

The Effect of Audit Quality, Corporate Governance, Transformational Leadership on Organizational Commitments, Organizational Culture and Auditor Performance: Study on Public Accountant Offices in Indonesia

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ABSTRACT

This study aims to examine the influence of audit quality, good governance, transformational leadership, organizational commitment and organizational culture on the performance of auditors in public accounting firms in East Java empirically. This research model is quantitative, with a population of 660 public accounting firms in Indonesia, with a sample of 200 active auditors in East Java. Data collection techniques with the documentation of the questionnaire, data analysis using Structural equation modelling (SEM) analysis. The results found that audit quality, good corporate governance, transformational leadership, organizational commitment and organizational culture significantly influence auditor performance. This research has implications for audit quality, good corporate governance, strategic leadership, organizational commitment and organizational culture on the performance of auditors in public accounting firms in East Java. This study shows a positive and significant effect of audit quality, good corporate governance, transformational leadership, organizational commitment, organizational culture on auditor performance in public accounting firms in East Java.

Key Words: *Audit Quality, Good Corporate Governance, Transformational Leadership, Organizational Commitment, Organizational Culture, Auditor Performance.*

1. INTRODUCTION

An excellent auditor performance will increase public confidence in the accounting profession. However, if the auditor commits behaviour that damages the image of the public accountant profession, the public will no longer trust the public accountant. In recent years there has been a decline in public confidence in business and political leadership. That is indicated by the various cases that occur such as corruption, illegal practices by company leaders, and incompetent professionals. Cases of violations in the auditor profession have been carried out, ranging from the Enron case in the United States in 2001 to the Telkom case in Indonesia, thus making the auditor's credibility increasingly questionable [1]. Auditor performance is a manifestation of work performed in order to achieve better or more prominent work towards the achievement of organizational goals. The auditor's demanded to provide a good auditor's performance cannot be separated from the results of his performance, which to provide good audit quality in every examination. The emergence of the PT Garuda Indonesia case in 2019 occurred because the company reported revenue that should be reported as Receivables, so the company did not comply with financial accounting standards, but the public accountant gave a reasonable opinion without exception.

Good governance will be able to improve the performance of auditors in carrying out assignments in the field, especially in making inspection work papers. Good governance includes aspects of fairness, transparency, accountability and responsibility as well as independence. Trisnarningsih's research [1] states that good corporate governance does not significantly influence auditor performance. On the other hand, Htay [3] states that good corporate governance has a significant effect on the performance of the Malaysian stock exchange for sharia and non-sharia companies. Outa and Waweru [4] states that good corporate governance has a significant effect on the financial performance of companies in Kenya. Abidin [5] examines good

corporate governance on auditor performance with the results showing that good corporate governance has a significant effect on auditor performance.

Bass[6] examined the transformational leadership style on performance with the results of transformational leadership can improve performance. Transformational leadership style develops individual desires, follows the leader's vision efficiently, becomes a source of satisfaction among followers, the leader changes the beliefs, values and behaviour of followers so that it is consistent with the organization's vision. Followers participate in goal setting, problem-solving, decision making, leaders giving direction, consultation, guidance, monitoring tasks.

Meyer and Allen [7] state that organizational commitment consists of affective commitment, continuous commitment and normative commitment. Organizational commitment is defined as a combination of attitude and behaviour. Organizational commitment concerns identifying with organizational goals, a sense of involvement with organizational tasks and a sense of loyalty to the organization (Allen and Meyer 1996) [8]. Mathis and Jackson (2002)[9] state that organizational commitment is where employees believe and accept organizational goals and will remain and will not leave the organization. Benkhoff(1997) [10] defines commitment as employee acceptance of organizational values, psychological involvement and loyalty. If the auditor feels his soul is bound to the values of the organization, it will feel happy at work so that performance can improve. Yousef [11] examined organizational commitment that mediated leadership style with performance on 430 individual workers in the United Arab Emirates, the results showed that there was a relationship between organizational commitment and performance. Unlike the research of Kalbers and Cenker [12] that organizational commitment is less critical concerning the performance of auditors in public accounting firms.

