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DOI: [10.22219/jrak.v10i3.14087](https://doi.org/10.22219/jrak.v10i3.14087)

Citation:

Fitriany, Darmawan, A., Wibowo, A., Ali, S., & Praptoyo, S. (2020). Does The Implementation Of SA 600 Cause Shifting Of Audit Clients And Reducing Audit Quality ? Evidence From Indonesia. *Jurnal Reviu Akuntansi dan Keuangan*, 10(3), 398-413.

Article Process

Submitted:

October 26, 2020

Reviewed:

November 4, 2020

Revised:

December 21, 2020

Accepted:

December 22, 2020

Published:

December 26, 2020

Office:

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Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
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P-ISSN: 2615-2223

E-ISSN: 2088-0685

Article Type: Research Paper

DOES THE IMPLEMENTATION OF SA 600 CAUSE SHIFTING OF AUDIT CLIENTS AND REDUCING AUDIT QUALITY ? EVIDENCE FROM INDONESIA

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ABSTRACT

This research was conducted to investigate the impact of implementation of SA 600 on shifting of audit clients and reducing of audit quality in Indonesia. SA 600 was issued in 2013 in order to mitigate the problem of audit failure in group entities where the group auditor is responsible for the entire audit process, particularly the audit quality in component entities or subsidiaries. In its implementation, SA 600 has received several complaints related to audit quality and shifting of audit clients.

The research method is using primary data from questionnaires that was distributed to auditors and focus group discussions with auditors and users. The respondents of this research are 367 auditors of which 63% were audit partners. This research found that SA 600 can improve audit quality when its implementation is carried out according to audit standards. However, the implementation of SA 600 has an impact on the shifting of component or subsidiary company clients which move to the group or parent company auditors.

KEYWORDS: Audit Quality; Group Audit; SA 600;
Shifting Of Audit Clients.

INTRODUCTION

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Conducting audits of financial statements on conglomerate entities (groups) presents a challenge in itself, where the larger the group entity, the greater the complexity that leads to collaboration and communication between many auditors in many different locations. Difficulties like this are common, in several incidents there has been a phenomenon of financial scandals that take place in large companies around the world such as Parmalat in Italy, one of the causes is due to the subsidiaries' low audit quality (Carson, Simnett, Trompeter, & Vanstraelen, 2014). In other words, parent companies' auditors (group auditors) depend on the work of the subsidiaries' auditors (component auditors) too much without adequate supervision, therefore the weaknesses in the quality of audit work performed by the component auditor can not be detected by the group auditors.

When audit clients operating in many countries, group auditors often rely on work performed by other auditors. PCAOB has expressed concern that the quality of the group audit may differ depending on whether the group auditor accepts or rejects responsibility for work performed by other auditors. That is why International Auditing and Assurance Standards Board (IAASB) had responded to this concern by issuing (atau had issued) International Standard on Auditing (ISA) number 600 which regulates the group auditors' responsibilities to work performed by component auditors.

SA 600 states that the group auditors are fully responsible for all consolidated financial statements including financial statements of the subsidiaries which are audited by the component auditors which in Indonesia, ISA 600 has been adopted by the Indonesian Institute of Certified Public Accountants (IAPI) in the Professional Standards for Public Accountants (SPAP), namely through the Standard on Auditing (SA) 600 on Special Considerations - Audit of Group Financial Statements (Including Component Auditor Work) which is effective 1st January 2013 (for Issuers) and 1st January 2014 (for entities other than Issuers). The group engagement team should consider when determining the nature, timing, and extent of the group their involvement in the risk assessment procedures and follow-up audit procedures that the component auditor has performed on the subsidiaries' financial statements. Where the purpose of this engagement is to obtain sufficient appropriate audit evidence on which to underlie the audit opinion on the group financial statements. , Ettredge, and Stone (2019) found that the group auditor who accepts the engagement will charge a higher audit fee but the quality of the audit provided is remain the same and even may lower. Previous research has shown that common problems with interdependent teams on conducting group audits are coordination and communication amongst the group and component auditors (Downey & Bedard, 2019).

SA 600 describes matters that the group engagement team should consider when determining the nature, timing and extent of the group engagement team's involvement in the risk determination and follow-up audit procedures the component auditor has performed on the component's financial statements. Where the purpose of this engagement is to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements. However, Stewart and Kinney Jr (2013) found that SA 600 does not determine the exact amount of component materiality, they also find that the methods that were used in practice are varied. Stewart and Kinney Jr (2013) argue that because of the lack in determining the exact amount of component materiality, SA 600 may fail to meet the audit objectives or require expensive cost to achieve the audit objectives.

