



The Effect of Audit and Service Qualities on Client Loyalty Through Client Satisfaction as Mediating Variable (Empirical Study of Public Accounting Firm in Bali)

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Abstract

Public Accountant Firm is a form of public accounting organization that obtains permits in accordance with the laws and regulations that seek to provide professional services in the practice of public accounting. As a business organization, Public Accountant Firm is engaged in a relatively competitive service sector. The increasing number of local Public Accountant Firm and foreign accountants in Indonesia makes competition more competitive. For companies that need auditing services, this provides an alternative to choosing or switching accounting firms. This situation encourages Public Accountant Firm to continuously strive to exceed client expectations so that clients become satisfied and loyalty will be created. The study was conducted on companies that were audit clients of the Public Accountant Office in Bali for the 2017 financial year using primary data obtained from the questionnaire. The method of determining the sample is convenience sampling and obtained 64 companies, using Path Analysis. The results showed that audit quality and service quality significantly influence client satisfaction. Audit quality, service quality and client satisfaction significantly influence client loyalty. Client satisfaction can fully mediate the influence of audit quality and service quality on client loyalty.

Keywords: Audit Quality; Service Quality; Client Satisfaction and Client Loyalty.

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1. Introduction

Audit client satisfaction needs attention so Public Accountant Firm can achieve competitive advantage. Satisfied clients can cause loyal attitudes so that clients will spread positive stories by word of mouth and can be a running advertisement for a company. Running ads are effective promotions because public accountants and / or Public Accountant Firm almost never put up advertisements, although based on article 31 of Law No. 5 of 2011 concerning public accountants, Public Accountant Firm are not prohibited from placing advertisements that are deemed not misleading (including the identity of public accountants and / or Public Accountant Firm, types of services that can be provided and the experience of public accountants and / or Public Accountant Firm. The reason for using client satisfaction as a mediator variable is because it is related to Theory of Planned Behavior (TPB). Based on Theory of Planned Behavior (TPB) client satisfaction is an intermediate variable in shaping a behavior, that is attitude of loyalty [1]. Consumer satisfaction can be created through quality. Quality has a close relationship with customer satisfaction [11]. In the service industry sector, especially the Public Accounting Firm, audit quality and service quality will encourage clients to establish close relationships with companies. Audit quality and good service, which is in accordance with client expectations will foster a sense of satisfaction and trust in enjoying the services used, so that with client satisfaction, there will be an attitude of loyalty from the client. The quality of audit services seen from the process of audit services has not been done much research, whereas Public Accountant Firm as a service industry, its existence is largely determined by its ability to provide services to its clients [7,8].

2. Literature Review and Hypotheses

2.1. Theory of Planned Behavior (TPB)

Theory of Planned Behavior (TPB) postulates that there are three determinants of intention that stand alone [1]. The first is attitude toward behavior that refers to agreement that someone has been judged good or bad, or the assessment of the behavior in question. The second factor is social factors in the form of subjective norms, which refer to social pressures that are accepted to carry out or not to carry out certain behaviors. The third determinant of intention is supervision of acceptable behavior which refers to the difficulties and perceived ease of carrying out the behavior and is assumed to reflect past experiences such as anticipated obstacles and obstacles.

2.2. Client Satisfaction

Satisfaction can be interpreted as an effort to fulfill something or make something adequate [12]. Satisfying client needs is the desire of every company. In addition, being an important factor for the survival of a company, satisfying the needs of clients can increase their competitive edge. Customers who are satisfied with products and services tend to buy products and reuse services when the same needs arise later. Client satisfaction provides many benefits for the company. Client satisfaction can provide benefits including the relationship between the company and its customers to be harmonious, provide a good basis for repurchases, can create customer loyalty, form a word of mouth that benefits the company, the company's reputation becomes good in

the eyes of customers, and profits derived can increase [6].

