

Determinant of audit quality: a literature review

Intan Nurbaiti Fawziah¹, Dian Indah Hayati², Siti Rahmi Hidayatullah³

^{1,2,3} Universitas Negeri Padang

ARTICLE INFO



ISSN: 2620-6196
Vol. 8 Issue 2 (2025)

Article history:

Received - 03 July 2025

Revised - 15 July 2025

Accepted - 19 July 2025

Email Correspondence:

Intanrb21@gmail.com

Keywords:

audit quality, auditor independence,
auditor expertise, audit regulation,
literature review

ABSTRACT

Audit quality plays a crucial role in maintaining the credibility and reliability of financial reporting. This literature review aims to identify and analyze the key determinants that influence audit quality as discussed in prior academic studies. The review categorizes the determinants into auditor-related factors (such as auditor independence, expertise, and tenure), client-related factors (such as company size and complexity), and external factors (such as regulatory environment and audit standards). The findings reveal that audit quality is a multifaceted construct influenced by both internal attributes of auditors and external pressures. By synthesizing findings from various studies, this paper contributes to a better understanding of how different variables interact to affect audit quality, and provides insights for policymakers, auditors, and stakeholders to enhance audit effectiveness.

INTRODUCTION

Audit quality plays a critical role in ensuring the credibility of financial information used by stakeholders, both internal and external, in making economic decisions. A high-quality audit reflects the auditor's ability to objectively and professionally identify and report violations in a client's accounting system. (DeAngelo, 1981) However, various financial reporting scandals over the past two decades demonstrate that audit quality remains a complex global issue.

One major case in Indonesia that illustrated weak audit quality was the 2018 SNP Finance scandal, in which auditors failed to detect financial statement manipulation in the form of fictitious receivables that resulted in significant losses for investors. Based on a study Fawziah, Iqbal and Trisno (2023), the failure was associated with low auditor independence and professional skepticism, which are key elements of audit quality. In this case, the auditor had established a long-term relationship with the client, thereby reducing objectivity in assessing audit evidence.

Auditor independence has long been considered a fundamental foundation of the public accounting profession. When auditors are not free from client influence, their ability to provide honest opinions is compromised. Several studies have shown that economic dependence on clients, excessively long auditor tenure, and the simultaneous provision of non-audit services pose real threats to independence. (Mansouri et al., 2009; Suyono et al., 2012)

On the other hand, auditor competence is also a key determinant of audit quality. Competence encompasses technical knowledge, professional experience, and strong analytical skills. Mansouri, Pirayesh and Salehi (2009) emphasizes that incompetent auditors will tend to rely on client management, which can ultimately compromise their independence and reduce audit quality. Meanwhile, meta-analytic research by Salehi, Fakhri Mahmoudi and Daemi Gah (2019) confirms that industry competence and specialization consistently have a positive effect on audit quality in emerging markets.

This phenomenon also occurs globally. A report by the UK's Financial Reporting Council (FRC) found weak audit practices at Big Four and mid-tier firms during 2018–2019, resulting in sanctions worth over £42 million (White, 2019). This demonstrates that even in a mature audit environment, challenges to auditor independence and competence remain a central issue.

This issue is further complicated by the inconsistent findings of previous research. Some studies have found that independence and competence significantly influence audit quality, while others have shown insignificant or even contradictory results. (Aswar et al., 2021; Fawziah et al., 2023). This difference may be caused by moderating variables such as locus of control, time budget pressure, or contextual factors such as organizational culture and regulatory strength.

Based on this background, this study is structured as a literature review to systematically evaluate how auditor independence and competence affect audit quality and identify contextual factors that moderate this relationship. By reviewing more than 20 previous studies, this research is expected to provide a comprehensive conceptual contribution, clarify inconsistencies in findings, and provide direction for further empirical research and more effective audit oversight policies.

1. Agency Theory

Agency theory explains the relationship between company owners (principals) and management (agents), where there is a potential conflict of interest because management has more complete information than owners (information asymmetry). Therefore, auditors are expected to be independent parties who verify the information presented by management.

According to DeAngelo (1981), audit quality is the combined probability that the auditor will:

- (1) discover material misstatements, and
- (2) report the findings.

Factors such as auditor independence and technical competence are key determinants of this probability. Auditors who are not independent or competent will not be able to perform their oversight function optimally, thus compromising the reliability of financial information. (Jensen & Meckling, 1976; Mansouri et al., 2009).

2. Resource Dependence Theory

This theory states that organizations (including corporations and public institutions) rely on external resources to operate effectively. In the audit context, auditor competence is considered an important external resource because auditors possess technical and professional expertise that the audited entity does not possess.

Mansouri, Pirayesh and Salehi (2009) emphasizes that auditors must have adequate education, training, experience, and professionalism to provide quality audit services.

Auditors who lack competence tend to rely on client management and lose objectivity, which can ultimately undermine audit quality.

