

Quality Audit and Effective Audit Committee

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KEYWORDS

audit quality, audit committee.

ABSTRACT

The purpose of this study is to examine the quality of audits, with the existence of an effective audit committee within the company. Study method using systematic literature review (SLR) with bibliometric approach. The results of the study show that audit quality weakens when the audit committee has a relationship or bond between the audit committee to the CEO and external auditors. On the other hand, the financial expertise of the audit committee is able to have a positive impact on audit quality even though both have a high cost impact on the quality of the audit produced.

INTRODUCTION

Current developments make auditing an established obligation as a regulated corporate activity in most industrialized countries (Piot, 2001). Assessing and comparing the quality of audit reports at each audit conclusion among various audits is a difficult task. Some studies cite audit quality as the auditor's ability to detect and report material misstatements during the audit process. This ability depends heavily on the auditor's proficiency and independence, especially when misstatements may stem from fraud. There was some confusion between control risk factors and inherent risk and one-third of participants assessed inherent risk and control risk together (Shailer et al., 1998), so there is no clear division between the risks that come from where. Various studies related to factors that affect audit quality such as, audit costs which are often associated with quality in the audit process (Defond & Zhang, 2014; Lyon & Maher, 2005), which can result from relationships such as social ties between engagement auditors and audit committee members, which undermine audit quality (Guan et al., 2016; He et al., 2017) thus tends to provide higher audit costs (He et al., 2017), as well as executive-auditor affiliation can undermine audit quality (Lennox, 2005). Other factors such as changes in the proportion of shares held by government versus institutional and individual investors affect demand for audit quality (Chan et al., 2007). An effective audit committee can prevent the formation of alma mater affiliations by acting as a barrier between management and the appointment of a new audit firm (Lennox, 2005). Audit quality generally cannot be observed by users of financial statements, because of the confidentiality and professional confidentiality that protects auditor files (Piot, 2001). This study aims to examine the development of audit quality, with the existence of an effective audit committee.

Audit quality is defined as the combined probability of anomalies in existing financial statements being discovered and reported by auditors (DeAngelo, 1981). Effective quality is required for audits to produce useful effects as monitoring tools (Piot,

2001), the quality perceived by users of financial statements is at least as important as the quality of an effective audit.

The Audit Committee can be defined as a position to evaluate governance standards in the organization, ensure that risk management receives appropriate attention, and seek certainty about the level of compliance achieved within the organization (Hopkin, 2017). Having a good composition and operation of the audit committee, the committee can act well as a monitoring tool (Husnin et al., 2016). The audit committee is also responsible for determining the level of non-audit services provided by external auditors and is directly responsible for recruitment, cost negotiation, and general oversight of the external audit process (Ghafran & Sullivan, 2012). New regulations that redefine the relationship between external auditors and audit committees have the potential to be very helpful for both groups (Act, 2002). The legal establishment of responsibilities and authorities mandated to the audit committee, and the opening of direct lines of communication between the two groups, should be powerful tools for improving corporate governance and auditing (Knechel, 2007).

METHOD

Based on the formulation of this study problem, researchers use systematic literature review (SLR) with a bibliometric approach. Bibliometric analysis is used to look at research trends and measure research progress by evaluating articles.

RESULTS AND DISCUSSION

From the results of systematic *literature review* (SLR) analysis with a *bibliometric* approach, the implications of various factors that affect audit quality in various companies, are as follows.

Table 1 Implications of various factors affecting audit quality

Factors	Implication	Writer
Affiliate CEO & audit committee	The cost of AC-auditor social connections outweighs the potential benefits provided.	(He et al., 2017)
	Perform profit management	(Bruynseels & Cardinaels, 2014; Hwang & Kim, 2012)
Inter-School Bond Affiliation	The tendency of auditors to issue clean audit opinion modifications and discretionary accruals.	(Guan et al., 2016)
Audit committee financial expertise (AC)	Highlighting the importance of air conditioning expertise in ensuring high audit quality.	(Alhababsah & Yekini, 2021)(Krishnan et al., 2011)(Ghafran & Sullivan, 2017)(Ghafran & Sullivan, 2012)
Passive Investors	Higher passive ownership leads to higher audit quality.	(Dong et al., 2022)
Fee Audit	Higher audit costs will occur if client demand increases.	(Ji et al., 2018; Kim, 2021; Lyon & Maher, 2005; Yuan, 2021)

The audit committee plays a major role in overseeing the financial reporting process, this is closely related to social relations both formal and informal between members of public accounting firms and company management in influencing the quality of financial reporting. Social ties can facilitate the flow of information between public accounting firms and auditors or also have the opportunity to do *due diligence* (due diligence) and even inject unintentional bias into the auditor's judgment and decision-making and form a modified audit opinion, which results in a more qualified audit. So the cost of AC-auditor social relations outweighs the potential benefits (He et al., 2017). Companies whose audit committees have a social relationship with the CEO also buy fewer audit services and do more profit management (Bruynseels & Cardinaels, 2014). So auditors tend not to report internal control weaknesses when there is a friendship bond. Where informal ties play an important role in facilitating creative accounting practices with increased discontinuities in profit distribution around profit targets (Hwang & Kim, 2012). Other affiliations are related to inter-school ties or auditors who have a bonded relationship at the same university lecture with their client executives. The tendency of auditors to issue clean audit opinion modifications and discretionary accruals (Guan et al., 2016), especially for clients experiencing financial difficulties.

Apart from previous deviant social ties, another view regarding audit committees, they have an important role in the oversight process, when viewed from their actual duties and authorities, such as governance regulators currently place great emphasis on ensuring financial expertise in audit committees (Act, 2002). The value of expertise for audit quality depends on the specific financial reporting challenges the company faces (Ghafran & Sullivan, 2017), in various countries of course have different levels of regulation and pressure. This suggests the audit committee's legal expertise may not be the case in emerging markets where legal systems are far from robust and where litigation risk is low (Alhababsah & Yekini, 2021), in other words, financial expertise is more effective. Larger, more independent audit committees and those with financial expertise are more likely to seek higher levels of external audit coverage and assurance (Ghafran & Sullivan, 2012). In other words, the position of the audit committee gives a positive outlook by investors.

The demand for audit quality is particularly relevant in protecting minority interests, regardless of concentration of ownership (Piot, 2001), therefore audit quality plays an important role in increasing investor confidence in financial statements, facilitating an assessment of the company's objective situation, and ultimately increasing the possibility of fundraising. The rise of index funds or the positive effects of passive investors on audit quality are more visible in companies with higher agency costs, where passive investors play an active role in improving corporate governance (Dong et al., 2022)., Higher audit costs will occur if client demand also increases (Ji et al., 2018; Kim, 2021; Lyon & Maher, 2005; Yuan, 2021).

CONCLUSION

The existence of the audit committee has more or less provided various views and relationships to audit quality, this is certainly inseparable from the role of the audit committee as a supervisor who evaluates governance standards in the organization, determines the level of non-audit services provided by external auditors and is even directly responsible for recruitment. Based on the elaboration of several previous research results related to audit quality with the effectiveness of the audit committee. We observe a weakening in the quality of audits obtained, which is caused by the

relationship or bond between the audit committee to the CEO and external auditors, this occurs an emotional connection that occurs that affects audit quality and tends to be followed by high audit costs. Regardless of the emotional connection that occurs between the audit committee and the CEO or auditor. Financial expertise owned by the audit committee has a good impact on audit quality and provides increased confidence for investors.

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