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**PROCEEDINGS of
INTERNATIONAL CONFERENCE
on ACCOUNTING & FINANCE 2016
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The Effect of Procurement Procedure for Public Accountant Office Services and Audit Fee on Audit Quality

Syafdinal^a, Paulus Sugianto Yusuf^a

^aDepartment of Accounting, Widyatama University, Bandung, Indonesia

ABSTRACT

Audit quality is the correct responses must be given by KAP in completing an audit job which compares financial report to a work standard or predefined criterion. Audits quality can be attributed to the procurement procedure for KAP. In Elections of KAP need indispensable knowledge of the audit services procurement process in order to obtain a quality audit external services that appropriate to audit fee.

The research method used in a study was survey approach with census taking and non-experimental research. The type of research used was explanatory research because to explain causal relationship and correlational relationship within variable through hypothesis test. The measurement technic that used to convert qualitative data to quantitative data was Likert scale. The three variable that used as predictor for audit quality produce that price variable is the dominant variable with 57% effected audit quality compared to the two other variable which is general and administration qualification and technical qualification.

Keywords: Audit quality, procurement procedure for selection of KAP, audit fee

1. Introduction

The process of identifying and administrative activities in KAP produces audit quality. KAP needs to understand the benefits of the process of procurement of KAP. On the other hand the service users need to do KAP procurement procedures organized by fix any problem in the procurement of KAP. To obtain a KAP are on audit quality must go through the audit services in accordance with the criteria set by the company. Some experts argue that audit quality can be affected by several factors, among others; adherence to professional standards and a contract for carrying out the audit, the timeliness of completion of work, client satisfaction. Basuki and Krishna (2006) stated that the quality of audit is a complex issue, because so many factors that can affect the quality of auditing depend on the viewpoint of each party. It makes it difficult audit quality measurement, so it becomes a sensitive matter for individual behavior that does audit. However research on audit quality can be affected by factors KAP procurement procedures and audit fee is still relatively limited.

Here introduce the paper, and put a nomenclature if necessary, in a box with the same font size as the rest of the paper. The paragraphs continue from here and are only separated by headings, subheadings, images and formulae. The section headings are arranged by numbers, bold and 11 pt. Here follows further instructions for authors.

1.1. Audit Quality

Audit quality was the expectations of the users of audit services, especially public or shareholders who have high hopes that the financial statements have been audited by KAP is certainly a financial report that is free from material misstatement, whether caused by error or fraud. Audit quality is the correct responses must be given KAP in completing a job compared to a standard work or predefined criteria. Benh in Dissertation Sukrisno Agoes (2003), entitled "Effect of Implementation of Auditing Standards, Implementation Standards Quality Control and Quality Audit Services to the Confidence Level User Reports Public Accountant" said 12 attributes of quality of audit services, namely: (1) experience of the audit team KAP; (2) audit experience industry effective in auditing; (3) had a good response to the needs of the client; (4) work teams audit competence

technically; (5) the adequacy of KAP and the Standard Professionalism Public Accountant; (6) the adequacy of KAP with quality Control standards; (7) public Accounting Firm commitment to quality; (8) the involvement of executive leadership; (9) guidelines for field work; (10) engagement with the audit team; (11) code of professional conduct public accounting and auditing knowledge; and (12) the skepticism of the audit team.

Auditing research that use professionalism and quality of audit already has been done by researchers, some of them:

1. Amilin (2010) using SEM to test the quality of audits through a survey of public accountants in Indonesia personal characteristics, experience of auditing, independence, and the application of ethics public accountant effect on audit quality.

2. Ida Rosnidah (2008) using SEM to examine the effect of the procurement process audit services, the cost of audit services and auditor industry specialization in the field of client industry on audit quality and its implications on the audit service user satisfaction through surveys on issuers listed on the Indonesia Stock Exchange factors that affect audit quality is the process of procurement audit services, the cost of audit services and auditor specialization in the field of industrial clients.

