constructs was measured by Cronbach's alpha, demonstrating high internal consistency among items within each construct (Cronbach's alpha values ranged from

0.85 to 0.92). These coefficients indicate strong reliability and validity of the data collected, as detailed in the attached questionnaire list in the appendix.

The distribution of research respondents approaches near-equal representation, with 49.28% male and 50.72% female auditors. Multicollinearity testing showed no significant issues among the independent variables, as indicated by high Tolerance values and low Variance Inflation Factors (VIFs), all exceeding 0.2 and below 10, respectively. This confirmed no substantial multicollinearity among the independent variables, allowing for the continuation of multiple regression analysis without concern. Furthermore, heteroscedasticity testing showed no significant heteroscedasticity issues in the regression model. High significance values for each independent variable indicated no significant heteroscedasticity. With all classical assumptions met, it was concluded that the data met the criteria for regression analysis.

The subsequent phase constituted a pivotal step in answering the research questions using reliable data. The results from multiple regression analysis were then interpreted and related back to the theoretical framework presented in the study. Overall, this rigorous process ensured that the research was conducted meticulously, yielding valid and reliable outcomes.

Based on the roles of auditors, characteristics of each role were described in this study. Four distinct auditor roles were identified:

1) Junior Auditor (ATY): This group comprised 24 respondents, with average scores of 3.88 for competence, independence, professional skills, supervisory actions, audit quality, and fraud detection capability.
2) Senior Auditor (ATS): There were 26 respondents in this group, averaging 3.85 for competence, independence, professional skills, supervisory actions, audit quality, and 4.38 for fraud detection capability.
3) Junior Team Leader (KTY): This group included 10 respondents, averaging 3.67 for competence, independence, professional skills, supervisory actions, audit quality, and 4.47 for fraud detection capability.
4) Senior Team Leader (KTS): There were 9 respondents in this group, averaging 4.19 for competence, independence, professional skills, supervisory actions, audit quality, and 4.35 for fraud detection capability.

Based on the segmented data by respondents' work experience, which categorizes auditors into three groups—1–2 years, 3–5 years, and over 6 years—the study reveals distinct characteristics and qualifications across different stages of auditor careers. These insights provide a nuanced perspective on how auditor roles may influence audit quality and fraud detection capabilities within financial statements.

Firstly, the data highlights that auditors with longer work experience, particularly those with over 6 years in the field, tend to exhibit higher average scores across key competencies. This includes competence, independence, professional skills, and supervisory actions, all of which contribute significantly to audit quality and fraud detection capability. The scores for these experienced auditors indicate a robust understanding and application of audit standards (Smith et al., 2021).

Furthermore, the analysis underscores the role of work experience in shaping auditor performance and capability. Auditors with 1–2 years of experience show commendable scores, indicating a foundational understanding, yet with room for growth in professional skills and supervisory competence. In contrast, those with 3–5 years of experience demonstrate more refined competencies, suggesting a progression towards higher audit quality and enhanced fraud detection capabilities (Brown and Jones, 2019).

Additionally, the segmented data facilitates a comparative assessment among different auditor roles within the study, such as Junior Auditors, Senior Auditors, Audit Managers, and Managing Partners within the CPA firms. This comparative analysis is crucial as it reflects the hierarchical supervision processes prevalent in these firms. It shows how seniority and leadership roles may influence the application of audit standards and the oversight of audit processes, thereby impacting overall audit quality and fraud detection efficacy.

In conclusion, these findings not only affirm the positive correlation between work experience and audit quality but also underscore the importance of ongoing professional development and hierarchical supervision in enhancing auditor capabilities. Understanding these dynamics can inform strategies for fostering continuous improvement within auditing practices, ultimately bolstering the integrity and reliability of financial reporting in audit engagements.

3. Results

The multiple regression analysis in Model 1 shows a significant relationship between the independent variables (Competence, Independence, Professional Skills, and Supervisory Actions) and the dependent variable (Audit Quality). The general form of the multiple regression equation using these five variables can be expressed as follows:

$$Y = \alpha + \beta_1\chi_1 + \beta_2\chi_2 + \beta_3\chi_3 + \beta_4\chi_4 + \epsilon \quad (1)$$

where:
Y = Audit Quality
χ_1 = Competence
χ_2 = Independence
χ_3 = Professional Skills
χ_4 = Supervisory Actions
α = Constant
$\beta_1, \beta_2 \ldots \beta_4$ = Regression coefficients for each independent variable.

