

The Impact of Business Risks on the Quality of the Audit Process

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Abstract: The purpose of this study was to explain the effect of business risk on the quality of the auditing process from the perspective of auditors. The collecting data used a questionnaire distributed to several auditors in the public accounting firm. The population in this study was external auditors who worked in several public accounting firms with the sample selection using purposive sampling. The questionnaires distributed were as many as questionnaires, but there were only 42 returned questionnaires. The analysis technique used multiple linear regression. The result of this study showed that systematic risk was proxied by the litigation ratio which affected the quality of the audit process, the effect of environmental risk was proxied by the sanctions received by Public Accounting Firm (*Bahasa: Kantor Akuntan Publik (KAP)*) affected the quality of the audit process. Furthermore, work risk was proxied by audit risk on the quality of the audit process.

Keyword: Business Risk, Quality Audit Process

1. INTRODUCTION

Regulation of BAPEPAM No. VII point G.12 states the board of directors is responsible for the preparation and presentation of financial statements, and the preparation and presentation must be in accordance with generally accepted accounting principles. The information in the financial statements must be complete and correct, where the financial statements do not contain misstatement information.

One of step to reduce the risk of financial statement information is use the audit services from a public accounting firm (KAP). Audit failure is one of worry that arise by KAP. This failure makes auditors have to pay attention to existing audit planning because stakeholders are increasingly critical of the audit process. Stakeholders are increasingly more attention to the audit process in monitoring the public interest in financial reports. The audit process is carried out by a public accounting firm, in the interests of investors and the public with an informative, accurate and accurate audit report. Conduct an assessment of the quality of the audit process related to the risk of the client's business, the risk of the audit to be performed and the risk of the client.

During 2016-2019, several incidents of this audit failure were found. Several incidents that undermined the pride of KAP because they were subject to administrative sanctions. Sanctions are given for wrongdoing in the audit process of the annual financial statements (LKT) of public companies. The following are some KAP have been sanctions in financial statement audits:

Table 1. KAP that received administrative sanctions

Year	Name of KAP	Auditee
2018	KAP Tanubrata, Sutanti, Fahmi, Bambang & Rekan (Member BDO Internasional)	PT Garuda Indonesia Tbk (GIAA),
2017	KAP Amir Abdi Jusuf Aryanto, Mawar & Rekan	PT Tiga Pilar Sejahtera Tbk (AISA),
2016	KAP Purwanto, Sungkoro dan Surja (Member EY)	PT Hanson International Tbk (MYRX)

According to the statement, one of KAP (EY-Indonesia) had passed in the internal control testing and a substantive test of transactions on the lease account. When evidence could not strong for regarding the client's rental account. When the audit process has not been carried out correctly, EY-Indonesia violates the code of ethics, namely the principle of public interest (professionalism of an auditor) because it does not provide confidence in the resulting audit report (PCAOB, 2017a).

According to Abdadillah, measuring the effect of risk in 2015 on the quality of the audit process is a business risk that is measured by systematic risk with the influence of the audit quality process. The advice given is to improve administration in the audit process. Administration in this case has the scope of audit control, ensuring the company's performance, risks related to control activities. This study wants to re-examine the Impact of Business Risks on the Quality of the Auditing Process. This study also limits respondents to auditors who are senior and above because they are considered to be actively involved in determining opinion which is a formulation of the quality of the audit process. The purpose of this study is to obtain empirical evidence regarding the effect of systematic risk proxied by the litigation ratio, environmental risk is proxied by the sanctions received by KAP on the quality of the audit process, the effect of job risk is proxied by audit risk on the quality of the audit process.

2. LITERATURE REVIEW

Auditing

Arens et al. (2017) stated that auditing is the process of collecting and assessing evidence about the information used to determine and report. The audit process of financial statements consists of four phases, first, planning an audit approach by evaluating the client's background, assessing the risks that may occur and the related environment; secondly, tests of controls and substantive tests of transactions by looking at control procedures that have been consistently established and to determine possible misstatements in recording; the third procedure and testing of detailed balances by performing predetermined audit procedures to test for misstatements in the financial statements; the fourth is completion of the audit and the obligation to issue an audit report by completing the audit. Procedures must be carried out and provide audit opinion to management and the audit committee.