The application of SA 600 can also have an impact on the market share of the Public Accounting Firm (KAP) in Indonesia. The implementation of SA 600 created a shifting of clients from component auditors to group auditors. This occurs because the group auditors prefer to audit all component entities directly to minimize the risk of being liable for audit failures. Hence, in this condition, it can lead to the bundling price of audit fees that include audits of the parent and subsidiary entities. Moreover, Rahmansyah and Fitriany (2020), found that there was a tendency of increasing market share of Big Four on audit services industry after the implementation of SA 600 and audit quality increase.

Impink, Lyubimov, and Prasad (2020) examines whether there are differences in investors' perceptions of earnings quality if the company uses component auditors in addition to group auditors. The results of his research found that informative earnings were lower for group audits conducted by audit firms associated with global networks. However, these findings are only relevant for companies that are domiciled outside the US. Nevertheless, Hux (2018) found that investors consider audit team to be more trustworthy when component auditors are not being involved and very few investor utilize component auditor information, thus the audit team's competency perceptions and investment behavior are not influenced by the use of component auditors' work. Hence, it can be said that the results of previous research still show that there are differences in perceptions regarding the use of component auditors.

Given the importance of an audit quality, the impact of accounting standards' impact needs to be discussed as this will determine the quality of the financial statements that will be utilized by users (DeFond & Zhang, 2014). However, the definition of audit quality itself is still a matter of debate by academics, practitioners and regulators. The International Federation of Accountants (IFAC) as an international accounting organization acknowledges that there has been no agreement regarding what is meant by audit quality. Apart from IFAC, the United Kingdom Financial Reporting Council (UK FRC) as the regulator in the UK also stated that there was no mutual agreement regarding the definition of audit quality which could be used as a standard to assess current conditions. The absence of consensus regarding the definition of audit quality has resulted in interested parties such as professional associations and regulators to assess audit quality indicators through proxies, for example, IFAC published a framework for audit quality consisting of five factors, i.e., input, process, output, and interaction among the parties involved in the financial reporting chain, and contextual factors. Fitriany, Martani, Rahmah, and Anggraita (2019) also classifies various determinants of audit quality based on the findings of various previous studies.

In the context of group audit, the consolidated financial statements' audit quality is also affected by the its components' audit quality or the audit quality of the subsidiaries' financial statements (especially on input, process, output factors). Therefore, in an audit of group financial statement, it is expected that the group auditor can minimize audit risk, which is a combination of risks for the risk of material misstatement of financial statement because of error or fraud and the inherent risk that the auditor cannot detect a material misstatement. Where in a group audit, that audit risk includes the risk that the component auditors might not detect material misstatement in the component's (subsidiary's) financial information that could cause material misstatement in the group (consolidated) financial statements.

Furthermore, Carson et al. (2014) also found that group audits involving other component auditors would increase the audit fee but no improvement of audit quality. Burke, Hoitash,

and Hoitash (2020) found that the use of the component auditor is largely determined by the size and complexity of the client's multinational operations. Furthermore, Fitriany, Anggraita, Mita, and Indriani (2020) examined the impact of implementing SA 600 on the audit market share in Indonesia from 2011 to 2016 (1,205 subsidiaries data annually). The results showed that Big 4 market share increased by 4.85%, the second tier audit firms market share also increased 1.74%, while the small audit firm's market share decrease by 6.56%. This finding is consistent with the complaints from many small audit firms that have experienced decrease in the number of clients due to the implementation of ISA 600.

In Australia, Carson et al. (2014) conducted a study to investigate the impact of the involvement of component auditors on audit quality and found that involving other independent auditors who act as component auditors in the group audit would make audit quality become lower. This result also implies that the requirements in ISA 600 have not been implemented optimally. This could be due to the fact that group auditors rely too much on the audit results of component auditors who are their affiliates. Furthermore, Carson, Simnett, Thuerheimer, Vanstraelen, and Trompeter (2019) also investigated the impact of revised international auditing standards on audit quality and costs. The existence of this standard revision reduces the involvement of unaffiliated auditors, but the involvement of component auditors is associated with decreased audit quality and higher costs.

Similarly, Dee, Lulseged, and Zhang (2015) also inferred that audit quality was decreasing when component auditors were involved in group audits in the United States. Demek, Kaplan, and Winn (2020) conducted experiments examining the joint effect of using other auditors. The results show that investors perceive that audit quality is very low when the group auditor uses the work of other auditors. These results are consistent with the findings of Burke et al. (2020) which not only found that the use of component auditors would only be detrimental to the audit results, but would also lead to lower audit quality due to higher likelihood of misstatement and higher audit costs. Carson, Simnett, Vanstraelen, and Trompeter (2016) find that the quality of MNE group audits involving other auditors from the same network was lower, this did not appear to be affected by the revision of ISA 600. Moreover, group audits involving other auditors would be more costly. Nevertheless, there was no evidence of an increase in audit fees associated with these regulatory initiatives.