3. Li, Chuntao, et al. (2005) used panel data to test the relationship between the magnitude of KAP with audit quality in China KAP larger tend to provide higher quality audit services.

1.2. Audit Quality and Its Relationship with Procurement Procedures on Audit Services

The term procurement of services specifically refers to the activity of providing services to the institutions that implementation is done based on the regulations, the process starts from planning until completion of all activities need to obtain these services. Quality of work of auditors can be attributed to the procurement procedures on KAP services. Good audit quality will provide consequences for the auditee satisfaction.

Jensen, Kevan L. & Jeff C Paynee (2003) said the manager looked at the procurement process of audit services as a mechanism to regulate the quality of audit whereby if the procurement process audit services performed by both the quality audit conducted by KAP is also good. Through a multi- dimensional models of the procurement process audit proves that good procurement process mechanism, which includes:

(1) The procedure of procurement processes to obtain information on the Public Audit Firm (KAP) and the cost of audit services.

(2) The personal characteristics of implementing the procurement process audit services.

(3) Characteristics of the organization where decisions are made auditing services procurement process, will improve the quality of audit and it was obtained with the corresponding audit costs.

Three dimensions of the procurement process audit services are outlined in the following indicators:

(1) The procedure of procurement audit services consists of;

a. Competitive offerings from service providers audit / KAP.

b. The use of multiyear contract with KAP, which in practice is carried out every year and not more than 5 years.

c. KAP election focused more on technical factors than the cost factor of audit services.

(2) The personal characteristics of the implementing provision of auditing services, consisting of;

a. Authorized officials chose KAP has a background in accounting and auditing. by including auditor curriculum vitae so that the competent authorities choose KAP auditor can judge the quality of an individual and the firm as a whole.

b. Have an understanding of the needs of the organization, KAP registered in capital market and have an understanding of the procurement process audit services.

c. Authorized officials choose KAP rotated periodically.

(3) Characteristics of organizations that need the services of audit, consisting of the audit committee directly involved in the procurement process audit and reviewing the quality of audit.

In the proposal submitted by KAP in procurement process for audit services considered various matters relating to the terms of general and administrative, and technical. If the procurement process audit service is run well then be elected KAP that meet the criteria established for the management of enterprises. With thus elected auditor and audit firm with a quality that has met certain requirements, the audit conducted KAP will also be qualified.

Auditor and audit firm with a quality that has met certain requirements, the audit result conducted by KAP will also be qualified.

1.3. Audit Quality and Its Relationship with Audit Fee

The procurement process audit is a systematic process that should be decided by the competent authorities chooses KAP, when needed, and how much the cost of audit services that must be spent to get the quality audit. That is for the competent authorities choose KAP required knowledge of the procurement process audit in order to obtain an external audit of quality with the cost of audit services accordingly.

In the code of ethics of Indonesia accountants (SPAP, 2001), stipulated that in exchange for professional services should not depend on the results or findings on the implementation of these services, but some studies found an association between audit quality and audit service costs, namely :

1. Clatworthy, Mark A. & Michael J Peel. (2006) states the cost of audit services related to audit quality.
2. Srinidhi, Bin & Ferdinand A Gul. (2006) states that the audit high service costs reflect higher audit effort and better judgment.
3. Chuntao Lie, Frank M. Song and Sonia M.L.Wong (2005) states that the KAP greater with higher audit costs tend to provide a higher audit quality services.
4. Wuchun, Chi (2004) suggests the cost of audit services affect the quality of the audit.
5. David Hay and David Davis (2002), states that the cost of audit services is one of the factors to choose the level of audit quality.

According to the chairman of the institute of public accountants Indonesia No: Kep.024/Certified/VII/2008 that in determining the audit fee, public accountants should consider the following matters: (1) the need for the client. (2) The duties and responsibilities according to law. (3) Independence. (4) The level of expertise and responsibilities attached to the occupation is performed, and the level of complexity of the work (5) the amount of time required is effectively used by Public accountants and staff to complete the work, (6) Base an agreed fee determination.

