

Research Audit Quality and Its Impact on an Organization's Reputation



Introduction

Background of the study

The Audit Board of Indonesia (BPK) is an independent audit institution which performs investigative audits to declare state losses. Investigative audits performed by the Audit Board of Indonesia (BPK) deal with challenges in the process of eradication corruption in Indonesia. Providing accurate and accountable investigative audit findings, as well as maintaining the organization's reputation, are some of the key challenges.

Objective of the research

The goal of this study is to determine and investigate how the independence of the auditor influences the quality of an investigative audit and its impact on the organization's reputation

Statement of problem

The research explores the relationship between independence of auditors, audit quality and the organization's reputation.

Research questions

The following are the research questions:

1. What effect does independence have on the quality of investigative audits?
2. What is the impact of the quality of investigative audits on the quality of BPK's reputation?
3. What effect does independence have on the BPK's reputation?
4. How much of an impact does independence have on the BPK's reputation as a result of the quality of its investigative audits?

Literature Review

When it comes to investigative audits, quality assessments can be conducted using the accuracy and adequacy of the evidence offered in the audit report to support the state losses declared. Furthermore, the quality of an audit is assessed by the ability to provide a firm conviction to the Panel of Judges regarding the state losses happening due to discrepancies from the laws and regulations.

Many factors affect the quality of the audit (Whittington & Pany, 2010).

- Specialized auditor
- Technology
- Independence of auditors

Audit independence is a critical element that influences audit quality and the reputation of organization (Knechal, 2016).

Methodology

Research philosophy

Positivist epistemology – This leads to determine the logical truth. Researchers follow external knowledge to determine the reality (Kothari, 2004).

Research approach

Descriptive and causal–explanatory methods is used for this research by performing hypothesis testing.

Descriptive method is directed to determine and explain the characteristics of variables of interests in the context. Casual- explanatory studies are used to ascertain whether one or more variables describe the cause or effect of one or more yield variables.

Variable operationalization

- Auditors' independence: independence of audit planning, independence of audit implementation, and independence of audit reporting.
- Investigative audit quality: the auditor's competency dimensions, implementation of Investigative audits, and the reporting of investigative audits.
- BPK's reputation: using firm-wide perception dimensions and audit team perception.

Research strategy

The research is undertaken using primary data collected from respondents in Law Enforcement Agencies such as Police of the Republic of Indonesia, the Attorney General of the Republic of Indonesia and the Corruption Eradication Commission.

This is a quantitative and structured research.

Sampling and population

The research population consists with investigators of 127 units which are included in 71 task forces in Police Department and 55 units in Attorney General Department and the Corruption Eradication Commission.

Considering the difference of characteristics of units, 94 units were selected as the population and sample size is 267 investigators.

Convenience sampling method is used for this study.

Research instruments

This study is survey research which uses systematic interviews for data collection. The survey was conducted using questionnaires with differential semantic scale data and measured on the basis of an attitude scale using the semantic approach.

Hypothesis

1.

H0. Auditors' independence has no influence on the quality of investigative audits.

H1. Auditors' independence has positive influence on the quality of investigative audits.

2.

H0. Auditors' independence has no influence on the organization's reputation.

H1. Auditors' independence has positive influence on the organization's reputation.

3.

H0. The quality of investigative audits has no influence on the organization's reputation.

H1. The quality of investigative audits has positive influence on the organization's reputation

4.

H0. Auditors' independence has no influence on the organization's reputation through the quality of investigative audit.

H1. Auditors' independence has positive influence on the organization's reputation through the quality of investigative audit.

Data Analysis

Descriptive statistical analysis

Variables of this study – Auditor's independence, Quality of investigative audits and Organization's reputation (BPK's).

Descriptive statistical analysis provided data on average scores and the response clarification for each variable.

