

ISQM 1 Implementation Maturity: A Multiple-Case Gap Analysis of Two Large Public Accounting Firms in Indonesia

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ABSTRACT

This study examines the implementation of **International Standard on Quality Management 1 (ISQM 1)** in Indonesia, focusing on two large public accounting firms with early adoption through global affiliations. While ISQM 1 has been widely adopted globally, empirical research on its application in Indonesia – particularly among firms linked to international audit networks – remains scarce. This research employs a **qualitative multiple-case study** approach, gathering data through interviews with key stakeholders such as partners, quality leaders, and risk managers, supplemented by documentation and observations.

Data analysis combines **thematic analysis, gap analysis, and weighted maturity scoring** adapted from Crosby's **Quality Management Maturity Grid (QMMG)** across ISQM 1's eight quality management components. The study interprets the findings using **Signaling Theory** and the **Resource-Based View (RBV)**, revealing that both firms have achieved a **high level of implementation maturity** and proactively integrated risk-based quality management practices. However, disparities persist in **strategic alignment, resource utilization, and capability development**, reflecting differences in organizational strategies and internal resources between the two countries.

Theoretically, this study extends the application of **Signaling Theory and RBV** to risk-based audit quality management in developing economies. Practically, it offers actionable insights for firms preparing to adopt **ISQM 1**, highlighting improvement priorities to enhance compliance and their operational effectiveness. These findings underscore the importance of tailored strategies to bridge implementation gaps in diverse organizational contexts.

ABSTRAK

Penelitian ini mengevaluasi implementasi **International Standard on Quality Management 1 (ISQM 1)** di dua Kantor Akuntan Publik (KAP) besar di Indonesia yang berafiliasi dengan jaringan audit global. Meskipun ISQM 1 telah diadopsi secara global, bukti empiris mengenai penerapannya di Indonesia masih terbatas. Studi ini menggunakan pendekatan studi kasus multipel kualitatif, dengan data dikumpulkan melalui wawancara terhadap partner, pimpinan mutu, dan manajer risiko, serta analisis dokumentasi dan observasi terbatas.

Analisis dilakukan dengan **thematic analysis, gap analysis, dan penilaian tingkat kematangan berbasis Quality Management Maturity Grid (QMMG)** Crosby, yang diterapkan pada delapan komponen manajemen mutu ISQM 1. Teori Sinyal (**Signaling Theory**) dan **Resource-Based View (RBV)** digunakan untuk menginterpretasi hasil. Temuan menunjukkan bahwa kedua KAP telah mencapai tingkat kematangan implementasi yang tinggi, namun masih terdapat kesenjangan dalam **penyelarasan strategis, pemanfaatan sumber daya, dan pengembangan kapabilitas**.

Secara teoretis, penelitian ini memperluas penerapan Teori Sinyal dan RBV dalam konteks manajemen mutu audit berbasis risiko di negara berkembang. Secara praktis, hasilnya memberikan arahan prioritas perbaikan bagi KAP untuk menginternalisasi ISQM 1 secara lebih substantif.

INTRODUCTION

Audit quality is widely recognized as a fundamental pillar in maintaining the credibility of financial reporting and public trust in the accounting profession (Fauji, Sudarma, et al., 2015). Recent global audit failures have demonstrated that deficiencies in audit quality are not solely attributable to individual auditors' technical errors but are often rooted in weaknesses within firms' quality management practices (Francis, 2011; Knechel & Van Staden, 2021; Lubenchenko et al., 2022). These developments have shifted the focus of audit regulation from compliance-oriented quality control toward risk-based quality governance framework that emphasize proactive risk identification, continuous monitoring, and organizational learning.

In response to these challenges, the International Auditing and Assurance Standards Board (IAASB) introduced the International Standard on Quality Management 1 (ISQM 1), which effectively replaced the International Standard on Quality Control 1 (ISQC 1) (International Auditing and Assurance Standards Board (IAASB), 2020, 2024). ISQM 1 represents a fundamental shift in the audit quality paradigm. While ISQC 1 emphasized compliance with relatively static policies and procedures, ISQM 1 adopts a dynamic, risk-based quality management practice that emphasizes continuous improvement (International Auditing and Assurance Standards Board (IAASB), 2020). Under this approach, public accounting firms (KAP) are required to proactively identify, assess, and respond to quality risks that are relevant to firm characteristics and audit engagements (Institut Akuntan Publik Indonesia (IAP), 2024a).