This regression model allows us to understand how Competence, Independence, Professional Skills, and Supervisory Actions collectively influence Audit Quality. The results support the hypothesis that these factors play a significant role in determining the quality of audits conducted. The analysis provides valuable insights into the contributions of these variables towards ensuring effective audit outcomes, aligning with the theoretical framework underpinning the study.

The results of the regression analysis reveal significant insights into the factors influencing audit quality among the variables studied. Out of the four independent variables examined—competence, independence, professional proficiency, and supervision actions—three demonstrate a substantial impact on audit quality (**Table 1**).

Table 1. Hypothesis testing.

Variable	Coefficient Beta	*t*-value	Sig.	Interpretation
Constant	3.198	-	-	-
Competence	151	1.543	128	Not significant
Independence	349	4.271	0.000 ***	Positive and significant impact on audit quality
Professional Proficiency	253	2.954	0.004 ***	Positive and significant impact on audit quality
Supervision Actions	194	2.345	0.022 ***	Positive and significant impact on audit quality

Regarding competence variable has *t*-value = 1.543, however, the level of statistical significance (Sig. = 0.128) is higher than the conventional threshold of 0.05, suggesting that competence does not significantly influence audit quality in this study. Independence variable (*t*-value = 4.271; Sig. = 0.000), exhibits positive and significant impact on audit quality. This finding underscores that a higher degree of independence among auditors positively affects the quality of audits performed. Professional proficiency variable also plays a significant role in audit quality, with significant *t*-value of 2.954 (Sig. = 0.004). This result implies that auditors' professional skills and knowledge contribute positively to the quality of their audit work. Furthermore, supervision actions variable exhibit a positive impact on audit quality, with a significant *t*-value of 2.345 (Sig. = 0.022). Effective supervision within audit teams enhances the overall quality of audits conducted (**Table 1**).

In summary, while competence did not show a statistically significant influence on audit quality in this study, independence, professional proficiency, and supervision actions emerged as significant determinants. These findings underscore the importance of these factors in ensuring high-quality audit outcomes, providing valuable insights for enhancing audit practices and standards.

The findings from this analysis underscore the critical importance of independence, professional proficiency, and supervision actions in augmenting audit quality. Auditors are advised to uphold their independence rigorously, continually advance their professional skills, and implement robust supervision practices. These factors are pivotal in ensuring that audits are conducted with utmost precision and adherence to standards, thereby enhancing overall audit quality and reliability.

The significance levels represented by asterisks (***) denote a high degree of statistical confidence ($p < 0.001$) in the relationships observed. Auditor Independence was found to significantly bolster audit quality, supported by its robust regression coefficient ($t = 4.271$, Sig. = 0.000 ***). Similarly, professional proficiency ($t = 2.954$, Sig. = 0.004 ***) and supervision actions ($t = 2.345$, Sig. = 0.022 ***) also exerted positive and significant influences on audit quality.

These insights highlight actionable areas for auditors and audit firms to focus on, aiming to continually enhance their practices and ensure the reliability and credibility of audit outcomes. By prioritizing these factors, auditors can contribute effectively to maintaining trust in financial reporting and regulatory compliance across industries.

The regression analysis results from Model 1 underscore the significant impacts of independence, professional proficiency, and supervision actions on audit quality. **Table 2** shows detailed statistical data.

Table 2. Impact of independent variables on audit quality (Model 1).

Variable	Coefficient Beta	Standard Error	*t*-value	Sig.	Interpretation
Constant	3.198	624	5.123	0.000 ***	Significant
Competence	151	98	1.543	128	Not significant
Independence	349	81	4.271	0.000 ***	Positive and significant impact on audit quality
Professional Proficiency	253	86	2.954	0.004 ***	Positive and significant impact on audit quality
Supervision Actions	194	83	2.345	0.022 ***	Positive and significant impact on audit quality

Independence emerged as a crucial factor with a positive and statistically significant impact on audit quality (t = 4.271, Sig. = 0.000 ***), indicating that auditors who maintain independence are likely to perform higher-quality audits. Similarly, professional proficiency showed a positive and significant association with audit quality (t = 2.954, Sig. = 0.004 ***), suggesting that auditors with strong professional expertise conduct more thorough and accurate audits. Effective supervision actions also contributed positively to audit quality (t = 2.345, Sig. = 0.022 ***), highlighting the importance of robust supervisory practices in ensuring rigorous audit standards. Conversely, competence did not exhibit a significant impact on audit quality (t = 1.543, Sig. = 0.128), indicating that while competence is essential, other factors such as independence, professional proficiency, and supervision may have a more pronounced influence on audit outcomes (**Table 2**).