Table 01- Research variable score analysis

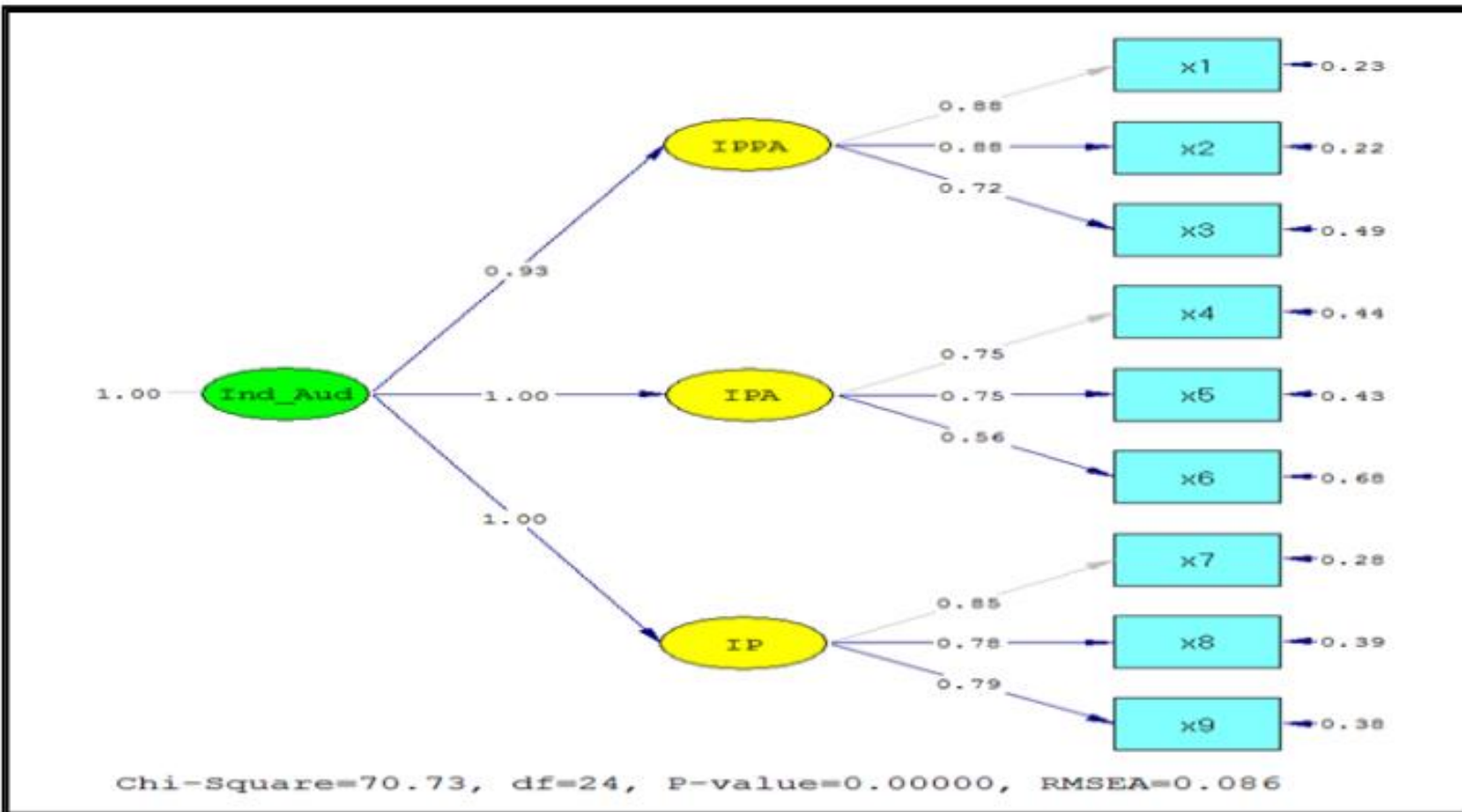
No	Variable	Σ Score	Mean	Clarification
1	Independence	11.514	4.79	Very good
2	Quality of investigative audits	11.586	4.82	Very good
3	The BPK's reputation	6.470	4.85	Very good
	Total	29.570	4.82	Very good

Confirmatory factor analysis (CFA)

This analysis used to measure the model conformity. The CFA of each variable is described below.

Independence variable (X)

Independence as a variable (X) is measured via three dimensions containing nine indicators.



Ind_Aud – Independence

IPPA - Independence on
the Audit program

IPA - Independence on Investigative
Audit

IP – Independence on Audit Reporting

Figure 01 shows that there is not any dimension which has a factor loading value of higher than 01. However, RMSEA is higher than 0.08. Therefore, re-specification is needed.