Within the Indonesian context, the implementation of ISQM 1 carries significant implications for public accounting firms, particularly large firms characterized by complex organizational structures, international networks, and diverse client risk profiles. Large public accounting firms are required to align international standards with national regulations, internal firm policies, and stakeholder expectations, including those of regulators, clients, and the public (Institut Akuntan Publik Indonesia (IAP), 2024b, 2025a, 2025b). In addition, effective implementation of ISQM 1 requires adequate resource readiness, encompassing personnel competence, information technology systems, and an organizational culture that supports audit quality (International Auditing and Assurance Standards Board (IAASB), 2020).

Despite the effective enforcement of ISQM 1, implementation practices across public accounting firms remain heterogeneous. Variations in organizational strategy, top management commitment, resource availability, and institutional pressures may result in differing levels of ISQM 1 implementation maturity (Lam & Tuan, 2023; Nasran, 2025; Utomo, 2024). From a signaling perspective, early and comprehensive adoption of ISQM 1 may serve as an indicator of professional credibility and commitment to audit quality for regulators, clients, and global networks. At the same time, the RBV suggests that firms with superior internal resources and organizational capabilities are more likely

to internalize risk-based quality management effectively. Consequently, differences in implementation maturity may reflect not only varying degrees of regulatory compliance but also distinct organizational strategies and resource configurations.

Another relevant issue concerns the limited availability of empirical evidence in Indonesia evaluating ISQM 1 implementation comprehensively, particularly using an approach that assesses implementation maturity based on the eight components of ISQM 1. Prior studies have predominantly focused on normative or conceptual discussions, while empirical investigations capturing actual firm-level implementation practices remain limited, especially in developing country contexts (Rahmawati & Hastuti, 2023; Utomo, 2024). This condition indicates a research gap that warrants further investigation to understand how ISQM 1 is translated into organizational practice within public accounting firms.

Existing studies on ISQM 1 have primarily focused on conceptual discussions, regulatory readiness, or descriptive analyses of quality management adoption. Empirical evidence examining how public accounting firms implement ISQM 1 in practice remains limited, particularly in developing countries such as Indonesia. Moreover, prior studies have rarely employed a comparative perspective to evaluate implementation maturity and gaps across firms with different organizational resources and global affiliations. This study addresses these gaps by conducting a multiple-case study of two large Indonesian public accounting firms and interpreting the findings using Signaling Theory and the Resource-Based View.

The implementation of ISQM 1 is also relevant to be examined through organizational theory perspectives. Signaling Theory provides a framework for understanding ISQM 1 as a quality signal conveyed by public accounting firms to external stakeholders, such as regulators and clients, to enhance professional legitimacy and reputation (Connelly et al., 2011; Spence, 1973). In contrast, the Resource-Based View (RBV) emphasizes that the effectiveness of audit quality infrastructure is strongly influenced by the possession and utilization of internal resources and capabilities that are valuable, rare, difficult to imitate, and non-substitutable (Barney et al., 2021). The integration of these perspectives enables a deeper analysis of ISQM 1 implementation, not only as a regulatory obligation but also as an organizational strategy.

Based on this background, the central issue addressed in this study concerns (1) how ISQM 1 is implemented in large public accounting firms in Indonesia and the extent to which differences in implementation maturity exist across firms. The study focuses on evaluating ISQM 1 implementation in two large public accounting firms, KAP ABC and KAP XYZ, using the eight components of ISQM 1 as the evaluation framework. The analysis also addresses (2) how the discrepancies between actual implementation practices and the ideal ISQM 1 requirement, as well as how such discrepancies can be explained through Signaling Theory

and the RBV in relation to organizational strategy and capability differences.