Quality of Audit Process

The quality of the audit process is defined from the process to the audit results. First, the process dimension measures the implementation of audits carried out in adherence to established standards. Second, the outcome dimension measures the increase in confidence of users of financial statements on audited financial reports (Julianto, 2016).

The level of quality of the audit process will be determined which consists of input factors (independent, knowledge and experience, as well as professional skepticism from auditors) and process factors (audit process, level of materiality, risk assessment, public accounting firm quality assurance system). As a result, the quality of the audit process can be seen from the outcome factors in the form of no restatement of financial reports, absence of legal litigation against auditors, accurate financial reports, quality of financial reporting and the results of reviews on the quality of regulators of public accounting firms (Knechel & Shefchik, 2002).

Public accountants who carry out audits in accordance with standards will carry out audits in accordance with professional responsibilities, refer to the code of ethics and quality control systems, and can determine appropriate audit adjustments according to audit team discussions, as well as audit results reviewed by the auditor's supervisor conducting the audit can obtain audit evidence deemed sufficient and competent. If the auditor carries out audit activities following

standards, the auditor is said to be able to provide appropriate audit opinions so as to convince users of financial statements so that they can be concluded as having a high quality audit process. Quality audits are useful in increasing the relevance and reliability of financial statement information (Lee and Sukartha, 2017).

Systematic Risk

The risk of demanding the auditor takes into account the important factors that affect the auditing profession on the one hand, and the accounting information and the auditing profession in general, on the other the risks. As is known, the audit planning that will take place is to solve problems related to litigation, through the application of predetermined standards. Litigation, in this case, adjustments to financial reporting made by the company. Litigation relates to the sanctions received by KAP for errors in conducting audits.

The code of ethics requires auditors to comply with existing standards and regulations. Code of Conduct Section 300 states that the response to non-compliance with conditions, policy procedures relating to clients and the operating environment will result in sanctions.

Sanctions imposed by private or public regulatory authorities, such as the Securities and Exchange Commission, or professional authorities, and these sanctions cause harm to auditors, either through incurring additional costs as a result of auditing additional associates, or through prohibition of examiners from accepting clients who are subject to stock exchange laws for a period of time, Brumfield, et al. (2003). Sanctions Including those imposed by professional organizations, sanctions or disciplinary sanctions, are as follows (IFAC, 1998): 1. Reprimands 2. Financial penalties 3. Payment of certain fees. 4. Revocation of practice rights 5. Temporary cessation of practice 6. Other sanctions, including user fees, training and additional education.

Audit Risk

Auditing standards require the auditor to obtain an understanding of the entity and its environment, including internal control, in order to assess the risks of material misstatement in the client's financial statements. The risk calculated by the auditor in making a decision to accept the company for audit. In this case, what is measured is business risk which is proxied by audit risk from planning to reporting stage. Business risk This is a loss or damage incurred by the audit office or the auditor. Working in the office as a result of factors relating to the conduct of audits or engagements with clients, auditors may be exposed to business risks, not because of a failure of the audit process, or a lack of commitment to professional and ethical standards, but returning to reasons about their relationship with clients (Bushong and Weatherhold, 2012).

Arens & Loebbecke (2012) states the risk due to significant conditions, events, circumstances, actions or inaction that can affect the entity's ability to achieve its objectives and implement its strategies, or from the setting of goals and strategies that are not appropriate. The determination is based on the initial assessment at the time of the initial planning when the audit will be carried out by the KAP.

This assessment is supported by an introduction to the entity's environment by carrying out an assessment of the risks initially at the time of planning. 1. Inherent Risk (Congenital Risk) 2. Detection Risk 3. Control risk In planning the audit, the auditor must consider audit risk, ISA 312.02 (PSA No. 25) defines audit risk as the risk that occurs in the event that the auditor does not knowingly modify his opinion accordingly on a financial report that has material misstatements.