2.3. Client Loyalty

In the service industry sector, especially public accounting firms (*Kantor Akuntan Publik*, KAP), audit quality and service quality will encourage clients to establish close relationships with companies. Loyal clients are people who make regular repeat purchases, refer others, and show immunity to the pull of competitors. Loyal clients will grow gradually, through a process in a certain period, with compassion, and with attention given at each stage of growth. Each stage will have special needs, so that by recognizing each stage and meeting those special needs, the company has a greater opportunity to turn buyers into loyal clients [3].

2.4. Audit Quality

Good audit quality can be seen from the recommendations given by the auditor to his client. Recommendations are suggestions given by the auditor on the findings obtained so that the auditee can correct the causes of errors or deviations that occur [10]. Audit quality is defined as the probability of market value that the financial statements contain material errors and the auditor will find and report these errors [2].

2.5. Service quality

Good service according to the SERVQUAL method (short for service quality), there are 5 dimensions of service quality determinants namely Tangible, Reliability, Responsiveness, Assurance, and Empathy [9]

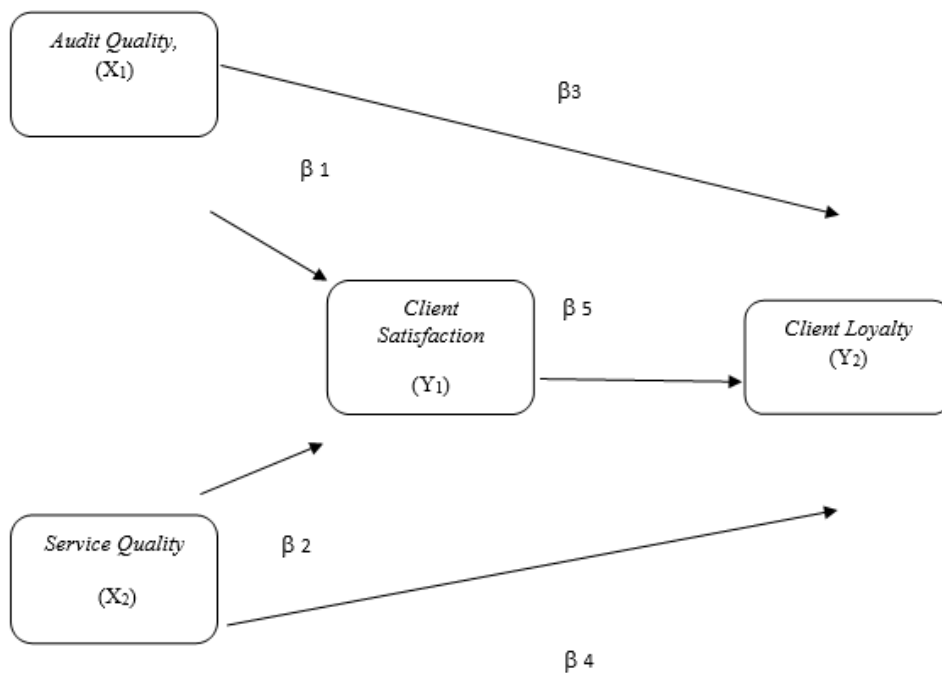


Figure 1: Conceptual Framework

Based on theoretical and empirical studies, the following hypotheses can be arranged:

H₁: There is an influence between audit quality on client satisfaction.

H₂: There is an influence between service quality on client satisfaction.

H₃: There is an influence between audit quality on client loyalty.

H₄: There is an influence between service quality on client loyalty.

H₅: There is an influence of client satisfaction on client loyalty.

H₆: Client satisfaction mediates the effect of audit quality on client loyalty.

H₇: Client satisfaction mediates the effect of service quality on client loyalty

3. Research Methods

The study was conducted on companies that are audit clients of the Public Accountant Firm in Bali for the 2017 fiscal year. The type of data used in this study is quantitative data that is quantitative. The population in this study were all public accounting firm audit clients in Bali for the 2017 fiscal year. The sampling technique in this study was convenience sampling, which is the type of sample selection from the population element that deemed to be respondents in this study [4]. Data was collected in two stages, namely the first stage to collect the identity of companies that were KAP audit clients in Bali for the 2017 fiscal year. The first stage of data collection obtained 64 companies, consisting of companies in the province of Bali and outside the sample province of Bali. The second stage, sending questionnaires addressed to the company's internal auditors, for companies that are outside the province of Bali distributing questionnaires using email assistance. Questionnaires were distributed in May to July 2019. There were 43 questionnaires returned and could be processed. Analysis of the data used to solve the problem formulation contained in this study is Path Analysis.