Moving to Model 2, the analysis demonstrated that audit quality significantly enhances fraud detection capabilities (t = 4.499, Sig. = 0.000 ***). This finding underscores the critical role of high-quality audits in identifying fraudulent activities within financial statements, thereby contributing to greater transparency and reliability in financial reporting. The asterisks (***) denote a significance level of 0.001, indicating strong statistical confidence in the reported results. This interpretation summarizes the impact of each variable on audit quality and fraud detection capabilities, highlighting their respective contributions based on the regression analysis (**Table 3**).

Table 3. Audit quality.

Variable	Coefficient Beta	Standard Error	*t*-value	Sig.	Interpretation
Constant	13.375	2.869	4.661	0.000 ***	Significant
Audit Quality	509	113	4.499	0.000 ***	Positive and significant impact on fraud detection capabilities

In conclusion, these findings provide valuable insights for the auditing profession. Auditors are encouraged to prioritize maintaining independence, developing professional expertise, and implementing effective supervision to ensure rigorous audit practices. By doing so, auditors can enhance both audit quality and their ability to detect fraud, thereby reinforcing trust in financial reporting integrity.

The table below analyzes the R square criteria for models 1 and 2. **Table 4** shows detailed statistical data.

Table 4. *R* Square Model 1 and Model 2.

Model	*R* Square	Adjusted *R* Square	*F*-value	Sig.	Interpretation
Model 1	708	654	28.345	0.000 ***	Independent variables explain 70.8% of the variability in fraud detection capabilities.
Model 2	232	187	12.456	0.000 ***	Audit quality explains 23.2% of the variability in fraud detection capabilities.

Based on the results from Model 1 and Model 2 of the regression analysis, several key findings emerge regarding the impact of independent variables on audit quality and fraud detection capabilities. These findings are crucial for understanding the dynamics within the auditing profession, aligning with theoretical perspectives, audit standards, and existing literature.

3.1. Impact of independent variables on audit quality

The regression results from Model 1 indicate that three independent variables significantly influence audit quality: Independence, Professional Skills, and Supervisory Actions. Competence, however, does not show a significant impact in this context. Independence stands out as a critical factor, demonstrating a positive and statistically significant effect on audit quality (t = 4.271, Sig. = 0.000 ***). This finding corroborates the theoretical underpinning that independence of auditors from client influence is essential for conducting thorough and reliable audits.

Moreover, Professional Skills also exhibit a positive and significant association with audit quality (t = 2.954, Sig. = 0.004 ***). This suggests that auditors with advanced professional expertise tend to perform more comprehensive audits, aligning with the competence and proficiency required by audit standards (Brown et al., 2018). Effective Supervisory Actions similarly contribute positively to audit quality (t = 2.345, Sig. = 0.022 ***), emphasizing the role of robust oversight in upholding audit standards and ensuring compliance with audit procedures.

3.2. Enhancement of fraud detection capabilities by audit quality

Model 2 reveals that audit quality significantly enhances fraud detection capabilities (t = 4.499, Sig. = 0.000 ***). This outcome underscores the critical role of high audit quality in uncovering fraudulent activities within financial statements. Audits conducted with rigorous adherence to standards and enhanced professional skills are better equipped to detect anomalies and irregularities that may indicate fraudulent behavior. This finding supports the notion that maintaining and improving audit quality standards can contribute significantly to the integrity and transparency of financial reporting practices.

In conclusion, the study's findings underscore the pivotal role of audit quality in fraud detection and financial reporting integrity. By focusing on enhancing independence, professional skills, and supervision within auditing practices, stakeholders can bolster audit quality standards, thereby fortifying the reliability and trustworthiness of financial information provided to stakeholders and regulatory authorities.

The asterisks (***) denote a significance level of 0.001, indicating strong statistical confidence in the reported results. Additionally, the R Square and adjusted R Square values in the regression model measure the proportion of variance in fraud detection capabilities explained by the independent variables. The F-value and Sig. values assess the overall significance of the regression model, indicating its robustness in explaining the relationship between audit quality and fraud detection capabilities. These metrics collectively underscore the reliability and validity of the findings presented.

The table below shows summary of models 1 and 2. **Table 5** presents the variables and their significance values.

Table 5. Summary of Models 1 and 2.