Figure 01- CFA test of the independence variable

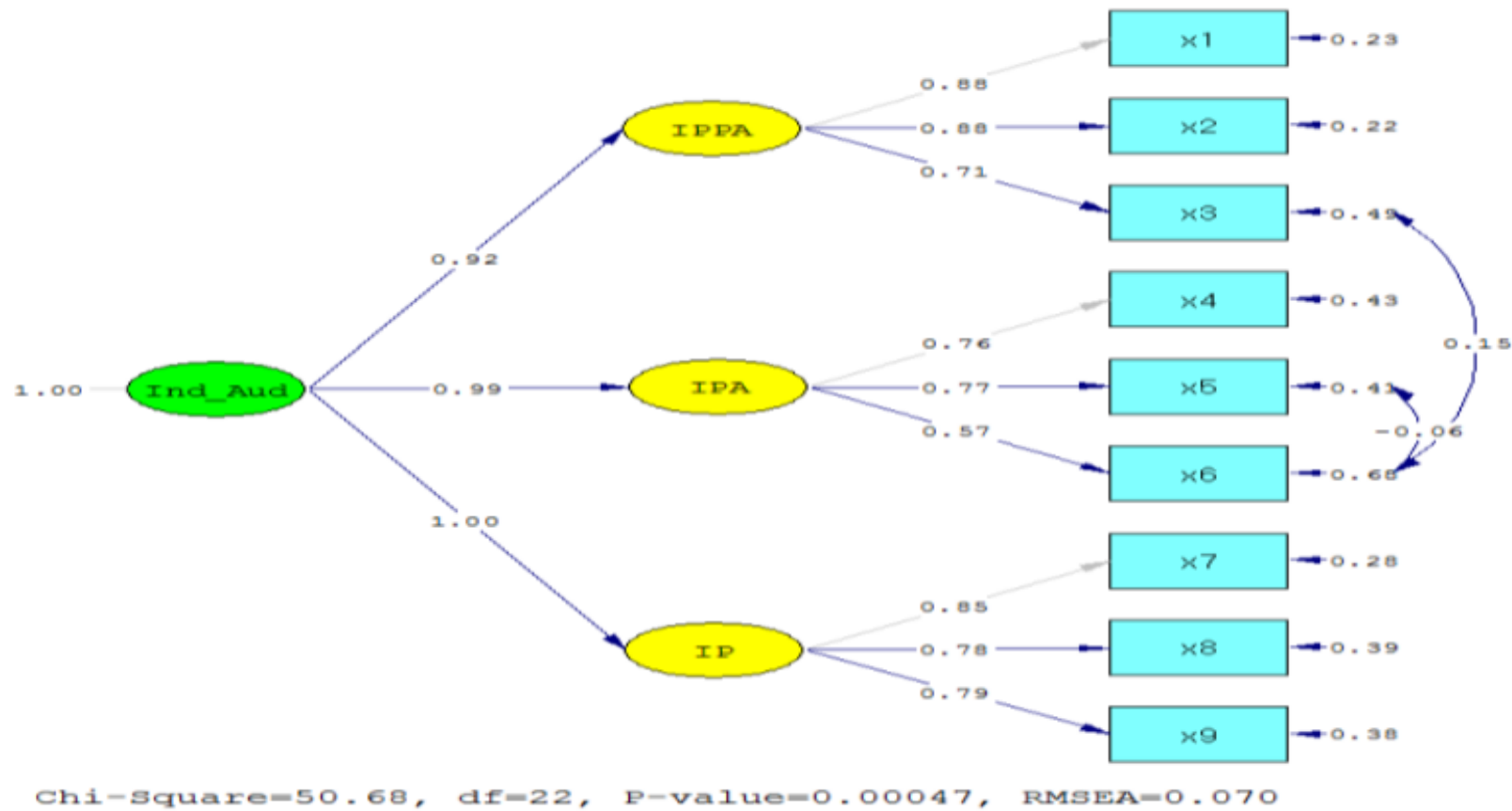


Figure 02- CFA test of the re-specification independence variable (Standardize)

As shown in figure 02, all the indicators have a standard factor load value higher than 0.5. Thus, all the indicators are valid as an independent variable measuring instrument with a value of $RMSEA = 0.007 < 0.08$.