3. Audit Quality

Audit quality is a concept frequently focused on in accounting research because of its role in enhancing the credibility of financial statements. DeAngelo (1981) defines audit quality as the combined probability that the auditor will (1) discover a material misstatement and (2) report it. A quality audit reflects the auditor's professional ability to perform their duties objectively, competently, and in accordance with standards.

Palmrose (1988) and Davidson & Neu (1993) emphasize that audit quality is highly dependent on the auditor's integrity, competence, and independence. High-quality audits are expected to detect and prevent fraud or manipulation of financial statements and foster public trust.

4. Auditor Independence

Independence is a fundamental principle in the public accounting profession. According to Mansouri et al. (2009), auditor independence is independence in mind and appearance. Auditors must be free from external pressures to make objective professional judgments.

Study Suyono, Yi and Riswan (2012) stated that independence is one of the main factors influencing audit quality. Similarly, Fawziah et al. (2023) found in their research that a long-term relationship between auditor and client can reduce auditor skepticism and negatively impact audit quality.

5. Auditor Competence

Competence encompasses the technical knowledge, skills, training, experience, and specialization required to perform an audit effectively. Hermanson et al. (1993) and Gul et al. (1994) state that competence is a key requirement for producing a high-quality audit.

According to Salehi, Fakhri Mahmoudi and Daemi Gah (2019), less competent auditors will be more easily influenced by client management, resulting in decreased audit quality. Similar results were also found in a meta-analysis study by Salehi et al. (2019), which confirmed that industry specialization and audit firm size have a positive relationship with audit quality.

6. Contextual Factors

Contextual factors such as time pressure, motivation, and locus of control can influence the effectiveness of auditor independence and competence in carrying out their duties. In research by Aswar et al. (2021), it was found that time budget pressure did not significantly moderate the relationship between independence/competence and audit quality, but still influenced the auditor's psychological burden.

Fawziah et al. (2023) also identified that auditors with an internal locus of control tend to be more independent and better able to maintain audit professionalism.

RESEARCH METHODOLOGY

Types of research

This research is a qualitative study using a systematic literature review approach. The purpose of this method is to evaluate, synthesize, and compare the results of previous research that discusses the relationship between auditor independence, auditor competence, and audit quality.

This approach is in line with the method used in the meta-analytic study by Salehi et al. (2019), which emphasized the importance of systematically collecting and synthesizing relevant studies to gain a comprehensive understanding of a topic.

Data Acquisition Method

Data source

The data used in this study is secondary data, namely scientific articles published in reputable national and international journals.

Inclusion and Exclusion Criteria

Inclusions: Articles discussing the variables of auditor independence, auditor competence, and audit quality; publications from 2000–2023; scientific and peer-reviewed journals.

Exclusions: Non-scientific articles, articles not fully available, or articles outside the topic being researched.

Data Collection Procedures

Literature search using keywords: "audit quality", "auditor independence", "auditor competence", "audit effectiveness"

Initial selection is done based on the title and abstract.

Relevant articles were analyzed in depth for content, variables, methods, and key findings.

Compilation of literature matrix (author, year, objectives, methods, findings)

Analysis Method

Content Analysis (Content Analysis)

Used to identify themes and patterns from the content of collected articles. This method is commonly used in literature studies to evaluate the relationships between variables studied narratively (Bowen, 2009).

Thematic Analysis (Thematic Synthesis)

This is done by grouping findings based on certain themes, namely:

The effect of independence on audit quality

The influence of competence on audit quality

Moderating factors (time pressure, regulation, locus of control)

Differences and consistency of findings between studies

Literature Synthesis and Research Gap Identification

The results of the analysis were used to synthesize, summarize trends in previous research, and identify research gaps for proposed further research. This technique is similar to the approach used by Fawziah et al. (2023) in their review study.

DISCUSSION

1.1 Research result

After conducting a search and evaluation of more than 20 academic articles from various countries and organizational contexts, the following findings were obtained:

1. Auditor Independence

Independence is the element most consistently cited as a determinant of audit quality. Independent auditors are better able to maintain objectivity and are less influenced by client pressure (DeAngelo, 1981; Suyono, 2012).

Research by Fawziah et al. (2023) found that auditor independence contributes significantly to improving audit quality, especially in the context of long-term auditor-client relationships that risk obscuring objectivity.

2. Auditor Competence

Auditor competence includes technical knowledge, experience, and professional training. Competent auditors are better able to detect material errors and formulate appropriate audit opinions (Mansouri et al., 2009; Salehi et al., 2019). Fawziah et al. (2023) stated that high competence increases auditors' professional skepticism and assessment accuracy in the audit process.