Gibson et al [13] defines organizational culture as a unique system of belief values and norms, shared by members of an organization. Organizational culture can be a positive and negative force in achieving effective organizational performance. Positive cultural behaviours and attitudes include diligence, perseverance, work habits starting from sunrise to sunset with a real break in the afternoon. The cultural attitude of cooperation, suave, tenacious, without giving up quickly, while the negative culture of dishonest behaviour, undisciplined and not confident. The research of Shafiq [14] states that organizational culture influences organizational performance. Nikpour's research [15] states that organizational culture has a significant effect on organizational performance. Kamamia's research [16] states that organizational culture has a significant effect on performance. Unlike the research of Ilis, Sormas and Gavric (2016) [17] that organizational culture has negative impact on organizational performance. Based on the description above and the inconsistencies in previous research, it is necessary to examine the effect of audit quality, good corporate governance, transformational leadership, organizational commitment and organizational culture on auditor performance in public accounting firms in East Java, Indonesia.

2.LITERATURE REVIEW

2.1 Auditor's Performance

According to Trisnarningsih [1] states that the auditor's performance is the work of both quantity and quality also time precis by someone in handling their duties following the responsibilities given to him by using adequate experience, expertise and technical training. According to Mulyadi [18], auditor performance is a public accountant who carries out an objective inspection assignment of the financial statements of a company or organization to determine whether the financial statements present following accepted accounting principles, in all material respects, positions financial and results of operations of a company.

2.2 Conceptual Framework and Hypothesis Development

Agency theory [19] states that principals delegate authority to agents to manage company funds properly. The final result is the accountability of financial statements that have been audited by public accountants about the fairness of financial statements under generally accepted accounting principles (accounting standards finance). The following contractual theory states that there is a contractual relationship between partner/manager and client in auditing relationships with the company's client's financial statements in terms of the balance of the financial statements by applicable financial accounting standards. Figure 1 shows a conceptual framework model.

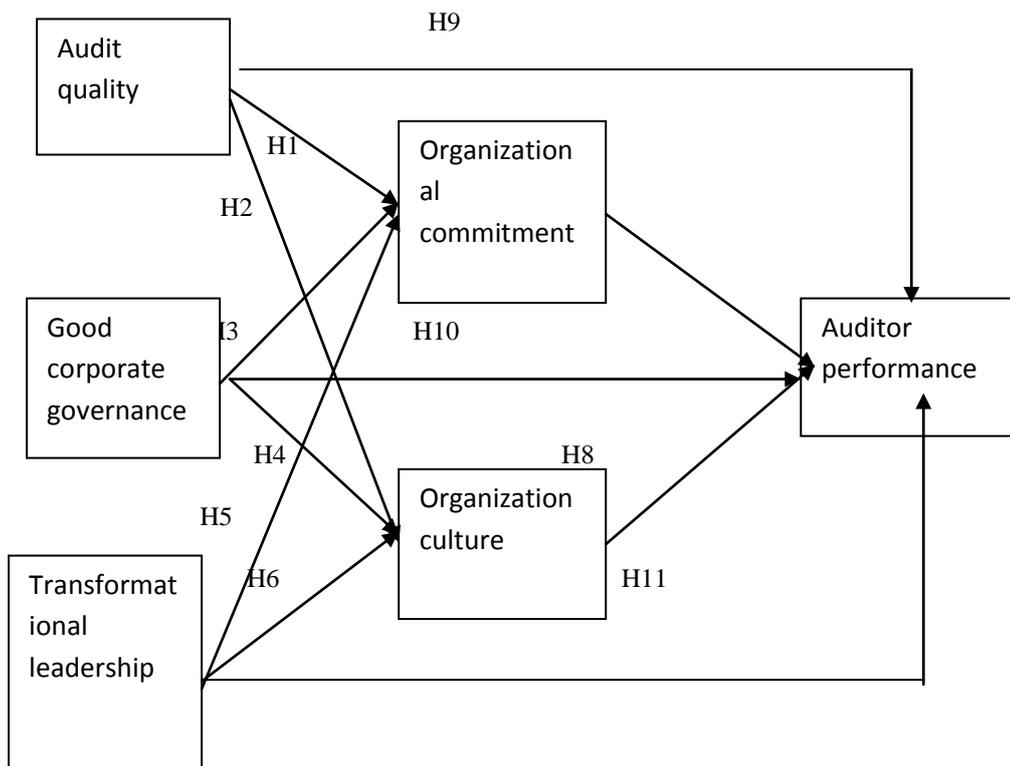


Figure 1: Research conceptual framework

Hypothesis

- H1: Audit quality affect the organizational commitment
- H2: Good corporate governance influences organizational commitment
- H3: Transformational leadership style affects organizational commitment
- H4: Audit quality has a profound effect on the culture of the organization
- H5: Good corporate governance affects the organizational culture
- H6: Transformational leadership styles affect organizational culture
- H7: Organizational commitment influences auditor performance
- H8: Organizational culture influences auditor performance
- H9: Audit quality influences auditor performance
- H10: Good corporate governance influences auditor performance
- H11: Transformational leadership style affects the auditor's performance.