This study aims to evaluate the implementation of ISQM 1 in two large public accounting firms in Indonesia, identify gaps in implementation maturity based on the eight components of ISQM 1, and analyze factors influencing differences in implementation using Signaling Theory and the RBV. The findings are expected to provide practical contributions for public accounting firms in enhancing audit quality management effectiveness and academic contributions to the audit quality and ISQM 1 literature, particularly in developing countries.

The novelty of this study lies in its empirical evaluation of ISQM 1 implementation in large public accounting firms in Indonesia, using the eight ISQM 1 components as a basis for assessing implementation maturity. Unlike prior studies that predominantly adopt a normative perspective, this study provides case-based empirical evidence of actual implementation practices and integrates Signaling Theory and the RBV to explain variations in implementation effectiveness.

This study contributes to the literature in two ways. First, it extends the application of Signaling Theory and RBV to explain the implementation of risk-based audit quality management standards in a developing country context. Second, it provides comparative empirical evidence on ISQM 1 implementation maturity and implementation disparities between firms with different global affiliations and resource configuration. Practically, the findings offer guidance for public accounting firms to prioritize improvements and internalize SMM 1 beyond regulatory compliance requirements.

LITERATURE REVIEW

International Standard on Quality Management 1 (ISQM 1). ISQM 1 was issued by the IAASB as a response to the need for a more systematic and sustainable approach to audit quality. ISQM 1 replaces ISQC 1 by introducing a risk-based and forward-looking quality management system that is tailored to the characteristics and complexity of each public accounting firm (International Auditing and Assurance Standards Board (IAASB), 2020). This standard shifts the focus from static compliance with policies and procedures toward a dynamic system that emphasizes continuous improvement and proactive risk management.

ISQM 1 requires public accounting firms to design, implement, and operate a quality governance framework that provides reasonable assurance that audit engagements are performed in accordance with professional standards and applicable regulations. Therefore, audit quality is viewed as the outcome of an integrated organizational system rather than the result of individual auditor performance alone.

Quality Management Components. ISQM 1 comprises eight interrelated components that collectively form comprehensive quality management practices. These components include governance and leadership, the firm's risk assessment process, relevant ethical

requirements, acceptance and continuance of client relationships and engagements, engagement performance, resources, information and communication, and monitoring and remediation activities (International Auditing and Assurance Standards Board (IAASB) 2020). The integration of these components enables firms to identify and respond to quality risks in a structured, context-specific manner.

The risk-based architecture of ISQM 1 provides flexibility for firms to design quality management systems according to their size, complexity, client portfolio, and organizational characteristics. While such flexibility encourages contextual adaptation, it may also lead to heterogeneous implementation outcomes across firms. Larger firms with stronger governance structures, specialized human resources, and advanced audit technologies are more likely to internalize ISQM 1 comprehensively than firms with more limited organizational capabilities. Consequently, implementation maturity may vary not only because of regulatory requirements but also because of differences in organizational resources and strategic orientations.

Signaling Theory and Audit Quality. In the context of ISQM 1, Signaling Theory suggests that audit quality is communicated through observable organizational practices rather than audit outcomes alone. Early adoption of ISQM 1, investments in audit technology and training, and transparent quality monitoring may serve as credible signals of firms' commitment to audit quality and professional credibility. Accordingly, differences in ISQM 1 implementation maturity may reflect variations in how firms strategically signal their quality orientation to regulators, clients, and other stakeholders (Connelly et al., 2011; Knechel & Van Staden, 2021).

Table 1. Application of Signaling Theory in ISQM 1 Implementation

Signaling Theory Concept	Meaning in Audit Context	ISQM 1 Practices	Expected Outcome
Information asymmetry	Stakeholders cannot directly observe audit quality	Implementation of risk-based quality management system	Reduced uncertainty regarding audit quality
Quality signal	Firms communicate commitment to quality through observable actions	Early adoption of ISQM 1 and proactive quality initiatives	Enhanced legitimacy and professional credibility
Signal cost	High-quality firms invest resources to	Investments in training, audit technology, and	Signals become more credible and difficult to imitate

	distinguish themselves	monitoring systems	
Signal observability	Stakeholders evaluate visible quality-related practices	Documentation, internal inspections, quality reporting, and external reviews	Increased stakeholder trust

Signal credibility	Signals are strengthened by third-party verification	Membership in global audit networks and compliance with international standards	Stronger reputation and market confidence
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Source: Research data processed by the author

Resource-Based View (RBV) of Audit Firms. The RBV posits that the effectiveness of ISQM 1 implementation depends on firms' strategic resources and organizational capabilities. Human capital, governance structures, audit technologies, and quality-oriented cultures may constitute valuable and difficult-to-imitate resources that enable firms to internalize risk-based

quality management more effectively. Therefore, variations in implementation maturity across public accounting firms may arise not only from regulatory requirements but also from differences in internal capabilities and resource configurations (Barney et al., 2021).