According Sukrisno Agoes (2012), "Audit Commission is a reward in the form of money or goods or any other form that is given to or received from clients or other parties to obtain engagement from clients or other parties".

According to Mulyadi (2009), "Fee audit is an accountant fees received by the public after carrying out audit services, depending on the magnitude of the risk assignment, the complexity of the services provided, the level of expertise required to carry out such services , the cost structure of the firm concerned".

From the above definition can be said that the fee audit is the cost incurred by an entity to pay the costs of audits that are tailored to the assignment of the risk, complexity of services provided, the level of expertise required to perform such services, the costs related to the structure of public accounting firms and consideration of other professionals.

According Supriyatna (2007) factors that affect the size of the audit fee is:

1. The size of the auditee, it is clear this problem becomes crucial if when we saw a lot of foundations or non-profit organizations that require audit services but minimal financial condition.
2. Location Public Audit Firm (KAP), the overhead public accounting firm in the area in general less than the cost of overhead in the capital.
3. Size Public Audit Firm (KAP), when combined with the size of the office, the office that live in big cities will have a standard salary is much different when compared with KAP is located in the suburb.

All these factors greatly influence the determination of the audit fee will be charged KAP to their clients. Other factors such as how the target profit to be obtained owner obviously very big influence as well. Until now still difficult to find a deal value of audit fee that must be enforced.

Further Sukrisno Agoes (2012) stated that indicator of the audit fee can be measured from:

1. Risk assignment, as a profession at risk to accountability for his work, the risk of assignment into consideration the size of the fee to be determined for a given task.
2. The complexity of the services provided, the more difficult the task of the audit is given, then the greater the costs incurred by the auditee.
3. The cost structure of the relevant public accounting firms and other professional considerations, as an expert field parallel to other specialized professions, consideration of the value of an auditor will be adapted to other special professions.
4. Firm size, measured by the size of a KAP, KAP who live in big cities will have a standard salary greater than the KAP in small towns.

If any provision regarding the minimum audit fee imposed, the organization with which have limited financial resources difficult to obtain audit services. Similarly, the firm will donate services owned for profit organizations will be hampered progress with major provisions of the audit fee.

2. METHODOLOGY

2.1. Research Object

The research object was observer variable that is general and administrative qualification (X1), technical (X2), price aspect (Y) and Audit Quality (Z).

The sample of the research was internal audit department at PT Dirgantara Indonesia (Persero). Internal audit role for decision to choose an external audit is important because internal auditor would coordinate follow up the

founding result from external auditor. Harrel, Taylor, and Chewning (1989) stated "Internal auditors feel they have more capabilities in its bias against professional judgment."

2.2. Research Design

The research method used in a study was survey approach with census taking and non-experimental research. The type of research used was explanatory research because to explain causal relationship and correlational relationship within variable through hypothesis test.

2.3. Variable Operationalization

Operationalization of the variables includes the following stages:

1. Identification of exogenous and endogenous variables.
2. Translation of the independent variables and the dependent variable into each sub variables.
3. The description of each sub variables into their indicators.

Measurement techniques used to transform qualitative data from the questionnaires into a quantitative data is Summated Rating Method: The Likert Scale, which is an ordinal scale of measurement. Scores for the assessment of both criterion variable calculated by 5 -point scale: agreement / disagreement. Variables used in this study are as follows:

- (X1) General and administrative qualification is exogenous.
- (X2) Technical is exogenous.
- (Y) Aspect of price as an exogenous variable.
- (Z) Audit Quality as an endogenous variable.

2.4. Research Population

Target population in this study is the internal auditor PT. Dirgantara Indonesia (Persero) Bandung more competent assess KAP services procurement procedures.