4. Results and Discussion

4.1. Path Analysis Results

In the PLS analysis, there are two evaluations of the fundamental model being tested, namely the outer model and the inner model with their respective explanations as follows.

4.1.1. Outer Model Test Results

1) Convergent validity

The convergent validity test results show that the entire value of the variable outer loading indicator has a value greater than 0.50. Thus, it can be concluded that all indicators have met the requirements of convergent validity.

2) Discriminant validity

Discriminant validity testing is a way to assess the validity of variables from the average variance extracted (AVE) value. The output results show that the AVE value of all variables is greater than 0.50 so the model can be said to be a good one.

3) Composite reliability

The results of composite reliability and Cronbach's alpha output, audit quality variables, service quality, client satisfaction, and client loyalty are all above 0.70. Thus, it can be explained that all variables have good reliability.

4.1.2. Inner Model Test Results

1) Goodness of Fit (R²)

Based on the coefficient of determination, the influence model of audit quality and service quality on client satisfaction gives an R-square value of 0.730 which can be interpreted that the variability of client satisfaction variables can be explained by the variability of audit quality variables and service quality by 73 percent, while 27 percent is explained by variables other than those studied. Furthermore, the influence of audit quality, service quality, and client satisfaction on client loyalty gives an R-square value of 0.921 which can be interpreted that the variability of client loyalty variables can be explained by the variability of audit quality variables, service quality, and client satisfaction by 92.1 percent, while The remaining 7.9 percent is explained by other variables outside the study.

2) Predictive Relevance (Q²)

Q² value has a value with a range of $0 < Q^2 < 1$, where the closer to 1 means the better the model. The calculation results obtained Q² value of 0.979, so it can be concluded that the model has a very good predictive relevance. Thus, it can be explained that 97.9 percent of variation in client loyalty is influenced by audit quality, service quality, and client satisfaction, while the remaining 2.1 percent is influenced by other variables not explained in the research model.

3) Hypothesis testing results

(1) Direct Influence between Variables

In Figure 1 it can be explained that audit quality directly influences client satisfaction with a coefficient of 0.467. Audit quality directly influences client loyalty with a coefficient of 0.348. Service quality has a direct effect on client satisfaction with a coefficient of 0.409. Service quality has a direct effect on client loyalty with a coefficient of 0.375 and client satisfaction has a direct effect on client loyalty with a coefficient of 0.283