Table 2. Application of RBV in ISQM 1 Implementation

RBV Dimension	Strategic Resources	ISQM 1 Component	Example of Organizational Capability	Expected Impact
Valuable	Competent audit professionals	Resources	Continuous training and professional development	Higher implementation effectiveness
Rare	Specialized quality management expertise	Governance and Leadership	Dedicated quality leaders and technical specialists	Superior quality governance
Inimitable	Proprietary audit methodologies and IT systems	Information and Communication	Integrated audit software and risk management systems	Sustainable implementation maturity
Non-substitutable	Organizational culture emphasizing quality	Monitoring and Remediation	Strong tone at the top and continuous improvement culture	Consistent quality management performance
Dynamic capabilities	Ability to adapt to regulatory changes	Risk Assessment Process	Early identification and response to quality risks	Greater resilience and adaptability

Source: Research data processed by the author

The eight ISQM 1 components can be interpreted through the complementary perspectives of Signaling Theory and RBV. Signaling Theory explains how the implementation of quality management practices reflects firms' commitment to audit quality, whereas RBV explains how strategic resources and organizational capabilities shape implementation effectiveness. Together, these theories provide a comprehensive framework for understanding variations in the maturity of ISQM 1 implementation among public accounting firms (Spence, 1973; Connelly et al., 2011; Wernerfelt, 1984; Barney, 1991).

Table 3. Theoretical Linkage between ISQM 1 Components, Signaling Theory, and RBV

ISQM 1 Component	Signaling Theory Perspective	RBV Perspective
Governance and Leadership	Demonstrates commitment to quality and accountability	Leadership capability as a strategic resource
Relevant Ethical Requirements	Signals integrity and	Ethical culture as an

	professional values	organizational capability
Acceptance and Continuance	Signals prudent client risk management	Risk assessment capability
Engagement Performance	Signals technical competence	Human capital and audit methodology
Resources	Signals investment in quality	Strategic resources (human, technological, financial)
Information and Communication	Signals transparency and accountability	Information systems capability
Risk Assessment Process	Signals proactive risk management	Dynamic capability to adapt to uncertainty

Monitoring and Remediation	Signals commitment to continuous improvement	Organizational learning capability
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Source: Research data processed by the author

Gap Analysis and ISQM 1 Implementation Maturity. This study applies a maturity-based gap analysis approach. This approach enables a systematic assessment of the discrepancies between actual implementation practices and the expected conditions prescribed by ISQM 1 (IAASB, 2020). Each ISQM 1 component is operationalized into implementation indicators, which are subsequently evaluated using a maturity-level scale.

The maturity-level approach is consistent with the risk-based and continuous improvement orientation of ISQM 1, as it allows audit firms to map their position from

the initial to advanced stages of quality management development (Utomo, 2024). Accordingly, ISQM 1 is viewed not merely as a normative standard but as a framework for developing organizational capability.

In this study, the eight ISQM 1 components are treated as the primary analytical dimensions, each assigned a weight according to its relative significance to the audit quality infrastructure. The resulting maturity scores are used to identify maturity differences between KAP ABC and KAP XYZ, thereby enabling an objective and structured comparative analysis. This approach is also consistent with the RBV, as implementation maturity reflects the extent to which internal resources and capabilities have been transformed into an effective quality management system (Barney et al., 2021).