2.3 Audit Quality

DeAngelo [20] defines audit quality as the auditor's probability to find errors in the client's financial statements and report to the users of the financial statements. Tandiantong [21] defines audit quality as the probability that the auditor will not report an audit report with an unqualified opinion for financial statements that contain material errors, and audit quality is the accuracy of accounting information reported by the auditor. Audit quality is defined as whether or not the quality of work of an auditor in performing services provided to his clients. Auditors will have an excellent quality of work if they conduct audits following Auditing standards (ISA) in compliance with the Indonesian accountant's code of ethics and peer review by peers and the quality control system. The quality of auditors, according to Neely & Brown [22], which is divided into three groups, namely (1) audit professionals, (2) audit processes and (3) audit results.

2.4 Good corporate governance

The main principles of good corporate governance, according to the Organization for Economic Cooperation and Development (OECD) are:

- (1) Fairness: means that the public accountant in providing opinions on the reasonableness of the audited financial statements, must act independently and uphold justice to the interests of the client, the users of the financial statements, as well as to the interests of the public accountant itself.
- (2) Transparency: means that public accountants should strive to be always transparent about financial statement information obtained from clients.
- (3) Accountability: means that public accountants must explain their roles and responsibilities in carrying out their examinations and discipline in completing auditing and reporting work.
- (4) Responsibility: means that public accountants must adhere to generally accepted accounting principles and professional standards of public accountants during their profession.
- (5) Independence: means that public accountants must be independent, impartial and not easily influenced by others in carrying out the profession.

2.5 Transformational leadership

Leadership style (leadership style) is a way for leaders to influence other people/subordinates in such a way that the person wants to do the will of the leader to achieve organizational goals even though personally it may not be liked [23]. Transformational leadership style develops individual desires, follows the leader's vision efficiently, becomes a source of satisfaction among followers, the leader changes the beliefs, values and behaviour of followers so that it is consistent with the organization's vision. Followers participate in goal setting, problem-solving, decision making, leaders giving direction, consultation, guidance, monitoring of tasks given towards high performance.

2.6 Organizational commitment

Organizational commitment is defined as a psychological state that describes an employee's relationship with the organization or its implications that affect whether employees will remain in the organization or not [7]. Which are identified in three components: affective commitment, continuous commitment and normative commitment. Organizational commitment is defined as a combination of attitude and behaviour. Organizational commitment involves three attitudes, namely: a sense of identifying with organizational goals, a sense of involvement with organizational tasks, and a sense of loyalty to the organization. Meer and Allen [7] state that organizational commitment is the power of individuals in organizational involvement including trust, support for organizational values and goals, a strong desire for the interests of the organization, a strong willingness to maintain and continue membership in the organization. Mathis and Jakson (2002) [9] state that organizational commitment is where employees believe and accept the goals of the organization and will remain | and will not leave the organization.

2.7 Organizational culture

Gibson et al [13] define organizational culture as a unique system of values, beliefs and norms, shared by members of an organization. Organizational culture can be a positive and negative force in achieving effective organizational performance. Positive cultural behaviours and attitudes include diligence, perseverance, work habits starting from sunrise to sunset with a short break during the day. The cultural attitude of cooperation, hospitality, tenacity, without giving up quickly, while the negative culture of dishonest behaviour, undisciplined, not confident.

3. METHODOLOGY

A survey method was employed, where the population was 448 public accounting firms with 1058 auditors in Indonesia with purposive sampling obtained as many as 200 auditors from the population using a questionnaire as a basis for data collection. Source of data is primary data from public accounting firms in East Java as respondents. As a sample are Hari Purnomo Jaswadi Abdullah's public accountant office, Doli BSDA, Supriyadi, Nasikin, Made TD, Toufan SR, Achsin, Benny TTD, Sendi Cahyadi, Drs. Adi Darmawan, Drs. Arief HP and Partners, Buntaran and Lisawati, Maroeto, Farizna, Thomas, Basri, Setijawati. Data analysis techniques using Structural Equation Model (SEM) with reliability, validity, classic assumption test and SEM test. Measurement techniques using a 5-point Likert scale with 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = strongly disagree.