Furthermore, Sunderland and Trompeter (2017) examines the problems faced in conducting global group audits, group audits and the use of component auditors. Sun, Wang, Kent, and Qi (2020) examined the impact of sharing the same network auditors among group affiliated firms on audit quality. The results found that audit quality will be higher if specialist auditors are used and will be lower if the auditor's tenure is longer.

In Indonesia, Rahmansyah and Fitriany (2020) also conducted research with the aim of exploring the effect of SA 600 implementation on audit quality and its implications for increasing Big Four's audit market share. The data is obtained from the consolidated financial statements of companies listed on the Indonesian stock exchange for the years of 2012 and 2014. The regression results prove that the implementation of SA 600 significantly increase audit quality. In addition, there is a tendency that after the implementation of ISA 600, the Big Four's market share increases because many subsidiaries move to auditors who audit the parent company which is usually the Big 4. Izzati and Anggraita (2020) examines empirically whether the involvement of component auditors from other public accounting firms will affect audit quality. This study found that

the involvement of other auditors as component auditors decreases discretionary accruals and thereby improves audit quality. But, on the contrary, Pati and Fitriany (2020) conducted research on 1,205 listed companies that made consolidated finance statement and 6,065 subsidiaries (from 2012 to 2016) regarding the impact of ISA 600 on the shifting of audit clients. The results shows that the implementation of SA 600 causes audit quality to decline in Indonesia. The research also found that there is a tendency that clients which are subsidiary companies moved to group auditors after the implementation of SA 600. So, the result is still mixed.

The difference between this research and previous research is that previous research usually used secondary data and quantitative methods, while this research was conducted by distributing questionnaires to auditors and FGD (focus group discussion) to determine the perceptions of auditors and audit client regarding the impact of the implementation of SA 600 on audit quality and the shifting of audit clients in Indonesia. It is expected that this study can answer why the previous results were still inconclusive.

SA 600 states that auditors of group companies are responsible for providing direction, supervision, and implementation of group audit engagements. The responsibility is emphasized on the group auditor, thus the results of the examination of the component companies by other independent auditors are in accordance with the provisions of the group company. In line with these objectives and responsibilities, SA 600 was established to support better audit quality because the essence of this SA is to obtain sufficient and appropriate evidence. As a result, the group auditors who have full responsibility for the consolidated audit results need more attention and role to the component auditors, because there will be indications of a greater risk. Independence and competence are both very important for auditors to support better audit quality. Moreover, by assigning responsibility for auditing the consolidated report as a whole to the group auditor, the resulting audit quality at both the component and group level must be of consistent quality. When the group auditor reviews the component auditor's work, they should detect if there is any material errors in the financial statements. Audit quality as a measure of (1) possibility of violations in the client's accounting system and (2) the auditors find and report violations. Therefore, it is predicted that there are differences of opinion between KAPs in Indonesia regarding the effectiveness of the application of SA 600 in improving audit quality. Based on these arguments, this study proposes the following first hypothesis:

***H₁:** There are different perceptions between small KAPs and medium to large KAPs on the effectiveness of implementing SA 600 in improving audit quality.*

On the other hand, the full responsibility regulated in SA 600 causes group auditors to prefer to audit component companies directly. This indicates the possibility of the shifting of clients from the component auditor to the group auditor in minimizing third party risks. This occurs because when involving other independent auditors as component auditors, the group auditor faces risks if the audit results can not detect material misstatements. The failure of an audit of a component company will have an impact on the audit quality of the group (parent company). This can occur because there is a possibility that there are differences in the competence of the component auditors, where the competence of the auditors determines the opportunity to detect material misstatements in the financial statements. This indicates that the group auditors will audit subsidiaries that were previously audited by other auditors. In general, large audit firms audit group financial statements, while because of lower audit fees, smaller audit firms usually audit subsidiaries of the group. This phenomenon will lead to a shift in the client entity of the subsidiary

company from the component auditor KAP to other KAPs of which is the auditor of the parent company. Based on these arguments, this study proposes the following second hypothesis:

H₂: There are different perceptions between small and medium to large KAPs on the application of SA 600 in relation to the number of shifting of clients from component entities' auditors to the group company's auditor

METHOD

The research method in this study are using questionnaires that were distributed to auditors and focus group discussions with auditors and audit service users. On the results of the questionnaire obtained, descriptive analysis was carried out and also performed a different test with Chi square test to compare the answers of respondents from small and large KAPs. In determining the size of a KAP, this research used the criteria guidelines published by IFAC where it is stated that one criterion of small KAP is a KAP in which there was only 1 partner (single practitioner) or a partnership with a small number of partners (under 5 partners). Whereas the other KAPs is considered as the medium to large category. In 2018, there were 1.365 registered Public Accountants under 464 Public Accounting Firms.