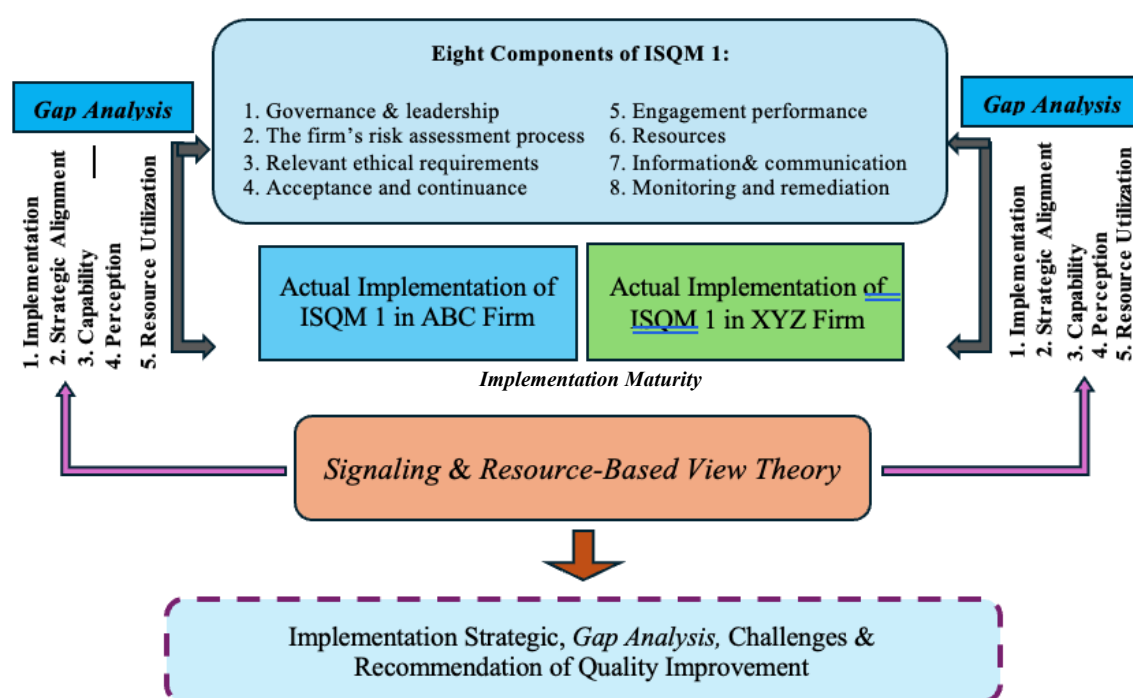


Figure 1. Theoretical Framework

Theoretical Framework. This study integrates Signaling Theory and the Resource-Based View (RBV) to explain variations in ISQM 1 implementation maturity among public accounting firms. Signaling Theory posits that the adoption and implementation of ISQM 1 may serve as a credible signal of firms' commitment to audit quality, professional credibility, and accountability to regulators, clients, and other stakeholders (Connelly et al., 2011; Spence, 1973). Meanwhile, RBV suggests that implementation effectiveness depends on firms' internal resources and organizational capabilities, including human capital, governance structures, audit technologies, and quality-oriented cultures (Barney et al., 2021; Knechel & Van Staden, 2021).

Research Propositions. Based on the theoretical framework, this study formulates three analytical propositions to guide the empirical investigation of ISQM

1 implementation in public accounting firms. First, the implementation maturity of ISQM 1 varies according to the extent to which the eight quality management components are effectively internalized and integrated into organizational practices. Second, quality management deficiencies may still emerge in areas such as strategic alignment, organizational capabilities, awareness, and resource utilization despite high levels of procedural compliance with ISQM 1 requirements. Third, differences in organizational resources, capabilities, and strategic orientations contribute to variations in implementation maturity and gaps in implementation maturity across public accounting firms.

These propositions are not intended to establish causal relationships in a positivistic sense but rather to provide an analytical lens for interpreting empirical findings from the multiple case study. Accordingly, the

propositions bridge the theoretical perspectives of Signaling Theory and the Resource-Based View (RBV) with the observed implementation practices of ISQM 1, enabling a deeper understanding of how firms internalize risk-based quality management beyond compliance-oriented implementation.