4. FINDINGS AND DISCUSSION

4.1 Path Analysis Results and discussion

The test results of the influence of exogenous variables on Endogenous variables are as follows:

Table 1. Path Analysis Test Result

Variable		Path Coefficient	Partial Hypothesis		Conclusion
Exogenous	Endogenous		t-value	p-value	
Audit Quality (X1)	Organizational Commitment (Y1)	0.276	3.990	0.000	Significantly influence
Good Corporate Governance (X2)		0.402	6.140	0.000	Significantly influence
Transformational Leadership Style (X3)		0.268	4.117	0.000	Significantly influence
Audit Quality (X1)	Organizational Culture (Y2)	0.323	3.960	0.000	Significantly influence
Good Corporate Governance (X2)		0.164	2.129	0.035	Significantly influence
Transformational Leadership Style (X3)		0.369	4.807	0.000	Significantly influence
Audit Quality (X1)	Auditor Performance (Y3)	0.106	1.870	0.063	Not Significantly influence
Good Corporate Governance (X2)		0.129	2.340	0.021	Significantly influence
Transformational Leadership Style (X3)		0.119	2.187	0.030	Significantly influence
Organizational Commitment (Y1)		0.504	8.001	0.000	Significantly influence
Organizational Culture (Y2)		0.166	3.115	0.002	Significantly influence

Furthermore, the picture above can also be stated in the form of an equation as follows:

- $Y_1 = 0,276X_1 + 0,402 X_2 + 0,268 X_3$
- $Y_2 = 0,323X_1 + 0,164 X_2 + 0,369 X_3$
- $Y_3 = 0,106X_1 + 0,129 X_2 + 0,119 X_3 + 0,504Y_1 + 0,166Y_2$

Furthermore, testing the hypotheses of each path is described as described below:

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Audit Quality (X1) to Organizational Commitment (Y1) where the Path coefficient is known to be 0.276 with a p-value of 0.000. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that Audit Quality (X1) has a Significant Effect on Organizational Commitment (Y1).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Good Corporate Governance (X2) on Organizational Commitment (Y1) where the Path coefficient is known to 0.402 with a p-value of 0.000. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that Good Corporate Governance (X2) has a Significant Effect on Organizational Commitment (Y1).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Transformational Leadership Style (X3) on Organizational Commitment (Y1) where the Path coefficient is known by 0.268 with a p-value of 0,000. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that the Transformational Leadership Style (X3) has a Significant Effect on Organizational Commitment (Y1).

Based on the table above it can be seen the results of estimation and hypothesis testing on the Audit Quality variable (X1) on Organizational Culture (Y2) where the Path coefficient is known to 0.323 with a p-value of 0,000. Because the p-value is

smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that Audit Quality (X1) has a Significant Effect on Organizational Culture (Y2).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Good Corporate Governance (X2) on Organizational Culture (Y2). Where known Path coefficient of 0.164 with a p-value of 0.035 Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that Good Corporate Governance (X2) has a Significant Effect on Organizational Culture (Y2).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Transformational Leadership Style (X3) to Organizational Culture (Y2) where the Path coefficient is known to 0.369 with a p-value of 0.000. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that the Transformational Leadership Style (X3) has a Significant Effect on Organizational Culture (Y2).

Based on the table above it can be seen the results of estimation and hypothesis testing on the Audit Quality variable (X1) on Auditor Performance (Y3). Where the Path coefficient is known to 0.106 with a p-value of 0.063 Because the p-value is smaller than alpha (0.05), then the statistical hypothesis states that Ho is rejected, meaning that Audit Quality (X1) is influential, but not Significant to Auditor Performance (Y3).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Good Corporate Governance (X2) on Auditor Performance (Y3). Where the Path coefficient is known to 0.129 with a p-value of 0.021 Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that Good Corporate Governance (X2) has a Significant Effect on Auditor Performance (Y3).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Transformational Leadership Style (X3) on Auditor Performance (Y3). Where the Path coefficient is known to 0.119 with a p-value of 0.03 Because the p-value is smaller than alpha (0.05), then the statistical hypothesis states that Ho is rejected, meaning that the Transformational Leadership Style (X3) has a Significant Effect on Auditor Performance (Y3).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Organizational Commitment (Y1) on Auditor Performance (Y3) where the Path coefficient is known to be 0.504 with a p-value of 0,000. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that Organizational Commitment (Y1) has a Significant Effect on Auditor Performance (Y3).