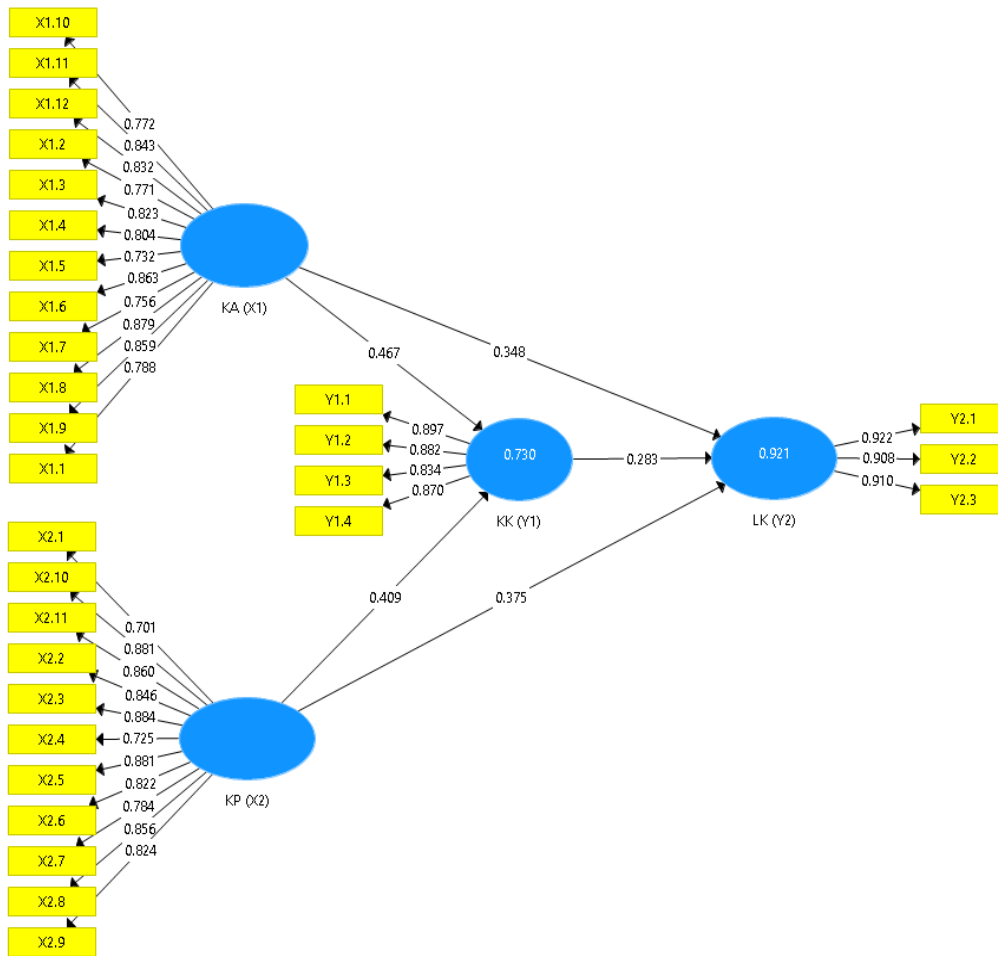


Figure 1: Bootstrapping Research Variables

Testing the direct effect between variables can also be seen from the results of the path coefficient validation test for each path that can be seen in Table 1 below:

Table 1: Path Coefficients

Coefficient Between Variable Paths	Path coefficient	t Statistics	Information
Audit Quality (X ₁) → Client Satisfaction (Y ₁)	0,467	3,306	Significant
Service Quality (X ₂) → Client Satisfaction (Y ₁)	0,409	2,947	Significant
Audit Quality (X ₁) → Client Loyalty (Y ₂)	0,348	3,058	Significant
Service Quality (X ₂) → Client Loyalty (Y ₂)	0,375	2,793	Significant
Client Satisfaction (Y ₁) → Client Loyalty (Y ₂)	0,283	1,976	Significant

(2) Examination of Mediator Variables

Table 2: Recapitulation of Mediator Variable Test Results

No	Variable Mediation	Effect				Information
		(A)	(B)	(C)	(D)	
1	<i>Audit Quality</i> → <i>Client</i>	0,132	0,348	0,467	0,283	<i>Full Mediation</i>
	<i>Satisfaction</i> → <i>Client</i>					
	<i>Loyalty</i>	<i>(Not Sig)</i>	<i>(Sig.)</i>	<i>(Sig.)</i>	<i>(Sig.)</i>	
2	<i>Service Quality</i> → <i>Client</i>	0,116	0,375	0,409	0,283	<i>Full Mediation</i>
	<i>Satisfaction</i> → <i>Client</i>					
	<i>Loyalty</i>	<i>(Not Sig)</i>	<i>(Sig.)</i>	<i>(Sig.)</i>	<i>(Sig.)</i>	

Based on Table 2 above, information can be obtained as presented in the following explanation:

1) Client satisfaction can positively mediate on the indirect effect of audit quality on client loyalty. This result is shown from the mediator test conducted, which is the C effect; and D has a significant value, while effect A which is an indirect influence of exogenous variables (audit quality) on endogenous variables (client loyalty) has insignificant value. Thus, the mediating effect is fully proven in the client satisfaction model, so that he can fully mediate the effect of audit quality on client loyalty. Based on these results it can be interpreted that improving audit quality can provide a sense of client satisfaction, so that ultimately it can increase client loyalty.