Table 02- Validity and Reliability Test Results of the Independence Variable Re-specification

Result	VE	CR	ϵ	λ^2	λ	Indicator	Latent Variable
<i>First Order</i>							
Reliable	0.68	0.87	0.23	0.77	0.88	X ₁	Independence on the Audit Program (IPPA)
			0.23	0.77	0.88	X ₂	
			0.50	0.50	0.71	X ₃	
Reliable	0.50	0.75	0.42	0.58	0.76	X ₄	Independence on Investigative Audit (IPA)
			0.41	0.59	0.77	X ₅	
			0.68	0.32	0.57	X ₆	
Reliable	0.65	0.85	0.28	0.72	0.85	X ₇	Independence on Audit Reporting (IP)
			0.39	0.61	0.78	X ₈	
			0.38	0.62	0.79	X ₉	
<i>Second Order</i>							
Reliable	0.94	0.98	0.15	0.85	0.92	IPPA	Independence (Ind_Aud)
			0.02	0.98	0.99	IPA	
			0.00	1.00	1.00	IP	

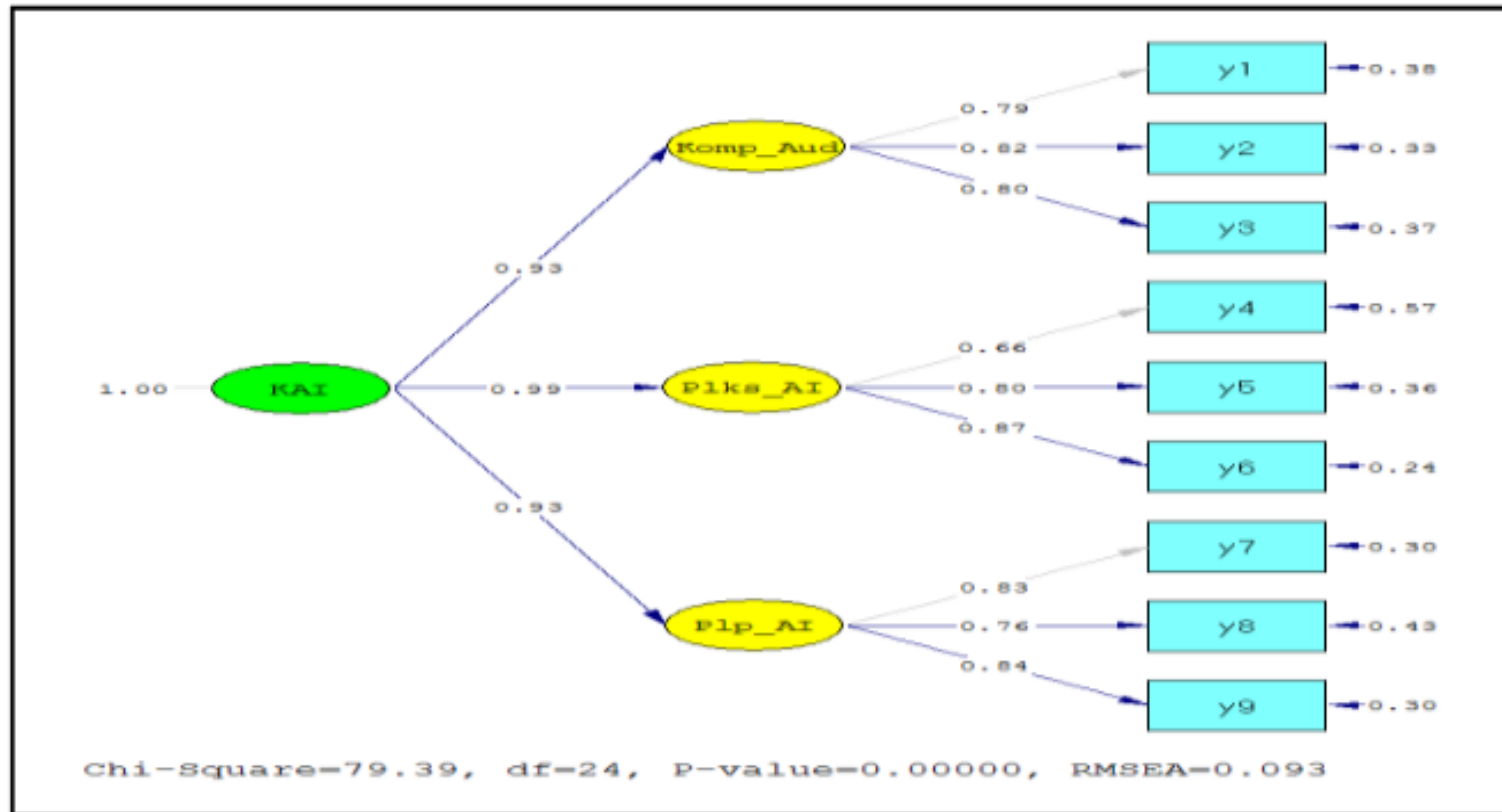
According to second order test, all the dimensions have a standard factor load value higher than 0.5. Thus, all these dimensions are valid as independence variable measurement.