Based on the table above it can be seen the results of estimation and hypothesis testing on the variable Organizational Culture (Y2) on Auditor Performance (Y3). Where the Path coefficient is known to 0.166 with a p-value of 0.002 Because the p-value is smaller than alpha (0.05), then the statistical hypothesis states that Ho is rejected, meaning that Organizational Culture (Y2) has a Significant Effect on Auditor Performance (Y3).

4.3 Analysis of the indirect effect of the intervening test results

Furthermore, to find out how the indirect effect is then multiplying the path coefficient between sub-structures.

Table 2. Indirect Effects Between Variables

Indirect Effect	Calculation	Results	t statistics	Information
Audit Quality (X1) on Auditor Performance (Y3) through Organizational Commitment (Y1)	0.276 x 0.504	0.139	3.571	Significant
Good Corporate Governance (X2) on Auditor Performance (Y3) through Organizational Commitment (Y1)	0.402 x 0.504	0.203	4.871	Significant
Transformational Leadership Style (X3) on Auditor Performance (Y3) through Organizational Commitment (Y1)	0.268 x 0.504	0.135	3.661	Significant
Audit Quality (X1) on Auditor Performance (Y3) through Organizational Culture (Y2)	0.276 x 0.166	0.046	2.448	Significant

Indirect Effect	Calculation	Results	t statistics	Information
Good Corporate Governance (X2) on Auditor Performance (Y3) through Organizational Culture (Y2)	0.402 x 0.166	0.067	1.758	Not-Significant
Transformational Leadership Style (X3) on Auditor Performance (Y3) through Organizational Culture (Y2)	0.268 x 0.166	0.044	2.614	Significant

As illustrated on the table above, it is known that the indirect effect between variables is as follows. The indirect effect of Audit Quality (X1) on Auditor Performance (Y3) through Organizational Commitment (Y1) is 0.139 with a t value of 3.571 (Significant). The indirect effect of Good Corporate Governance (X2) on Auditor Performance (Y3) through Organizational Commitment (Y1) is 0.203 with a t value of 4.871 (Significant). The indirect effect of the Transformational Leadership Style (X3) on Auditor Performance (Y3) through Organizational Commitment (Y1) is 0.135 with a t value of 3.661 (Significant). The indirect effect of Audit Quality (X1) on Auditor Performance (Y3) through Organizational Culture (Y2) is 0.046 with a t value of 2.448 (Significant). The indirect effect of Good Corporate Governance (X2) on Auditor Performance (Y3) through Organizational Culture (Y2) is 0.067 with t value 1.758 (Not Significant). The indirect effect of the Transformational Leadership Style (X3) on Auditor Performance (Y3) through Organizational Culture (Y2) is 0.044 with a t value of 2.614 (Significant).

5. CONCLUSION

The conclusion of this study is audit quality, good corporate governance, and transformational leadership style can increase organizational commitment with high loyalty from auditors. Those also can improve a better culture, especially in the decision making by partners/managers in all matters relating to audit assignments so that auditor performance will be better and beneficial for their reputation.

6. CONTRIBUTIONS AND IMPLICATIONS

This research is useful for auditors in auditing client financial statements to comply with public accounting standards so that audit quality can be achieved. Implementing sound corporate governance so that performance can be achieved following the vision and mission of the organization. Leadership by the vision and mission of the organization, organizational commitment with high loyalty, and organizational culture that has the power to make decisions by partners/managers so that auditor performance will be better.

The impact of this research is that the partners/managers will provide improvements in organizing public accounting firms and provide facilities to auditors who conduct audits in the field. Hence the auditors could work optimally under auditing and financial accounting standards in Indonesia to achieve excellent performance.

7. LIMITATIONS

This research is limited to audit quality, good corporate governance and transformational leadership on auditor performance and organizational commitment and organizational culture in public accounting firms in Malang and Surabaya East Java Indonesia with a sample of 150 auditors.

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