2) Client satisfaction can positively mediate on the indirect effect of service quality on client loyalty. This result is shown from the mediator test conducted, which is the C effect; and D has a significant value, while the effect of A which is an indirect influence of exogenous variables (service quality) on endogenous variables (client loyalty) has insignificant value. Thus, the mediator is fully proven in the client satisfaction model, so that he is able as a full mediator on the effect of service quality on client loyalty. Based on these results it can be interpreted that increasing the quality of service can provide a sense of client satisfaction, so that ultimately it can increase client loyalty.

4.2. Discussion

The first hypothesis is the effect of audit quality on client satisfaction. Can be seen based on the number of research questionnaires returned by 67.19%, and the results of respondents' answers related to audit quality and client satisfaction were very high. This means that the client of the Public Accounting Firm is satisfied with the quality of the audit it receives. Hypothesis testing on the effect of audit quality on client satisfaction is a significant positive effect. Thus, Hypothesis 1 (H1) which states that audit quality affects client satisfaction is accepted. A measure of satisfaction is the client's evaluation of the audit services received. Client satisfaction reflects the client's impression of his experience or impression of the audit services received. In order to create client satisfaction, the services offered by public accounting firms must be quality. Quality will encourage clients to establish close relationships with public accounting firms. The quality of the auditors in a public accounting firm will affect client satisfaction at the office, if the client feels satisfied with the work of the auditors, the client will feel loyal to the office [1]. The second hypothesis is the effect of service quality on

client satisfaction. Can be seen based on the number of research questionnaires returned by 67.19%, and the results of the answers related to respondents' quality of service and client satisfaction were very high. This means that the clients of the Public Accounting Firm are satisfied with the quality of the service it receives. Hypothesis testing on the effect of service quality on client satisfaction is a significant positive effect. Thus, Hypothesis 2 (H2) which states that service quality affects client satisfaction, is accepted. Client satisfaction is the level of appropriateness between service performance which is reflected in client perception and expectations built. If the performance of services in meeting needs exceeds expectations, satisfaction will be created. The higher the quality of service above client expectations, the satisfaction will increase [7]. The third hypothesis is the effect of audit quality on client loyalty. Based on the number of research questionnaires returned by 67.19%, and the results of respondents' answers related to audit quality and client loyalty were very high. This means that the Public Accounting Firm client is loyal to the quality of the audit it receives. Hypothesis testing on the effect of audit quality on client loyalty is a significant positive effect. Thus, Hypothesis 3 (H3) which states that audit quality affects client loyalty, is accepted. Loyal clients are people who make regular repeat purchases, refer others, and show immunity to the pull of competitors. In order to create client loyalty, the services offered by public accounting firms must be in better standard. Quality will encourage clients to establish close relationships with public accounting firms[2][11]. The fourth hypothesis is the effect of service quality on client loyalty. It is shown on the number of research questionnaires returned by 67.19%, and the results of respondents' answers related to service quality and client loyalty were very high. This means that the Public Accounting Firm's clients are loyal to the quality of the services they receive. Hypothesis testing on the effect of service quality on client loyalty is a significant positive effect. Thus, Hypothesis 4 (H4) which states that service quality affects client loyalty, is accepted. Loyal clients are people who make regular repeat purchases, refer others, and show immunity to the pull of competitors. Loyalty is influenced by the quality of services provided by companies to consumers. The higher the quality of service, the client will be more loyal to the company [3]. The fifth hypothesis is the effect of client satisfaction on client loyalty. As shown on the number of research questionnaires returned by 67.19%, and the results of respondents' answers client satisfaction and client loyalty obtained is very high. This means that Public Accounting Firm clients who have a feeling of satisfaction will cause an attitude of loyalty towards the Public Accounting Firm. Hypothesis testing on the effect of client satisfaction on client loyalty is a significant positive effect. Thus, Hypothesis 5 (H5) which states that client satisfaction influences client loyalty, is accepted. Loyal clients are people who make regular repeat purchases, refer others, and show immunity to the pull of competitors. Satisfaction is an emotional response to something that is being faced, satisfying customer needs is the desire of every company. Customers who are satisfied with products and services tend to buy products and reuse services when the same needs arise later[11]. The sixth hypothesis is client satisfaction mediates the effect of audit quality on client loyalty. Can be seen based on the number of research questionnaires returned by 67.19%, and the results of respondents' answers related to audit quality, client satisfaction and client loyalty were very high. This means that the Public Accounting Firm client is satisfied with the quality of the audit it receives, so that it will cause an attitude of loyalty towards the Public Accounting Firm. Client satisfaction can positively mediate on the indirect effect of audit quality on client loyalty. This result is shown from the mediator test conducted, namely the direct influence of exogenous variables (audit quality) on mediator variables (client satisfaction) has a significant value, as well as the direct influence of mediator variables (client satisfaction) on endogenous variables (client