3. Moderating Factors (Contextual)

Research shows that contextual factors such as locus of control, time budget pressure, and regulatory strength can moderate the relationship between independence/competence and audit quality. Fawziah et al. (2023) showed that auditors with an internal locus of control are better able to maintain their independence in stressful situations. Meanwhile, Aswar et al. (2021) stated that time pressure (budget pressure) can disrupt auditor professionalism and reduce audit quality.

4. Variation of Findings

Research findings differ across countries and contexts. For example, studies in Iran and Bahrain found that audit firm size and corporate governance influence perceptions of audit quality (Al-Ajmi, 2009; Salehi et al., 2019). In Indonesia, ethical factors and social pressure also emerged as determinants (Suyono, 2012; Intan et al., 2023).

4.2 Hypothesis Testing Results (Based on Literature Synthesis)

Hypothesis	Conclusion Results	Literature Support
H1: Auditor independence has a positive effect on audit quality.	Supported	DeAngelo (1981); Suyono (2012); Fawziah et al. (2023)
H2: Auditor competence has a positive effect on audit quality.	Supported	Mansouri et al. (2009); Salehi et al. (2019); Fawziah et al. (2023)
H3: Contextual factors moderate the relationship between	Partially supported	Fawziah et al. (2023) – locus of

independence/competence and audit quality.		control; Aswar et al. (2021) – time pressure
H4: There is variation in results between studies	Supported	Salehi et al. (2019); Al-Ajmi (2009); Johnson et al. (2002)

4.3 Discussion

The analysis shows that auditor independence and competence are two key pillars in determining audit quality. This is consistent with agency theory, which emphasizes the importance of auditors in mitigating conflicts of interest between management and owners, and resource dependence theory, which views auditors as a crucial external resource in supporting a transparent financial reporting system.

Fawziah et al.'s (2023) research provides contextual evidence that auditor independence in Indonesian practice is often influenced by long-term client relationships, social pressure, or economic interests. This reinforces the warning that independence should not only be formal but also be strengthened through the auditor's professional attitudes and behaviour.

In terms of competency, most previous studies agree that education, experience, and ongoing training significantly influence an auditor's ability to detect errors and produce a reliable opinion (Mansouri et al., 2009; Salehi et al., 2019). However, the results of Aswar et al. (2021) challenge this conclusion by showing that high competency can be reduced in impact if the auditor works under high time pressure.

Furthermore, the differences in results between studies confirm that there is no single, universal formula for ensuring audit quality. Local contexts such as regulatory strength, professionalism, organizational culture, and audit market structure are highly influential. Therefore, agency theory and resource dependence theory must be viewed dynamically and contextually, rather than as rigid approaches.

5. Conclusion and Suggestions

5.1 Conclusion

Based on the results of the literature review and synthesis, it can be concluded that:

- a. Auditor independence has been proven to be a critical factor significantly influencing audit quality. When auditors are able to maintain objectivity and freedom from client pressure, the reliability of audit results increases.
- b. Auditor competencies that include technical abilities, work experience, and professional training have a positive influence on audit effectiveness, especially in detecting misstatements and implementing appropriate audit procedures.
- c. Contextual factors such as locus of control, time pressure, and regulatory systems have been shown to act as moderators, strengthening or weakening the relationship between independence and competence on audit quality.

- d. There are inconsistencies in the results between previous studies, which show that the influence of independence and competence is not universal, but rather depends on the institutional and social conditions of the audit environment.

5.2 Suggestion

- a. For Practitioners (Auditors and Public Accountants):
 1. Maintaining auditor independence professionally and psychologically, including refusing long-term relationships that risk creating conflicts of interest.
 2. Enhance competency through ongoing training and industry specialization to address increasingly complex audit challenges.
 3. Manage time budget pressure with efficient audit project management, so that audit quality is not compromised.
- b. For Regulators and Professional Associations:
 1. Strengthening regulations on auditor independence and rotation, and overseeing the implementation of codes of ethics and professional standards.
 2. Provide incentives and systemic support for continuing education programs and competency certification for both public and internal auditors.
- c. For Further Researchers
 1. It is recommended to conduct quantitative empirical research based on primary data with a multivariate approach to test causal relationships more strongly.
 2. Adding other variables such as professional ethics, client pressure, organizational culture, and digitalization of audit as factors that may be relevant in the modern context.

CONCLUSION

This literature review concludes that audit quality is determined by a complex interplay of various factors, both internal and external to the auditing process. Key determinants include auditor independence, professional competence, audit firm size, audit tenure, and the regulatory environment. Auditor-related attributes, such as experience and ethical standards, significantly enhance audit credibility, while external oversight and robust regulatory frameworks ensure accountability and consistency. Additionally, client characteristics – such as company size, governance structure, and financial complexity – also affect the auditor's ability to perform high-quality audits. Understanding these determinants provides valuable insights for regulators, practitioners, and academics in their efforts to strengthen audit practices and improve the reliability of financial reporting. Future research is encouraged to explore emerging factors such as the role of technology and data analytics in enhancing audit quality.

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