CR Value – $0.98 > 0.7$ VE value - $0.94 > 0.5$

Thus, all the independence dimensions are reliable and consistent.

The quality of Investigative Audits variable (Y)

The quality of Investigative Audits as a variable (Y) is measured via three dimensions containing nine indicators.



KAI – Quality of investigative audit
Komp_Aud - Auditor competence
Plks_AI – Process of implementation investigative
Plp_AI - Reporting of Investigative Audits

Figure 03 shows all the indicators have standard factor loading value which higher than 0.5. However, RMSEA value (0.093) is higher than 0.08. Therefore, re-specification is needed.

Figure 03- CFA test of the quality variable (Standardized)

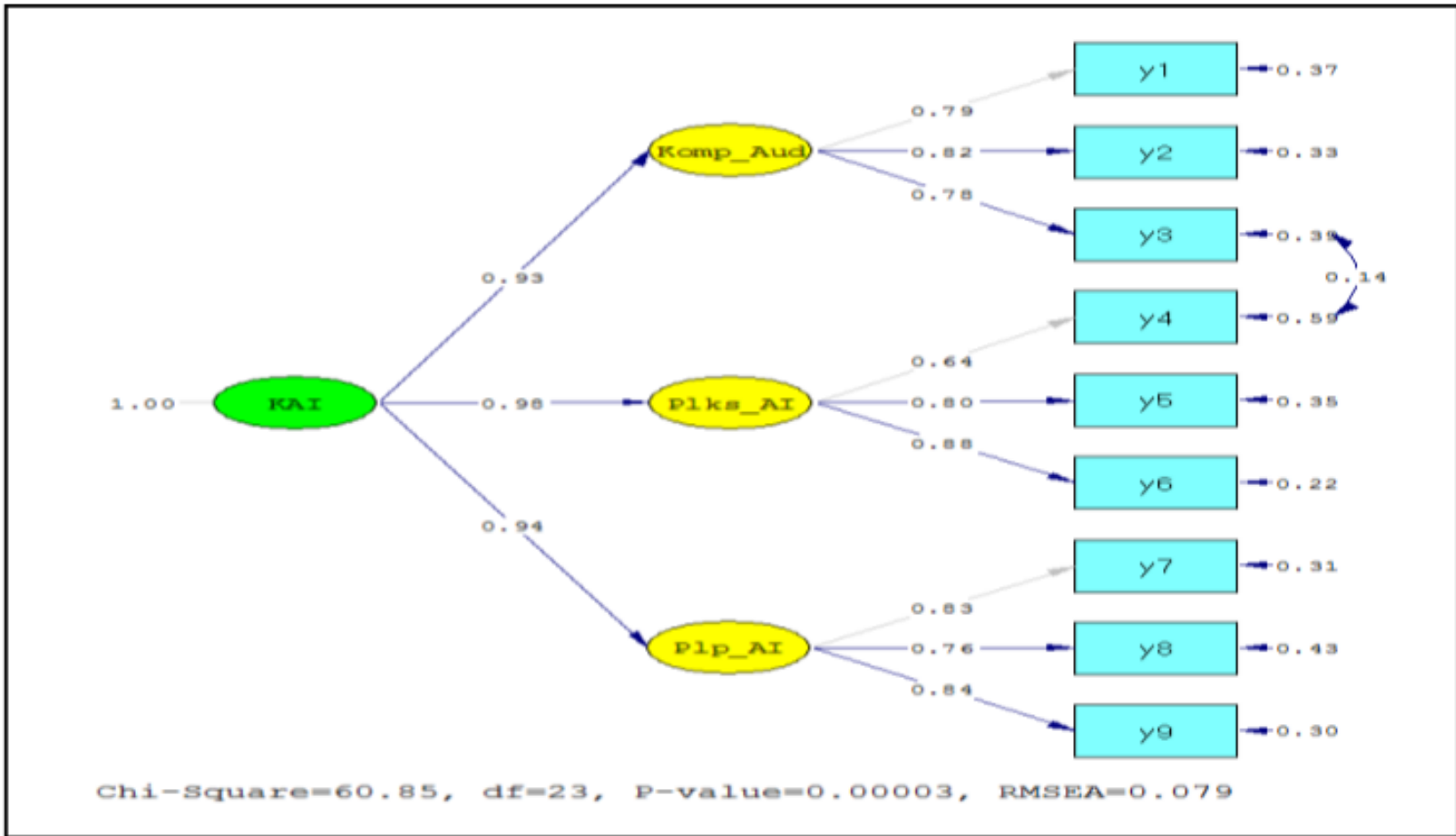


Figure 04 - CFA test of the re-specification quality variable (Standardize)