Chi square has the respective degrees of freedom, which is the distribution (normal standard squared) is a chi squared distribution with d.f. = 1, and the variable value is not negative. The utility of the chi square test is to test how well the suitability between the observed frequencies and the expected frequencies which is based on the hypothesized distribution or to test the differences between the two groups on the two-category data to be able to test the significance of the association of the two groups on the respective two-category data. Decision Making Criteria are:

1. If the value of Chi Square (X^2) \geq Chi Square Table \hat{e} , then the Null Hypothesis (H₀) is rejected & Alternative Hypothesis (H_a) is accepted;
2. If the value of Chi Square (X^2) $<$ Chi Square Table \hat{e} , then the Null Hypothesis (H₀) is accepted & Alternative Hypothesis (H_a) is rejected.

The stage in this research is literature study, preparation of survey instruments (questionnaire), sampling determination, and questionnaire testing. Before questionnaire distributed to the respondents, first FGD is done by collaboration between PPPK and IAPI. After the questionnaires were distributed, the data were analyzed, then conducting the second FGD to obtain comment on the results of data analysis. The resource persons in FGD consist of users of audit services (management accounting or audit committee) and Public Accountants and academics

RESULTS AND DISCUSSION

The sample of this research is 367 respondents which majority of respondents (63,8 %) were Public Accountants (who had a CPA title) while 31.3%, were auditors (who did not have a CPA title), and 4.9% of respondents did not fill in the answers to this question. Table 1 show composition of respondents based on the size of KAP. The highest percentage (37.6%) were respondents who worked for KAP with 2-5 partners. While the rest is spread out with the order of 16.9% for respondents with the criteria of KAP partners of 6-10 people, 12.8% for respondents with the criteria of KAP partners of 1 person and 11-20 people, 7.9% for respondents with the criteria of KAP partners of 21-30 people, 7.1% for respondents with the criteria of KAP partners of $>$ 30 people, and

finally as much as 4.9% for respondents who did not fill in this data. Based on our definition there is relatively equal distribution between small and medium to large KAPs with 50.4% of our respondents are small KAPs (1-5 partners) and 44.7% are small to medium KAPs (more than 5 partners).

Table 1.
Number of
Audit Partners

	Frequency	Percent	Valid Percent	Cumulative Percent
1 partner	47	12,8	12,8	12,8
2 – 5 partners	138	37,6	37,6	50,4
6 – 10 partners	62	16,9	16,9	67,3
11 – 20 partners	47	12,8	12,8	80,1
21 – 30 partners	29	7,9	7,9	88
>30 partners	26	7,1	7,1	95,1
Did not fill in this data	18	4,9	4,9	100
Total	367	100	100,0	

Furthermore, in Table 2, the position of the majority of respondents is partner (63.8%), while the rest is spread out with the order: 12.3% for other positions (KAP auditor staff), 8.4% Manager position, 6 % Senior Manager, 5.4% supervisor. Furthermore, 74.9% of the respondents were male, 22.1% were female.

Based on the Table 3, it can be seen that 40.9% of respondents whose parent company clients are up to 10 % of the total client, 16.6% of the respondents have parent company clients of which 11% - 30% of the total clients, 6.8% of the respondents have parent company clients of which 31% - 50% of the total clients, and 3.3% of respondents have parent company clients >50% of the total clients. Meanwhile, 26.3% of respondents had no audit experience or clients who are parent company, and the remaining 6.3% of respondents did not answer this question.

In table 3, it can be seen that out of the 367 respondents, 6.3% of respondents did not answer this question. There are 26% of respondents do not parent company. Most of the respondents (40.9% plus 16.6%) had clients which are parent company less than 30%. Only a few (8.2% plus 6.8%) have clients who are subsidiaries of more than 30%.