According to SAS 39 on audit sampling and SAS 47 on materiality and risk, audit risk consists of three components, namely inherent risk, control risk, and detection risk. Inherent Risk measures the auditor's assessment of the possibility of material misstatement (both fraud and error) in an auditing department before considering the effectiveness of the client's internal control (Arens and Loebbecke, 2017). Inherent risk includes a predetermined account balance or class of transactions for material misstatement, assuming that there are no related internal control structure

policies and procedures. Control Risk is a material misstatement that can occur if an assertion cannot be prevented or detected in a timely manner by the client's internal control structure. Control risk is a measure of the auditor's determination of the possibility of misstatement in the audit segment that exceeds the tolerance limit, which is not detected or prevented by the client's internal control structure (Arens and Loebbecke, 1997). Detection Risk is the risk that the auditor cannot detect material misstatements contained in an assertion. In terms of knowing these risks, analytical tests and test of details can be performed.

Environmental Risk

Planning an audit begins with evaluating the client's background, assessing the risks that may occur and the associated environment; secondly, control testing and substantive testing of transactions by observing control procedures.

Research Model

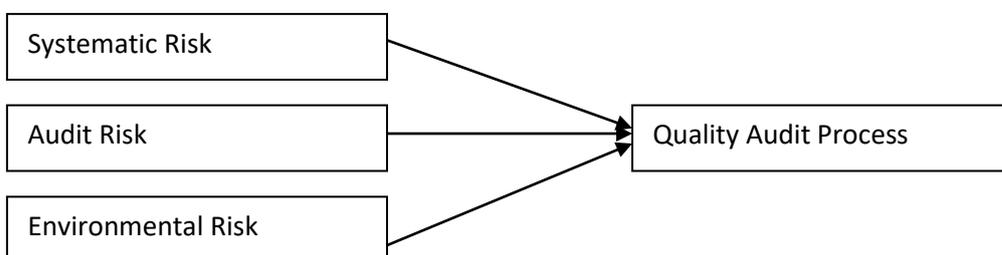


Figure 1. Research Model

1. The effect of systematic risk on the quality of the audit process
 Litigation, in this case, adjustments to financial reporting made by the company. Litigation relates to the sanctions received by KAP for errors in conducting audits. In the audit planning process, the auditor's first consideration is to see the completeness of the financial statements and the conformity of the format to the standard. The results indicated to presence an impact of the systematic risks on the quality of the audit process from apoint view of auditors. Results reveal that Organization's management realized that all the risks have been properly managed and the management bears all responsibilities concerning the safety of financial operations.
 H_1 : There is significant effect to the systematic risk on the quality of the audit process

2. The Effect of Audit Risk on the Quality of the Audit Process
 Audit risk is the level of uncertainty faced by the auditor when carrying out an audit task which results in not achieving the target, so there will be a risk of error in providing an opinion. The results indicated to presence an impact of the environmental risks on the quality of the audit process from apoint view of auditors. Results reveal the need for analysis and Study of the environmental performance of the company and its ability to respond to the current environment protection laws and regulations.
 H_1 : There is significant effect to the audit risk on the quality of the audit process

3. The Effect of environmentak Risk on the Quality of the Audit Process
 The environmental risk in this study is a description of the financial statements to be audited. Through analytical review and analysis of liquidity ratios, profitability and validity at the initial planning stage of the audit will produce an overview of the auditee's financial statements. The

results indicated to presence an impact of the occupational risks on the quality of audit process from point view of auditors, Results reveal that need to Analysis of all the risk associated with organization activities, examine the risks associated with each activity, and Benefits gain from internal auditor in determine risks

H₁ : There is significant effect to the environmental risk on the quality of the audit process

3. METHOD

The type of data was primary data obtained. Collection the data through distributing questionnaires to several public accounting firms (KAP). Test data quality by conducting validity tests to measure the validity of an item statement. Meanwhile, the reliability test was a test that shows the extent to which measurements are made without bias / error free. In this study, the reliability test was carried out using the Cronbach's alpha value.

Multiple linear regression analysis was used in research to answer questions from research related to the effect between the independent variable and the dependent variable. Determine coefficient test, F test and T test to see the effect of the variable systematic risk, audit risk and environmental risk on the quality of the audit process.