2.5. Method of Collecting Data

Sources of data required in this study will be obtained through:

- 1) Field Research

Through field research is expected to obtain primary data, which is data directly obtained on the internal auditor PT. Dirgantara Indonesia (Persero) in Bandung. Data collection techniques for field research were conducted by preparing a questionnaire which is a structured list of questions and statements addressed to the respondent.

- 2) Research Library (Library Research).

To complete the primary data, it is also necessary secondary data obtained through library research. Secondary data collection is done by studying the journals, textbooks, magazines that support the discussion and analysis of field research.

2.6. Data Test Method

The research data was obtained by submitting a list of questions to respondents through the questionnaire, the answers of the respondents to this question is a measure that will be tested. Data obtained from the respondents need to be tested for validity and reliability to avoid things that are biased and question the validity of this study, the necessary tests on the instruments. Validity and reliability is carried out as follows:

- 1) Validity Test (Test of Validity)

Test the validity of this research carried out by factor analysis. Other test equipment used to measure the level of inter correlation between variables and whether or factor analysis is Kaiser Meyer-Olkin Measure of Sampling Adequacy (KMO-MSA). KMO-MSA value varies from zero (0) to one (1). The desired value must be > 0.50 to do the factor analysis (Hair et al., 2006).

- 2) Reliability Test (Test of Reliability)

A questionnaire said to be reliable or reliable if the respondent's answer to the statement is consistent or stable over time. Researchers used the method of internal consistency using Cronbach's alpha. A construct or a variable value said to be reliable if the Cronbach's alpha greater than 0.60 (Nunnaly, 1967).

2.7. Data Analysis Method

Structural Equation Modeling (SEM) approach was used in this study for data operating. Faith (2007) explains that there are seven steps in implemented SEM, such as develop theory-based models (conceptualization model). Developing model based theory begin in this stage. In other words, the theory will be used as a means of justification model to be developed. SEM does not essentially aim at making causality, but is used as a justification for the existence of a causal relationship empirically using observed data.

2.8. Problem Formulation

Problem can be formulated as follow: 1) How much influence to the terms of general and administrative, and technical aspects of the price. 2) How much influence to the terms of direct and indirect general and administrative, technical and price aspects of the quality of audit.

This study is a survey on PT. Dirgantara Indonesia (Persero) in Bandung. Respondents are internal auditors (SPI) at PT. Dirgantara Indonesia (Persero). Samples were taken from 50 (fifty) personal comprising leaders and team members SPI and 50 (fifty) personal comprised of managers and staff of the Accounting Division and the Division of Information Technology (IT). The data processing is done through a questionnaire, and before the data were used to test the hypothesis, first tested the validity and reliability. A hypothesis is tested using path analysis. The results of this study are expected to show that: (1) there is a significant correlation between the quality of the audit, procurement process KAP, audit fee; (2) the process of procurement of KAP, audit fee or no significant effect on the quality of an audit, either simultaneously or partially.

2.9. Diagram Design

Development of flow charts to show the relationship audit quality as follow:

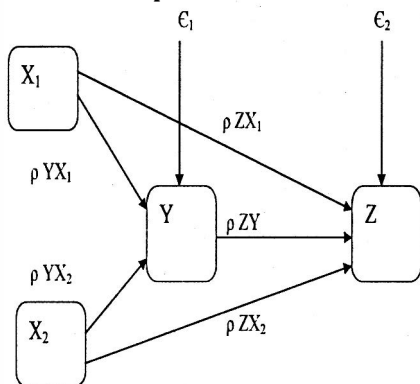


Figure 1: Path Diagram

$Y = YX1 + \rho Y3X2 + \epsilon1$ Substructure 1

$Z = \rho ZX1 + \rho ZX2 + \rho ZY + \epsilon2$ Substructure 2

In phase 1 the structural equation $Y = YX1 + \rho Y3X2 + \epsilon1$ Substructure 1

Where X1 is the General Requirements and Administrative, Technical and X2 = Y = Aspects Price

Develop aims to facilitate the pathway diagram to explain the relationships that exist. A path diagram is more than just image relationship, because researchers can use it to describe the relationship between variables constructs (independent - dependent) but also to explain the correlation between variables constructs the indicator. Elements path diagram consists of constructs and lane arrows. Researchers build path diagram by using the construct and then determines the indicator variable of each variable constructs.