Table 2.
Position of
Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Partner	234	63,8	63,8	63,8
Senior Manager	22	6	6	69,8
Manager	31	8,4	8,4	78,2
Supervisor	20	5,4	5,4	83,7
Others	45	12,3	12,3	95,9
Did not fill in this data	15	4,1	4,1	100
Total	367	100	100,0	

Table 3.
Number of
Clients Which
are Parent
Company

	Frequency	Percent
Until 10% of total clients	150	40,9
11% - 30% of total clients	61	16,6
31% - 50% of total clients	25	6,8
> 50% of total clients	12	3,3
Did not have auditee which is parent company	96	26,2
Did not fill in this data	23	6,3
Total	367	100,0

	Frequency	Percent
Until 10% of total clients	140	38,1
11% - 30% of total clients	70	19,1
31% - 50% of total clients	30	8,2
> 50% of total clients	25	6,8
Did not have auditee which is parent company	78	21,3
Did not fill in this data	24	6,5
Total	367	100,0

Table 4.
Number of Clients Which are Subsidiary Company

Auditors' Perceptions of the Effectiveness of SA 600 in Improving Audit Quality

Table 5 shows that 8.4% of respondents stated that SA 600 was not effective in improving audit quality, 18% stated that it was less effective. The total that stated that they were less effective and not effective was 26.4%. As many as 56.7% stated that it was quite effective, and 10.4% stated that it was very effective in improving audit quality. Hence, the total that agree that it was effective enough was 67.1%.

From these results it can be concluded that the majority of respondents agree that SA 600 can effectively improve audit quality. These results are consistent with the purpose of implementing ISA 600 where it is stipulated that the group auditors must be responsible for the work of the component auditors in order to improve audit quality. These results are consistent with the findings of Rahmansyah and Fitriany (2020) who conduct study using empirical data of which the regression results show that the implementation of SA 600 significantly increases audit quality. The data used in (Rahmansyah & Fitriany, 2020) research are only companies audited by Big 4. This result is different from the findings of Pati and Fitriany (2020) who found that the implementation of SA 600 causes audit quality to decrease. The different results may be because the samples used by Pati and Fitriany (2020) are not only consolidated companies audited by big 4, but also consolidated companies audited by non big 4 firms

SA 600 Application	Small KAP		Medium to Large KAP		Total	
	Score	%	Score	%	Nilai	%
Not Effective	17	9.2	14	7.7	31	8.4
Less Effective	26	14.1	40	22	66	18
Quite Effective	107	57.8	101	55.5	208	56.7
Very Effective	24	13	14	7.7	38	10.4
Tidak Menjawab	11	5.9	13	7.1	24	6.5
Total	185		182		367	

Table 5.
Effectiveness of SA 600 in Improving Audit Quality

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6,207 ^a	4	0,184
Likelihood Ratio	6,261	4	0,18
Linear-by-Linear Association	0,643	1	0,423
N of Valid Cases	367		

Table 6.
Chi-Square Tests

^a 0 cells (0,0%) have expected count less than 5. The minimum expected count is 11,90.

Table 6 indicates that the calculated Chi-Square is 6.207, smaller than the Chi-Square table of 9.488, which means that at the 95% confidence level, the hypothesis H0 is accepted and H1 is rejected. In other words, there is no difference in perceptions between small KAPs and medium to large KAPs on the effectiveness of implementing SA 600 in improving audit quality. This is supported by the results of the Asymp.Sig calculation with a value of 0.184 (greater than 0.05), which means that H0 is accepted and H1 is rejected, i.e., there is no significant differences were found between the 2 groups of respondents. **This may because SA 600 does not determine the exact amount of component materiality and the methods used to determine component materiality is vary in practice. This is consistent with Stewart and Kinney Jr (2013) that argue SA 600 implementation may either fail to meet the audit objective or can achieve it at excessive cost.**

Respondents were also asked questions about the effectiveness of SA 600 in improving audit quality. First, respondents were being asked, if the audit of a subsidiary company is carried out by smaller KAPs, and the audit of the parent company is carried out by a larger KAP, and the auditor of the parent company fully implements SA 600, do you think that a small KAP will receive the learning benefits to improve audit quality? From table 7 it can be concluded that most of the respondents stated that if the audit of the subsidiary companies was carried out by a small KAP, and the audit of the parent company was carried out by a large KAP, and the auditors of the parent company had fully implemented SA 600, then the small KAP could receive learning benefits to improve audit quality.

Second question, if in your opinion the answer to the question above is that it is sufficient and can improve the quality of small KAP audits, do you think there is a need for arrangements regarding the obligation to involve small KAPs in the audit of component companies within a group of companies? Majority of respondents (64.3%), answered that it is needed to have arrangements regarding the obligation to involve small KAPs in the audit of component companies within a group of companies while 19.9% does not feel that it is necessary and the rest did not answer the question. These results are in line with research by Bills, Hayne, and Stein (2018) that collaborate with Accounting Associations and Networks (AANs) may help them overcome significant challenges for small KAPs, because small KAPs could obtain the needed resources and increase their market legitimacy through AAN membership.

	Frequency	Percent
Will not improve	28	7.6
Less likely to improve	59	16.1
Quite likely to improve	113	30.8
Will improve	139	37.9
Did not answer this question	28	7.6
Total	367	100

Table 7.
Will Small KAP
Receive
Learning
Benefits to
Improve Audit
Quality?