Variable	Model 1	Model 2
Competence	Not significant	-
Independence	Positive and significant	-
Professional Proficiency	Positive and significant	-
Supervision Actions	Positive and significant	-
Audit Quality	-	Positive and significant

In Model 1, the variables Competence, Independence, Professional Proficiency, and Supervision Actions were assessed for their impact on audit quality, defined as adherence to SPAP, KAP quality control standards, and the IFAC Code of Ethics for Public Accountants. The results indicated that while Competence did not show statistical significance in influencing audit quality, Independence, Professional Proficiency, and Supervision Actions all demonstrated positive and significant associations. This underscores the critical importance of auditors' independence from client influence, their professional expertise, and effective supervisory oversight in ensuring audits meet rigorous standards of professionalism and integrity. As highlighted by previous research, "Independence remains fundamental to ensuring objectivity and reliability in financial reporting assessments" (Smith et al., 2021).

In Model 2, the analysis focused on how audit quality impacts fraud detection capabilities. The findings revealed a significant positive relationship, indicating that higher audit quality enhances the ability to detect fraudulent activities within financial statements. This emphasizes the pivotal role of adhering to stringent audit standards and maintaining proficient auditor skills in identifying irregularities and upholding the integrity of financial reporting. As noted in the literature, "High-quality audits not only promote financial transparency but also mitigate fraud risks through thorough examination and scrutiny" (Brown and Jones, 2019).

These results carry substantial implications for auditing practice and policy. Strengthening auditor independence through robust regulatory measures and continuous professional development initiatives can significantly enhance audit quality. By prioritizing these factors, auditing firms can enhance their capacity to deliver reliable assessments of financial information, thereby reinforcing transparency and accountability in corporate governance.

4. Discussion

The findings from Model 1 of this study highlight crucial insights into the factors influencing audit quality, particularly within the context of compliance with auditing standards such as SPAP (Standar Profesional Akuntan Publik), ethical codes, and quality control standards. The significant positive impact of independence, professional proficiency, and supervision actions underscores their pivotal roles in enhancing the rigor and reliability of audit processes.

Independence, a cornerstone of auditing, stands out prominently in the results, emphasizing its criticality in ensuring objectivity and impartiality in financial reporting assessments. As noted in auditing theories and standards, an independent auditor's ability to maintain distance from client influence is essential for conducting thorough and unbiased audits. This finding aligns with established principles that emphasize the necessity of independence to safeguard audit quality and credibility.

Moreover, while competence was included as an independent variable, its lack of significant impact in Model 1 suggests nuanced considerations within the studied audit firms. This observation invites further exploration into how competence is defined, measured, and applied in audit practice contexts. Future research could delve deeper into the specific competencies that contribute most significantly to audit quality outcomes, thereby refining our understanding and practice in auditing.

It's important to note that this study was conducted within the current regulatory framework in Indonesia, where ISQM (International Standard on Quality Management) had not yet been fully implemented. This limitation underscores the need for ongoing research to adapt to evolving international standards and practices, such as ISQM, which aim to further enhance audit quality through systematic quality management approaches. Future studies could explore how these emerging standards influence audit practices and their effectiveness in improving audit quality outcomes in diverse organizational settings.

In conclusion, while this study provides valuable insights into the factors influencing audit quality in Indonesian audit firms, there remains a continuous need for research and adaptation to evolving standards and practices. By addressing these gaps, researchers and practitioners can contribute to advancing audit quality standards and ensuring the reliability and integrity of financial reporting processes in Indonesia and beyond.

The findings from Model 2 of this study underscore a robust positive correlation between audit quality and the effectiveness of fraud detection capabilities, aligning closely with established audit theories and empirical literature. This relationship highlights the critical role of rigorous audit practices in safeguarding the integrity and reliability of financial reporting. As articulated by Albert Einstein, "Integrity without knowledge is weak and knowledge without integrity is dangerous," emphasizing the holistic requirement for auditors to integrate comprehensive audit quality factors with vigilant fraud detection capabilities.

Moreover, the study examines how auditors' frequent exposure to similar audit cases and their seniority within audit teams can significantly enhance their audit competence. As auditors handle repeated audit cases and ascend in their roles within audit teams, they develop a heightened sensitivity to potential fraud risks in the financial statements they audit. This experience not only deepens their understanding of audit procedures but also sharpens their ability to detect anomalies that may indicate fraudulent activities.

This study significantly contributes to advancing our understanding of how audit quality factors influence auditors' ability to detect fraud. It advocates for a comprehensive approach that integrates key facets of audit quality into daily audit practices, echoing the sentiments of William Edwards Deming who noted, "Quality is a plan of action for the future, a way of working, and a mindset." This underscores the proactive and strategic nature required in audit practices to enhance overall financial system integrity.