Regression Sub 1

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	X2, X1 ^a		Enter

a. All requested variables entered.

b. Dependent Variable: Y

Table 1. Regression sub 1

In stage 2 is a structural equation $Z = \rho YX1 + \rho ZX2 + \rho ZY + \epsilon2$. Where X1 is a General and Administrative Requirements, X2 = Technical, Y = Aspects of Price, and Z = Audit Quality.

Regression Sub 2

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Y, X2, X1 ^a		Enter

a. All requested variables entered.

b. Dependent Variable: Z

Table 1. Regression sub 2

3. RESULTS

3.1. Influence to the terms of general and administrative, and technical aspects of the price

Simultaneously to the terms of general and administrative, and technical have positive and significant impact on the price aspect. Magnitude simultaneous effect is 0.479 or rounded to 48 % is contributed from the general to the terms variable and administrative, and technical aspects of the price. While the rest 52 % influenced by other factors outside the model.

Simultaneous Model this occurs significantly. It can be seen from the probability (sig) or < 0.01. Further significance testing forwarded by individual testing through statistical parameter t. Individual test results also showed a significant effect. Having regard to the acquisition sig < 0.01 on the path X1, sig < 0.01 on line X2. It is certainly clear that simultaneously and partially to the terms of general and administrative, technical and can be used as variables that affect the price aspect. Furthermore, empirical causal effect between the variables (X1) to the terms of general and administrative, and (X2) can be illustrated by the technical sub- structural equation 1 (one). $Y = \rho YX1 + \rho YX2 + \rho Y\epsilon1$, or $Y = 0,462X1 + 0,346X2 + 0,715 \epsilon1$.

Partially, general and administrative to the terms have positive and significant effect on the price aspect. The magnitude of the effect of partial and general and administrative directly to the terms of the aspect of the cost is equal to 0,462 or rounded to 46 %. Thus, the high and low aspect influenced by the price to the terms of general and administrative by 46 %, while the remaining 54 % described other factors outside the model.

Partially technically have positive and significant effect on the price aspect. The magnitude of the partial influence and direct the technical aspects or the price is equal to 0.346 rounded to 35 %. That is, high and low technical aspects influenced by the price by 35 %, while the remaining 65 % described other factors outside the model.

3.2. Direct and indirect influence have to general and administrative, technical and price aspects to the quality of audit

Simultaneously, the influence of X1 X2 and Y to Z is equal to 0.738 (rounded 74 %. The remaining 26 % have influence of other factors outside the model. The model simultaneously has been significant. Having regard to the probability of F at 70.477 in sig 0.000 < 0.01. Once the model simultaneously proved to be significant, then the do a search path partial effect. Of the three variables assigned as a predictor, all have sig < 0.05 so it can be said that the entire predictor partially influence to Z.

Directly to the terms of general and administrative have positive and significant impact on the quality of the audit. The magnitude of the direct effect to the terms of general and administrative audit of the quality is equal to 0.188 or rounded to 19 %. That is, high and low quality of audit only able to be influenced by general and administrative by 19 % while the remaining 81 % influenced by other factors outside the model.

Directly technically has positive and significant impact on the quality of the audit. The magnitude of the effect of partial and technical direct to audit quality is equal to 0.220 or rounded to 22 %. That is, high and low quality of audit only able to be influenced by technical by 22 %, while the remaining 78 % described other factors outside the model.

Directly the price aspect has positive and significant impact on the quality of the audit. The magnitude of the effect of the price aspect of the quality of audit amounted to 0,568 or rounded to 57%. That is, high and low quality of audit is able to be influenced by aspects of the price by 57%, while the remaining 43% influenced by other factors outside the model. Of the three variables used as predictors of the audit quality, the variable price aspect is also identified as the strongest variables that affect audit quality compared to two other variables, namely to the terms of general and administrative and technical.