Number of Audit Firms Shifting

As many as 45% of respondents (consisting of 74 small KAPs and 91 medium to large KAPs) answered that the implementation of SA 600 led to the shift of auditors from component auditors to other KAP which were group auditors. In contrast, 48.5% (consisting of 102 small KAP and 76 medium to large KAP) answered that the implementation of SA 600 did not cause a shift in the auditor.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7,025 ^a	2	0,03
Likelihood Ratio	7,058	2	0,029
Linear-by-Linear Association	1,092	1	0,296
N of Valid Cases	367		

Table 8.
Chi-Square Tests

^a 0 cells (0,0%) have expected count less than 5. The minimum expected count is 11,90.

Table 8 shows that the calculated Chi-Square is 7,025 (greater than the Chi-Square table of 5.991), which means that with 95% confidence, the hypothesis H0 is rejected and H1 is accepted. This means that there are significant differences in the opinion between small and medium to large KAPs regarding the number of shifting of clients from the component auditor KAPs to another KAP which is the auditor of the company group. This is also supported by the results of the Asymp.Sig calculation with a value of 0.03 (less than 0.05), which means the same as the results above, namely the hypothesis H0 is rejected and H1 is accepted.

This result is in accordance with the finding of the research conducted by Rahmansyah and Fitriany (2020) which states that after the implementation of the SA 600, the Big Four's market share increases because many subsidiaries switch to parent company's auditors.

In this study, the researcher also included additional questions aimed at exploring other phenomena related to the reasoning that is caused by the application of SA 600 especially regarding the shifting of audit clients. This is conducted to determine the causes and problems that arise in the application of SA 600.

Impact of Implementation of SA 600 on Audit Fees

Respondent asked about proportion of audit fees from client that is subsidiary/component, that moved to group companies' auditors. Table 9 shows that 177 respondents did not answer this question (48%). Only 190 respondents answered (52%).

	Amount	%	Cummulative
Very Material	29	15	15%
Material	52	27	43%
Quite Material	59	31	74%
Not Material	50	26	100%
Total of respondents who answered	190	100	
Total of respondents who did not answer	177		
Total	367		

Table 9.
Proportion of Audit Fees from Subsidiary Component Clients That Move to Auditors of Group Companies

Out of the 190 respondents, 74% stated that the proportion of audit fees from subsidiaries that moved to group auditors was material to very material. Only 26% stated that it was immaterial. Hence, it can be inferred that the implementation of ISA 600 has an impact on the loss of audit fees for auditors whose clients move to group auditors.

With the application of SA 600, the responsibility for group audits will increase, therefore the audit fees charged will also increase. This is in accordance with the findings of Mao et al. (2019) and Carson, Simnett, Trompeter, and Vanstraelen (2016) which state that group audits involving other component auditors will increase audit costs and the lead auditor who accepts responsibility will receive higher audit fees. With regard to audit fees from the results of FGDs with audit service users, it was found that many companies prefer that auditor of the parent company are the same as with the auditors of the subsidiary companies because the audit fees can be cheaper, e.g., discounts, umbrella contracts; easier control and coordination between the auditors of the parent company and subsidiaries, thus the submission of audit reports can be completed in a timely manner and there is uniformity in reporting format. However, the suffering party is an accounting firm that loses clients which are usually small accounting firms, according to the survey results above that 74% responden stated that the proportion of audit fees from subsidiaries that moved to group auditors was material.

Cause of Shifting

Respondent also asked what is the causes of the shifting of subsidiary component audit clients to the parents' group auditors. Based on table 10, it can be seen that the respondent's answer starting from the largest answer sequence is as follows:

- a. majority (39.6%) of respondents answered that the cause of the shifting of audit clients was in the context of following the policies of the parent company management;
- b. 17.3% of respondents answered that the cause of the shift was because the group auditors wanted to reduce the risk of audits carried out by the component auditors; and
- c. others below 10% as described in table 10 below.

Based from this data we can say that the top five reasons are correlated, i.e., group auditors requested parent companies' management to audit all of their subsidiaries in order to reduce the audit risk because according to SA 600 it is their responsibility.