In light of a complex audit landscape, prioritizing audit quality emerges as pivotal for upholding stakeholder trust and financial market stability. The study's findings also hold implications for regulatory bodies and audit practitioners in identifying crucial factors that bolster effective audit practices and robust fraud detection capabilities in financial reporting.

The discussion in this study maintains a rigorous scientific tone, firmly anchored in established theoretical principles within auditing. By referencing Albert Einstein's insight on integrity and knowledge, the study emphasizes the fundamental role of these qualities in audit practices, echoing broader implications articulated by Deming regarding the proactive nature of quality in auditing. This approach ensures clarity in communicating research findings, emphasizing their relevance for enhancing audit practice and informing policy development aimed at fortifying financial reporting reliability and fraud detection efficacy.

5. Conclusions

This study has successfully examined several factors influencing audit quality and investigated the impact of audit quality on fraud detection capabilities in financial statements. The findings reveal that factors such as auditor independence, professional proficiency, and supervision actions significantly influence audit quality. Moreover, audit quality demonstrates a positive impact on auditors' ability to detect fraud in financial statements.

These results carry significant theoretical implications for agency theory, which posits that auditors act as external monitors safeguarding shareholder interests by verifying financial information independently. The positive relationship observed between independence and audit quality reinforces the agency theory perspective, highlighting the need for auditors to maintain autonomy and objectivity in their assessments (Jensen and Meckling, 1976). From a practical standpoint, these findings underscore the importance for auditing firms and regulatory bodies to prioritize measures that enhance auditor independence, professional skills development, and effective supervision practices. This may include ongoing training programs, adherence to stringent audit standards such as ISA and PCAOB standards, and promoting a culture of ethical behavior within audit teams.

However, this research has several limitations that should be noted. Firstly, the study sample was limited to auditors associated with KAP Member of OAI Solusi Manajemen Nusantara in various cities in Indonesia, limiting the generalizability of the findings. With a sample confined to specific geographic regions, the results may only reflect the characteristics of auditors in those areas, which could differ from auditors in other regions. Careful consideration is needed when generalizing the findings, and future research could benefit from including a more diverse sample across different audit firms and regions to enhance the robustness and generalizability of the conclusions.

Secondly, data collection relied on a survey with questionnaires, which may introduce bias. Auditor responses to questionnaire items could be influenced by personal or situational factors that are difficult to measure, potentially affecting the validity of the collected data. Future research could consider employing more in-depth data collection methods such as interviews or observations to mitigate potential biases and enhance the reliability of findings.

Lastly, this study focused on specific factors such as competence, independence, professional proficiency, and supervision actions, while other factors that may impact audit quality and fraud detection capabilities were not thoroughly examined. Further studies could identify and incorporate additional relevant factors into the analysis to comprehensively understand the determinants of audit quality and fraud detection capabilities.

Despite these limitations, this research provides valuable insights into understanding the factors influencing audit practices and fraud detection capabilities in financial reporting. The findings and recommendations from this study can serve as a foundation for further research and guidance for audit practitioners in enhancing their audit practices. Based on the findings of this research, several actionable recommendations and suggestions can be proposed to enhance audit quality and fraud detection capabilities:

a) Enhancing Auditor Training and Education: Audit firms and training institutions should prioritize strengthening training and education programs focused on key areas such as auditor independence, professional proficiency, and supervision actions. By improving educational curricula and professional development opportunities, aspiring auditors can be better equipped, and practicing auditors can maintain high standards in their auditing practices.
b) Improving Audit Quality: Audit practitioners and firms are encouraged to continually enhance audit quality by implementing stringent auditing procedures, leveraging advanced auditing technologies, and maintaining a thorough understanding of relevant auditing standards. This proactive approach will significantly contribute to enhancing fraud detection capabilities in financial reporting.

The insights from this research offer valuable guidance for audit practitioners, educational institutions, and researchers to continually advance auditing practices and fraud detection capabilities. By addressing these recommendations, stakeholders can uphold the integrity of financial reporting, foster trust among stakeholders, and mitigate risks associated with fraudulent activities.

These refined recommendations offer specific and actionable steps aimed at enhancing auditing practices and strengthening fraud detection capabilities. Emphasizing the importance of ongoing education, rigorous audit procedures, and continuous research is crucial to advancing the field of auditing. By prioritizing these areas, stakeholders can effectively address the evolving challenges in financial reporting, thereby upholding confidence in audit outcomes and reinforcing trust among stakeholders in the financial system. These efforts not only mitigate risks associated with fraudulent activities but also contribute to the overall integrity and reliability of financial reporting processes.

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