RESEARCH METHODOLOGY

Research Design and Case Context. This study adopts a qualitative multiple-case study design to evaluate ISQM 1 implementation maturity in two large Indonesian public accounting firms, namely KAP ABC and KAP XYZ. The multiple-case design enables cross-case comparison and facilitates the identification of similarities and differences in implementation practices. The cases were selected purposively based on three criteria: (1) affiliation with global audit networks, (2) early adoption of ISQM 1 through global quality management practices, and (3) organizational complexity and client portfolio diversity. Therefore, the selected firms represent theoretically relevant cases for examining implementation maturity and implementation disparities in the Indonesian context.

Informants and Data Collection. Data were collected through semi-structured interviews and document analysis. Interviews were conducted with key informants involved in the design, implementation, and monitoring of the quality governance framework, including partners and quality management personnel (see Table 4). Document analysis covered quality policies, audit procedures, quality risk assessments, and monitoring and remediation reports. The use of multiple data sources enabled data triangulation to enhance credibility.

Table 4. Characteristics of Informants

Firm	Position	Main Responsibility	Years of Experience
KAP ABC	Partner	Governance and quality leadership	20 years
KAP ABC	Risk & Quality Leader	ISQM 1 implementation	> 20 years
KAP XYZ	CRO / Quality Leader	Quality management	15 years
KAP XYZ	Partner	Audit engagement and quality oversight	> 20 years

Source: research data processed by author

The interviews were conducted in Indonesian, recorded with the participants' consent, and subsequently transcribed for analysis. The interview guide was developed based on the eight ISQM 1 components and the theoretical perspectives of Signaling Theory and RBV.

Thematic Analysis Procedure. Data analysis was conducted using thematic analysis combined with a maturity-based gap assessment. First, interview transcripts, documents, and observation notes were subjected to open coding to identify themes related to the ISQM 1 implementation. Second, the codes were grouped according to the eight ISQM 1 quality management components. Third, a cross-case synthesis was performed

to identify the similarities, differences, and implementation patterns between KAP ABC and KAP XYZ. Finally, the thematic findings were integrated with weighted maturity scoring to systematically assess implementation maturity and maturity differences.

The 1–5 maturity scale was adapted from Crosby's Quality Management Maturity Grid (Level 1: *Uncertainty*; Level 2: *Awakening*; Level 3: *Enlightenment*; Level 4: *Wisdom*; Level 5: *Certainty*). The researchers assigned scores based on triangulated evidence obtained from interviews, documents, and observations. To improve consistency, scoring decisions were iteratively discussed and supported by predefined criteria for each maturity level. Higher scores indicate a stronger internalization of ISQM 1 and greater integration of quality management into organizational practices.

To systematically evaluate discrepancies between actual practices and ISQM 1 requirements, a weighted gap analysis was employed. Greater analytical emphasis was placed on implementation gaps across the eight ISQM 1 components as the core technical requirements of the standard. In addition, strategic alignment, organizational capability, personnel awareness, and resource utilization were incorporated as enabling dimensions that influence whether implementation outcomes are substantive or merely formalistic. This analytical structure reflects prior audit quality literature emphasizing that effective audit quality management depends not only on formal compliance but also on underlying organizational conditions and resource deployment (DeFond & Zhang, 2014).

Given the qualitative nature of this study, no statistical tests were applied. Research validity and reliability were addressed through data triangulation and limited member checking to ensure that the findings accurately reflect actual implementation practices.

The use of a maturity-based and weighted gap analysis approach in this study is methodologically justified by the nature of ISQM 1 as a risk-based and principles-driven quality management standard. Unlike checklist-based compliance frameworks, ISQM 1 requires firms to design, implement, and continuously improve their organizational quality arrangements in response to firm-specific risks, organizational structures, and operational contexts (International Auditing and Assurance Standards Board (IAASB), 2020). Consequently, assessing implementation solely in terms of regulatory compliance would not adequately capture differences in implementation depth and institutionalization. The maturity assessment approach enables a more nuanced evaluation by distinguishing between early-stage adoption, partial implementation, and more institutionalized quality management practices. Furthermore, weighted gap analysis allows the evaluation to reflect the relative importance of different implementation dimensions, ensuring that critical components contribute proportionately to the overall assessment. The resulting weighted scores provide a structured basis for comparing implementation maturity and identifying component-level gaps, as presented in Table 3 in Results section.