As shown in figure 04, all the indicators have a standard factor load value higher than 0.5. Thus, all the indicators are valid as an quality variable measuring instrument with a value of RMSEA = 0.079 < 0.08.

Table 03- Validity and Reliability Test Results of the quality Variable Re-specification

Result	VE	CR	ϵ	λ^2	λ	Indicator	Latent Variable
<i>First Order</i>							
Reliable	0.63	0.84	0.38	0.62	0.79	Y ₁	Auditor Competences (Komp_Aud)
			0.33	0.67	0.82	Y ₂	
			0.39	0.61	0.78	Y ₃	
Reliable	0.61	0.82	0.59	0.41	0.64	Y ₄	Process of Implementation Investigative Audits (Plks_AI)
			0.36	0.64	0.80	Y ₅	
			0.23	0.77	0.88	Y ₆	
Reliable	0.66	0.85	0.31	0.69	0.83	Y ₇	Reporting of Investigative Audits (Plp_AI)
			0.42	0.58	0.76	Y ₈	
			0.29	0.71	0.84	Y ₉	
<i>Second Order</i>							
Reliable	0.90	0.97	0.14	0.86	0.93	Komp_Aud	Quality of Investigative Audits (KAI)
			0.04	0.96	0.98	Plks_AI	
			0.12	0.88	0.94	Plp_AI	