	Freq	Percent
a. Follow the policies of the parent company's management	149	39,6
The parent auditor wants to reduce the risk of the component		
b. auditor's audit	65	17,3
The parent auditor wants to ensure the same audit quality for the		
c. entire group	37	9,8
The parent auditor does not want to spend time reviewing the		
d. component auditor's supervision	28	7,4
Communication difficulties between the parent auditor and the		
e. component auditor	27	7,2
f. The parent auditor wants the completion of the audit on schedule	24	6,4
g. The parent auditor wants to increase the number of his portfolio	23	6,1
h. The wishes of the subsidiary management	17	4,5
i. Others	6	1,6
Total	367	100,0

Table 10.
Causes of
Shifting of
Audit Clients

Table 11 shows that 48% of respondents did not answer this question. As many as 27% of respondents answered that the party that determines the auditors of the subsidiary companies being audited is the management of the parent company. While 9.8% of respondents answered that the components that were audited were the subsidiary's management; and others as described in table 11 below.

	Freq	Percent
Parent company's management	99	27
Management of subsidiary companies	36	9,8
Board of commissioners of subsidiaries	20	5,4
Parent auditors' direction	27	7,4
Others	7	1,9
Not answering questions	178	48,5
Total	367	100

Table 11.
The Responsible Party in Determining Subsidiary Companies' Auditors

	Freq	Percent	Cumulative Percent
Up to 10% of clients understand	105	28,6	28,6
11% - 30% of the total clients understand	32	8,7	37,3
31% - 50% of the total clients understand	21	5,7	43,1
> 50% of the total clients understand	45	12,3	55,3
Don't answer this question	164	44,7	100
Total	367	100	

Table 12.
Auditee Understanding of SA 600

Because the sample of this study is conglomerate companies, the predominant auditor determination is determined by the parent company management. Auditor also asked wheather the auditee (management of subsidiary companies) understands that in ISA 600, audits of subsidiary components can be performed by auditors that are different from the group auditor. Based on Table 12, as many as 28.6% of respondents answered that up to 10% of their clients understood that in SA 600, audits of subsidiary companies could be carried out by different audiences from group auditors.

Recommendation Related to the Impact of the Implementation of SA 600 in Indonesia

At the end of the questionnaire, respondents were being asked to answer open questions regarding their suggestions for the implementation of SA 600 in order to be effective in improving audit quality. From the 367 (three hundred and sixty seven) respondents who returned the questionnaire, only 50 (fifty) respondents filled in this open-ended question. The answers from the 50 respondents are grouped into 2 (two) parts, namely respondents who agreed with the current implementation of SA 600 (as many as 14 respondents) and respondents who did not agree with the implementation of SA 600 which imply that further steps are needed in the form of additional arrangements or improvements (as many as 36 respondents) which is described as follows:

1. Opinions of respondents who are Pro with the current application of SA 600:
 - a. The current application of SA 600 is deemed appropriate because SA 600 can guarantee the timeliness of the submission of group financial reports, easier coordination in implementation and can mitigate the emergence of audit risk of misstatement;

- b. Currently, the competence and quality of the component auditors (usually the component auditors are small public accounting firms) is considered inadequate or incompetent in carrying out audit instructions given by the group auditors.
2. Opinions of respondents who are Contra:
- a. The management of a subsidiary company needs to be given freedom in determining their own KAPs. In other words, further explanations are needed regarding the freedom of appointment or selection of auditors because some parties have interpreted that with the application of SA 600, subsidiary companies must be audited by the parent company auditor (group auditor).
 - b. It is necessary to provide opportunities for small KAP that have potential to become component auditors in the context of improving and enhancing audit quality industry in Indonesia. This is because with the implementation of SA 600, many small KAPs lost their subsidiary clients;
 - c. There is a need for more intensive and effective communication between the group auditors and the component auditors in carrying out their work;
 - d. It is necessary to modify the SPAP, thus it is easier to understand for smaller KAPs;
 - e. There is a need for outreach and socialisation to service users and relevant regulators, as well as an approach to large KAPs related to the spirit of SA 600 which aims to improve audit quality and the understanding that subsidiary or component companies can be audited by KAPs other than group auditors.

Furthermore, to sharpen the analysis of the results of data processing and formulate recommendations we also do focus group discussion on December 2018. FGD was conducted which was divided into 2 (two), namely: (i) FGD with professional auditors and (ii) FGD with users of auditor (management and audit committee). The results of the FGD with professional auditor concluded that ISA 600 can basically improve audit quality if the application is carried out according to standards, viz., audit instructions are clear, communication goes well, etc. Parent auditor needs to provide opportunities for small KAP to become component auditors, so that small KAPs can grow in their respective fields. The reasoning behind this is that the main problem in the implementation of group audits is poor communication between the parent company auditors and the auditors of the subsidiary companies (component), thus this needs special attention in the implementation of group audit audits. In addition, it is necessary to approach other regulators and policymakers, thus the audit client who is a non-significant component can determine their own auditor or not necessarily the same as the parent auditor. It is necessary to study whether there is a need for modification of the SA 600 by looking at possible errors when it is applied in Indonesia, such as errors in the explanation of audit instructions, etc. Furthermore, it is required to conduct a review of the bidding process for audit work, at BUMN (SOEs) / LPSE (especially subsidiary companies) which sometimes add special specifications that make it difficult for Small / Medium KAPs to win the tender.