Research Variable

The quality of the audit process was used as the dependent variable. Systematic risk, audit risk and environmental risk were independent variables. Measurement of the variables using a questionnaire set on a Likert scale with the following values: (1) Strongly Disagree (2) Disagree (3) Doubt (4) Agree (4) Strongly Agree. The following is a table of operational variables Table 2.

Table 2. Operational Variable

Variable	Indicator	Scale
Quality Audit Process (Audit Procedure) -	Audit planning is carried out with an understanding of the client's business	Likert
	Consideration of the internal control system in auditing financial statements	
	Using assertion information in formulating audit objectives	
	Designing substantive tests	
	Performing analytical procedures in audit planning and audit review	
	Confirming with third parties in financial report audits	
	Using management representation letters in auditing financial statements	
	Perform compliance tests on transaction controls	
Systematic Risk (Audit Business Risk)	Reduction in the number of samples planned in the financial statement audit	Likert
	The smaller the litigation risk (legal sanctions), the smaller the quality of the process runs	
Audit Risk	The greater the risk of litigation (legal sanctions), the greater the quality of the process being carried out	Likert
	Primaryity is one of the factors determining the quality of the audit process	
Environmental Risk (Client Business Risk)	The previous year's audit results are a reference for measuring inherent risk	Likert
	Control Structure as a measure of control risk	
	The higher the liquidity risk, the higher the Likert quality of the audit process	
	The higher the risk of profitability, the higher the quality of the audit process	Likert
	The higher the validity (going concern), the higher the quality of the audit process	

4. RESULT AND DISCUSSION

Hypotheses Testing and Analysis

The sample size was determined based on the number of respondents who returned the questionnaire. The number of questionnaires sent was 42 questionnaires distributed via google form by researchers. A total of 42 questionnaires were returned

Table 3. The tabulation of the characteristics of the respondents

Respondent Characteristic		Frequency	Valid Percent
Gender	Male	25	59,52%
	Female	17	40,48%
Age	> 40	34	80,95%
	Gender	6	14,29%
Length of work	< 30	2	4,76%
	> 10 years	27	64,29%
Position	< 10 years	15	35,71%
	Managing Partner	10	23,81%
	Partner	5	11,90%
Education	Senior Auditor	27	64,29%
	S1	23	54,76%
	S2	17	40,48%
	S3	2	4,76%

Source: Processed data, 2020

Validity and Reliability Test

Table 2 – Validity Test

Test	No Item	rxxy	r tabel	Note
	RS	0,773	0,304	Valid
	RA	0,387	0,304	Valid
	RL	0,696	0,304	Valid

Table 3 – Reliability

Reliability Statistics		
Cronbach's Alpha	N of Items	Note
0.752	4	Note Reliabel

Test the validity of the questions in this research questionnaire used Pearson correlation. The calculation of the correlation results for each question item were close to the +1 number. Consequently, it concluded that each question item on the instrument of the audit situation was valid. The instrument reliability coefficient showed that Cronbach alpha was 0.752. It concluded that all the research instruments are reliable.

Multiple linear regression analysis was conducted to determine the effect of systematic risk, audit risk, client business risk, and auditor business risk on client acceptance. Data processing was carried out using the SPSS.

Table 4 – Regression analysis

Model	B	t	Sig.
(Constant)	-.614	-.200	.842
RS	-.259	-.951	.347
RA	.708	2.721	.010
RL	1.079	4.164	.000

Sumber : data diolah, 2020

The Equation:

$$Y = -0,614 - 0,259 RS + 0.708 RA + 1.079 RL + e$$

The summary of multiple linear regression was described as follows:

1. Constant (α) The constant value (a) was -0.614, it meant that if all the independent variables was = 0, then the value of the Audit Process Quality was -0.614.
2. Regression coefficient (β_i) 1. The regression coefficient value of the systematic risk variable was -0.259, it meant that if the systematic risk had decreased by one unit of value, then the amount of quality of the audit process was also decreased by -0.259 with assuming the other independent variables were constant / unchanged. The negative sign indicated a unidirectional relationship between systematic risk and the quality of the audit process, it meant that if the systematic risk was greater, the quality of the audit process was able to increase.
3. The regression coefficient value of the audit risk variable was 0.708, it meant that if the audit risk increases by one unit of value, then the level of client acceptance was able to be decreased by 0.708 with assuming the other independent variables were constant / unchanged. The positive sign indicated the opposite relationship between audit risk and the quality of the audit process. it meant that if there were more audit risks, the quality of the audit process will decrease.
4. The regression coefficient value for the environmental risk variable was 1.079. it meant that if the environmental risk was increased by one unit value, then the amount of quality of the audit process was decreased by 1.079 with assuming the other independent variables were constant / unchanged. The positive sign showed the opposite relationship between environmental risk and the quality of the audit process, it meant that if there were more audit risks, the quality of the audit process was able to decrease.

Tabel 5 – R Square Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.846 ^a	.716	.694	1.50499
a. Predictors: (Constant), RL, RS, RA				

The regression model was 0.716. It meant that the percentage was given by the variable systematic risk, audit risk and environmental risk in explaining changed in the client acceptance level with 71.6% and the remaining 29.4% was affected by other variables outside those used in the study. Multiple Correlation Coefficient (R) for the regression model was 0.846. It indicated that the relationship between audit risk, client business risk and auditor business risk on client acceptance was strong.

Table 6 – T Test

Independent Variable	t	Sig
RS	-.473	.639
RA	2.889	.006
RL	4.876	.000

Sumber: processed data, 2020

Depending on the results, the t value for the audit risk variable was -0.473 with a significant value of 0.639. Thus, it concluded that systematic risk did not have a significant effect on the

quality of the audit process. The low auditor response was collaborated by the complexity of the audit, and evaluation of the integrity of management had no effect on determining the limits / ranges of acceptable audit risk for each audit assignment. The result of this study was consistent with previous studies (Bell et al; 2005) that a systematic risk assessment will not be influenced by the approach taken, audit program planning, risk assessment and interpretation of audit evidence.

Depending on the results, the t value for the audit risk variable was 2.889 with a significant value of 0.006. Thus, it concluded that audit risk had a significant effect on the quality of the audit process. Auditors indicated that auditors assessed the complexity of the audit in terms of the amount of information, the stages of work and the amount of coordination performed on each audit as it was very relative or very subjective. Materiality calculations at the initial stage of planning and testing of the internal control system were carried out so that the audit process is declared feasible. In line with previous research (Abdadillah; 2017), audit risk assessment affects the quality of the audit process.

Depending on the results, the t value for the environmental risk variable is 4.876 with a significant value of 0.000. Thus, it concluded that environmental risk affected the quality of the audit process. Analytical analysis and ratio analysis in the initial planning were carried out in order to assess the company's liquidity, profitability and going concern. In line with previous research (Abdadillah; 2017) environmental risk assessment will affect the quality of the audit process.

Tabel 7 – F Test

	M	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	179.120	3	59.707	25.058	.000 ^b
	Residual	92.927	39	2.383		
	Total	272.047	42			

The table of the results of multiple linear regression analysis, F value was 25.058 with a significance value of 0.000. Therefore, it was decided to reject the null hypothesis because the significance value of F count as less than 0.05. Thus, the research hypothesis was accepted. It meant that the variables of audit risk, client business risk, and auditor business risk together had a significant effect on the level of client acceptance.

5. CONCLUSIONS

- a. here was statistically significant no effect on the systematic risk on the quality of the audit process. It was confirmed by value of significance (Sig.) with zero value and it was more than 5%.
- b. here was statistically significant effect on the audit risk on the quality of the audit process. It was confirmed by value of significance (Sig.) with zero value and it was less than 5%.
- c. here was statistically significant effect on the environmental risk on the quality of the audit process. It was confirmed by value of significance (Sig.) with zero value and it was less than 5%.

Suggestions were related to further research:

1. Research variables are able to be developed by adding components to each risk variable, for example, audit fees and other independent variables to see the impact on clients.

2. The number sample for the further research are able to increase or expand the research area, such as big city or a small town. Thus, there might be a difference in the quality of the audit process by the Public Accounting Firm.

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