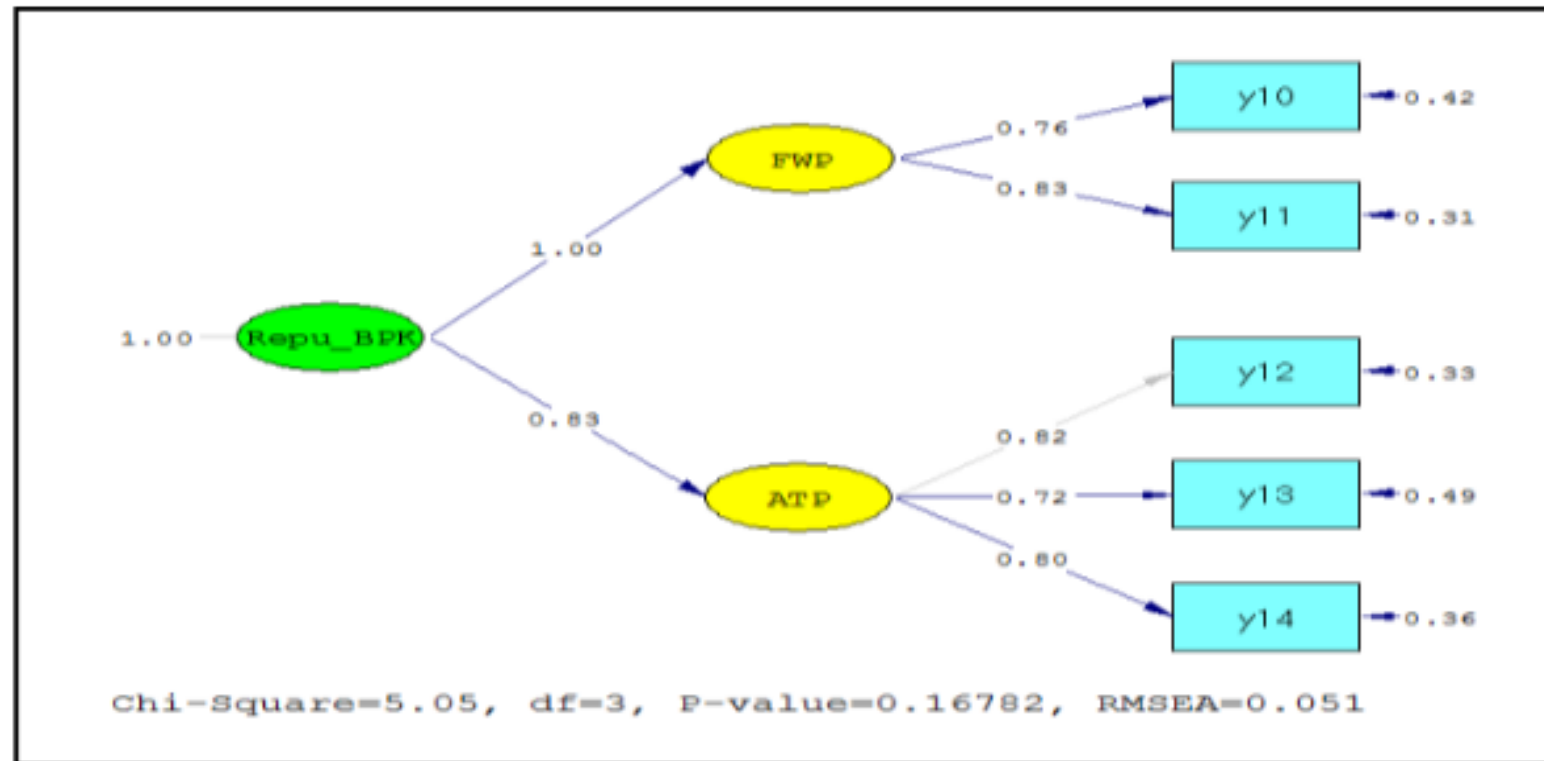
According to first order test, all the indicators have a standard factor load value higher than 0.5. Thus, all these indicators are reliable. According to second order test, all the dimensions have a standard factor load value higher than 0.5. Thus, all these dimensions are valid as quality variable measurement.

CR Value – $0.97 > 0.7$ VE value - $0.90 > 0.5$

Thus, all the quality dimensions are reliable and consistent.

The BPK reputation variable (Z)

The Organization's reputation as a variable (Z) is measured via two dimensions containing five indicators.



Repu_BPK – Organization's reputation
FWP - Firm wide perception
ATP – Audit team perception

Figure 05 shows all the indicators have standard factor loading value which higher than 0.5. Thus, all indicators are relevant as a reputation variable.

Figure 05- CFA test of the reputation variable (Standardized)

Table 04 - Validity and Reliability Test Results of the reputation variable

Result	VE	CR	ϵ	λ^2	λ	Indicator	Latent Variable
<i>First Order</i>							
Reliable	0.63	0.78	0.42	0.58	0.76	Y ₁₀	Firm Wide Perception (FWP)
			0.31	0.69	0.83	Y ₁₁	
Reliable	0.61	0.82	0.33	0.67	0.82	Y ₁₂	Audit Team Perception (ATP)
			0.48	0.52	0.72	Y ₁₃	
			0.36	0.64	0.80	Y ₁₄	
<i>Second Order</i>							
Reliable	0.84	0.92	0.00	1.00	1.00	FWP	Organization's Reputation (Repu_BPK)
			0.31	0.69	0.83	ATP	

According to first order test, all the indicators have a standard factor load value higher than 0.5. Thus, all these indicators are reliable. According to second order test, all the dimensions have a standard factor load value higher than 0.5. Thus, all these dimensions are valid as quality variable measurement.

CR Value – 0.92 > 0.7 VE value - 0.84 > 0.5

Thus, all the quality dimensions are reliable and consistent.