FGD with auditor services user's found that many companies prefer that auditor of the parent company are the same as with the auditors of the subsidiary companies because the audit fees can be cheaper, e.g., discounts, umbrella contracts; easier control and coordination between the auditors of the parent company and subsidiaries, thus the submission of audit reports can be completed in a timely manner and there is uniformity in reporting format. In the implementation of the tender for the procurement of group audit work, there is ease of implementation, namely through the umbrella contract mechanism, i.e., one-time procurement, where the implementation of the contract is carried out for

several periods of the next year with a complete package of procurement of audit work for the parent and subsidiary companies. In principle, parent company management does not have a problem if the implementation of the audit for non-significant components is free to determine their own auditors. In other words, does not have to be the same as the group auditors but the form of regulation is not an obligation.

Furthermore, for the second vertical level subsidiary company (grandchildren), the implementation of the audit work procurement contract is carried out by each entity considering that the value of the entity is not material or has no effect on the parent company, although in practice some grandchildren companies will refer to the KAP used by the group auditor.

The main problem in conducting audits of the parent company and subsidiaries if it is carried out by a different KAP is the lack of communication between the auditors of the parent company and the subsidiary, which causes delays in completing the Group Financial Statements or restatement problems, thus this will reduce the credibility of the company's management. Management feels more comfortable when they are audited by the Big Four KAPs, in addition to having qualified resources to carry out large audit work, the assigned auditor is more competent in explaining to management, viz., good communication skills, as well as providing suggestions or recommendations for accounting management and corporate management finance improvement.

CONCLUSION

Based on the results of the FGD and the distribution of questionnaires to 367 respondents and those who are Public Accountants and KAPs in Indonesia, the results show that ISA 600 is effective enough to improve audit quality when applied according to the standard. Statistical testing also shows that there is no difference in perceptions between small and medium to large KAPs on the effectiveness of the implementation of SA 600 in improving audit quality. Most KAPs agree that SA 600 can improve audit quality if applied according to standards because in SA 600 parent auditor must perform supervision of component auditors' work.

The implementation of SA 600 has an impact on the shifting of clients from subsidiary companies' KAPs to another KAP which is the group auditor. The statistical test shows that there are significant differences between small and medium to large KAPs regarding the number of clients from component auditors who shifted to group auditors. SA 600 can basically improve the quality of audits when its implementation is carried out according to predetermined standards. Nonetheless, the application of SA 600 has an impact on the shifting of audit clients, especially for component or subsidiary companies who move to group company auditors.

The following are important recommendations from this research. There are urgent need of regulations and approaches to other regulators, viz., Ministry of BUMN (State Owned Enterprises), OJK (Financial Services Authority), etc. Hence, the subsidiary companies are given the freedom to decide which KAP will audit the insignificant subsidiaries (component auditors do not have to be the same as group auditors). Group auditors need to provide opportunities for small and medium-sized KAPs that have the development potential to become component auditors in the context of improving and enhancing audit quality as well as developing the quality of audit industry in Indonesia.

It is necessary to conduct outreach to service users and related regulators, as well as approaches to group auditors related to the spirit of SA 600, namely that the application of

SA 600 of which in principle will improve audit quality and understand that subsidiary or component companies can be audited by KAP other than group company auditors.

The main problem in the implementation of group auditors in conducting audits if the group auditors and component auditors come from different KAP is poor communication, thus this needs to be a particular concern in conducting group audit audits (between group auditors and component auditors). Moreover, all KAPs in Indonesia, besides continuing to strive to improve audit quality, it is also expected to equip auditors with good communication skills and provide additional services in the form of inputs or suggestions to improve the auditee's accounting and financial management during the audit work process at field.

Nevertheless, there is some limitation in this research because there is no official basis for categorizing the distribution of small, medium and large KAPs. In this study, the size of KAP was only 2 groups, namely Small KAPs and Medium to Large KAP. Hence, in this study, it is rather difficult to distinguish between Medium and Large KAP. In further research, it is better to differentiate between small KAP, Medium KAP and Large KAP. In the next research, apart from the division or cluster of KAP based on IFAC criteria, it is also necessary to consider other factors that can describe the shifting from medium KAPs to large KAPs.

ACKNOWLEDGEMENT

This research is collaboration between the researchers, the IAPI (Indonesian Institute of Public Accountants), and PPPK (Center for Financial Professional Development), Ministry of Finance of the Republic of Indonesia.

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