loyalty) which have a significant value significant, while the indirect effect of exogenous variables (audit quality) on endogenous variables (client loyalty) has insignificant value. Thus, the mediator is proven to be fully mediated in the client satisfaction model, so that he can fully mediate the effect of audit quality on client loyalty. Thus, Hypothesis 6 (H6) which states that client satisfaction becomes the mediating effect of audit quality on client loyalty, is accepted. Based on these results it can be interpreted that improving audit quality can provide a sense of client satisfaction, so that ultimately it can increase client loyalty. The quality of audits provided by public accounting firms will encourage clients to establish a close relationship with public accounting firms. Client satisfaction reflects the client's impression of his experience or impression of the audit services received. Customer satisfaction can provide benefits including the relationship between the company and its customers to be harmonious, provide a good basis for repurchases, can create customer loyalty, form a word of mouth that benefits the company, the company's reputation becomes good in the eyes of customers[3]. The seventh hypothesis is client satisfaction mediates the effect of service quality on client loyalty. Can be seen based on the number of research questionnaires returned by 67.19%, and the results of respondents' answers related to service quality, client satisfaction and client loyalty were very high. This means that the client of the Public Accounting Firm is satisfied with the quality of the service it receives, so that it will lead to an attitude of loyalty towards the Public Accounting Firm. Client satisfaction can positively mediate on the indirect effect of service quality on client loyalty. This result is shown from the mediator test conducted, namely the direct influence of exogenous variables (service quality) on mediator variables (client satisfaction) has a significant value, as well as the direct effect of mediator variables (client satisfaction) on endogenous variables (client loyalty) which have a significant value significant, while the indirect effect of exogenous variables (service quality) on endogenous variables (client loyalty) has insignificant value. Thus, the mediator is proven to be fully mediated in the client satisfaction model, so that he can fully mediate the effect of service quality on client loyalty. Thus, Hypothesis 7 (H7) which states that client satisfaction becomes the mediator of the influence of service quality on client loyalty, is accepted. Based on these results it can be interpreted that increasing the quality of service can provide a sense of client satisfaction, so that ultimately it can increase client loyalty. The quality of services provided by public accounting firms will encourage clients to establish close relationships with public accounting firms. Client satisfaction reflects the client's impression of his experience or impression of the consumed audit services. The higher the quality of service above client expectations, the satisfaction will increase. Customer satisfaction can provide benefits including the relationship between the company and its customers to be harmonious, provide a good basis for repurchases, can create customer loyalty, form a word of mouth that benefits the company, the company's reputation becomes good in the eyes of customers [11].

5. Conclusions and Recommendations

Audit quality and service quality significantly influence client satisfaction. audit quality, service quality and client satisfaction significantly influence client loyalty. Client satisfaction can fully mediate on the influence of audit quality and service quality on client loyalty, and for further research can add other exogenous variables that are indicated to affect client loyalty to the Public Accounting Firm, namely management letter.

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