Test results of the full structural model

Table 05 – Recapitalization of the path coefficient estimation results and statistical tests

<i>R-square (Simultan.)</i>	<i>T-value</i>	<i>Path</i>	<i>Relationship</i>	<i>Substructure</i>
0.86	6.65	0.34	X → Y	First
0.92	4.39	0.21	X → Z	Second
	7.08	0.66	Y → Z	

Considering first substructure, the independent variable (X) applies an impact of 0.86 on the quality of investigational audits (Y). Considering second substructure, the independent variable (X) and the quality of investigational audits (Y) apply an impact of 0.92 on the organization's reputation (Z). Quality of investigative audit (Y) has significant influence on organization reputation (Z).

Table 06 – Summary of the statistical test results on the influence of audit quality on the organization's reputation

<i>Relationship</i>	<i>Direct Influence</i>	<i>Indirect Influence through Y</i>	<i>Total Influence</i>	
			<i>Path</i>	<i>T-Value</i>
X → Z	0.21	0.23	0.44	7.88

The coefficient value of independence (X) with the organization's reputation (Z) via the quality of investigative audits (Y) is 0.44 in a positive direction. Thus, higher the audit's independence mediated by the level of the quality of the investigative audit will lead to increase the organization's reputation. Considering path score, impact of auditor independence on the organization's reputation via quality of investigative audit is 0.23. It is higher than the direct impact of auditor's independence on the organization's reputation which is 0.21.

Hypothesis

T test statistics is used to test hypothesis, indicating H0 is rejected if $t_{\text{value}} > 1.96$ or $-t_{\text{value}} < -1.96$ for $\alpha = 0.05$ in the 95% confidence interval.

H0. Auditors' independence has no influence on the quality of investigative audits.

H1. Auditors' independence has positive influence on the quality of investigative audits.

$t_{\text{value}} = 6.65$, Thus, H0 is rejected

H0. Auditors' independence has no influence on the organization's reputation.

H1. Auditors' independence has positive influence on the organization's reputation.

$t_{\text{value}} = 4.39$, Thus, H0 is rejected

H0. The quality of investigative audits has no influence on the organization's reputation.

H1. The quality of investigative audits has positive influence on the organization's reputation

$t_{\text{value}} = 7.08$, Thus, H0 is rejected

H0. Auditors' independence has no influence on the organization's reputation through the quality of investigative audit.

H1. Auditors' independence has positive influence on the organization's reputation through the quality of investigative audit.

$t_{\text{value}} = 7.88$, Thus, H0 is rejected

Discussion

The Impact of Auditors' Independence on the Quality of Investigative Audits

This research provides clear and strong evidence that auditors' independence influence to the improvement of the quality of investigative audit. This also indicates that the quality of investigative audits will be increased by enhancing the auditors' independence. Three dimensions of Auditor's independence used in this study which are independence of the audit program, independence of investigative audit and independence of audit reporting are confirmed to impact positively the quality of investigative audits.

The Impact of Auditors' Independence on the Organization's Reputation

The results of this research indicates that each dimensions differently affect the organization's reputation. Considering standard factor load value, the dimension which reflect auditor independence the most is independence reporting (IP) (1) then Independence on Investigative Audit (0.99) and independence of audit program (0.92). This research provides clear and strong evidence that auditors' independence influence to the improvement of the reputation of the organization. The three dimensions of auditors' independence positively impact to increase organization's reputation.

The Impact of the quality of Investigative audits on the Organization's Reputation

The results of hypothesis testing and of the significance of the path coefficient in the structural model indicates that the quality of investigative audits has a positive impact on organization's reputation. Considering standard factor load value, the dimension which reflect the quality of investigative audit the most is the implementation of investigative audit (0.98), investigative audit reporting (0.94) and auditors competence (0.93) consecutively. This research provides clear and strong evidence that quality of investigative audits influence to the improvement of the reputation of the organization. The dimensions of auditor competency, implementation of investigative audits, and investigative audit reporting affect the organization's reputation according to the indicators used. Further, auditor independence has a positive influence on the organization's reputation through the quality of investigative audits.

Conclusion

1. The auditor's independence has a direct positive impact on the quality of investigative audits.
2. Independence has a direct positive impact on the organization's reputation.
3. The quality of investigative audits has a positive impact on organization's reputation.
4. Auditor's Independence has a positive impact on the organization's reputation through the quality of investigative audits.

Reference

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Thank You