Overall, the influences that formed from two sub structure can be described through structural equation 2 that $Z = \rho ZX1 + \rho ZX2 + \rho ZY + \epsilon2$, or $Y = 0,188X1 + 0,220X2 + 0,568Y + \rho Z\epsilon2$. Based on the results of hypothesis testing to 3, 4, and 5 in the structural equation 2 is obtained empirical path diagram for the model Z as described the following picture:

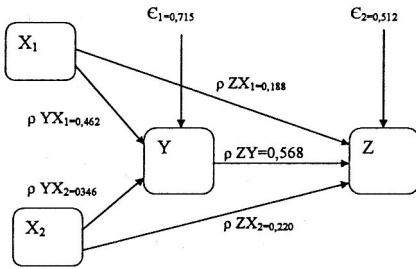


Figure 2. Empirical path diagram

Model	Koefisien Jalur	t	ρ	R ²
Sub structural 1 (X₁ X₂ ke Y)				
X ₁ (ρYX ₁)	0.462	4.916	0.000	0.479
X ₂ (ρYX ₂)	0.346	3.678	0.000	
Sub structural 2 (X₁ X₂ Y ke Z)				
X ₁ (ρZX ₁)	0.188	2.557	0.013	0.738
X ₂ (ρZX ₂)	0.220	2.997	0.004	
X ₁ (ρZY)	0.568	6.867	0.000	

Table 3. Summary of Parameter Estimation Model

Indirect Effect and Total Effect:

- The influence is not direct / indirect effects, X1 to Z with Y = ρYX1 x ρZY = (0,462) x (0,568) = 0,262. Thus the total effect = ρZX1 + IE = 0.188 + 0.262 = 0.461.
- The effect is not direct / indirect effects, X2 to Z with Y = ρYX2 x ρZY = (0,346) x (0,568) = 0,196. Thus the total effect = ρZX2 + IE = 0.220 + 0.196 = 0.416

4. CONCLUSION AND SUGGESTION

Empirical causal influence between variables (X1) to the terms of general and administrative, and (X2) can be illustrated by the technical sub-structural equation 1 (one). $Y = \rho + \rho YX1 + \rho YX2 + E1$, or $Y = 0,462X1 + 0,346X2 + 0.715 + E1$.

Partially, general and administrative to the terms have positive and significant effect on the price aspect 46%, technically positive and significant effect on the price aspect 35%.

Variables simultaneously to the terms of general and administrative, and technical aspects affect 48% of the price. The effect of X1, X2, and Y to Z is at 74%. The remaining 26% have influence of other factors outside the model.

Directly to the terms of general and administrative have positive and significant impact on the quality of audit 19%, technically positive and significant impact on the quality of the audit is 22%, the price aspect has positive and significant impact on the quality of audit is 57%.

Of the three variables used as predictors of the quality audit, the variable price aspect is also identified as the strongest variables that affect audit quality compared to the terms of two other variables, namely general and administrative and technical.

Based on this research, we can discuss as the following:

- Aspects to the terms of general and administrative (bidding documents that meet the requirements set forth in the election) effect on audit quality is only 19%, less significant but the authors suggested the firm must improve the technical aspects as to the terms of general and administrative aspects of the early stages of the election KAP.
- In the study the technical aspects affect only 35%. The aspect of price, less significant but the authors suggested the firm must improve the technical aspects because the client has given high weight rating on the technical aspects of the constituent elements are rated as follows:
 - the company's experience (weighting antara 10% - 20%),
 - approach and methodology (weight value between 20% - 40%),
 - qualified experts (weight value between 50% - 70%).

3. Aspects of the price identified as the strongest variables that affect audit quality compared to the terms of two other variables, namely general and administrative, and technical, but the authors suggest that the auditor should consider independence in completing his duties as auditor.

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