Credibility Strategy. To enhance research credibility, this study employed data triangulation by comparing the evidence obtained from interviews, internal documents, and limited observations. Methodological triangulation was performed by integrating thematic analysis with weighted maturity scoring. Furthermore, member checking was conducted by sharing summaries of the interview findings with selected informants for confirmation and clarification. These procedures aimed to ensure the credibility, consistency, and trustworthiness of the research's findings.

DATA ANALYSIS AND DISCUSSION

Data Analysis

ISQM 1 Implementation Gaps across Quality Components. The analysis revealed that both KAP ABC and KAP XYZ achieved relatively high levels of ISQM 1 implementation maturity across the eight quality management components. Nevertheless, differences remain in the extent to which each component is internalized and integrated into the organization's practices. Table 5 presents a comparative overview of implementation disparities across the eight ISQM 1 components, while Tables 6 and 7 summarize other dimensions of maturity differences and their corresponding maturity scores.

The findings indicate that KAP ABC demonstrates a more integrated approach to quality management, characterized by stronger governance mechanisms, proactive risk assessment, and more effective resource utilization. In contrast, KAP XYZ relies more heavily on quality governance framework and procedures adopted from its global network. Although such affiliation promotes consistency and compliance with international standards, it may limit flexibility in adapting quality management practices to local organizational contexts. These findings suggest that implementation maturity is shaped not only by compliance with ISQM 1 requirements but also by firms' strategic orientation and organizational capabilities.

To strengthen the objectivity of the qualitative evaluation, a scoring scale of 1-5 adopted from the Quality Management Maturity Grid (QMMG) developed by Crosby is also applied. The maturity assessment in this study adapts Crosby's QMMG and combines qualitative judgments with weighted scoring across eight ISQM 1 components and five gap dimensions. The approach allows implementation maturity to be evaluated beyond adherence to standard by incorporating organizational strategy, capabilities, and resource utilization. The weighting of scores for each ISQM 1 component and gap dimension aims to enhance the objectivity of the qualitative analysis by incorporating a comparative quantitative element between KAP ABC and KAP XYZ.

Table 5. Comparative Gap Analysis of ISQM 1 Implementation across Each Component

ISQM 1 Component	KAP ABC	KAP XYZ	Identified Differences
1. Governance and Leadership over Quality	A highly formal structure with clear delegation of responsibilities (URP, ORP, BPO, RO). The quality function is organized as a dedicated unit separate from the audit teams, with no engagement signing authority.	A leaner structure led by a Chief Risk Officer (CRO), who still signs a limited number of audit engagements (fewer than five clients). The quality function is integrated and is highly dependent on guidance from the global network.	Quality leadership at KAP ABC is stronger and more closely integrated with local strategies and governance. In contrast, KAP XYZ's quality structure primarily follows global network requirements and is more administrative.
2. Firm Risk Assessment Process	Develops an internal, Excel-based risk assessment template that combines quantitative scoring and qualitative judgment. The process is more autonomous and tailored to local risk contexts. Maintains one hundred seven quality objectives and more than three hundred quality risks derived from the global network, with formal procedures for adding local objectives.	Uses a global SoQM platform with predominantly qualitative risk assessments (High, Medium, Low). Relies heavily on global implementation packages with limited local customization. Maintains 39 quality objectives and 85 quality risks from the global network without formal procedures for adding local objectives.	The KAP ABC applies a more measurable, adaptive, and comprehensive quality risk assessment approach. KAP XYZ focuses primarily on compliance with global network frameworks and guidance.
3. Relevant Ethical Requirements	Both firms emphasize annual independence declarations, evaluations of potential independence threats, rotation policies, and client confidentiality mechanisms aligned with global standards and local regulations. KAP ABC has developed a more automated ethics-monitoring system using layered notifications. KAP XYZ has used ethical compliance to combine global systems with manual procedures for certain aspects.		
4. Acceptance and Continuance of Client Relationships and Specific Engagements	The process is highly rigorous and systematic, including KYC, AML, and independence checks using the DRMS system. Decisions balance risk and economic benefits, and clients have been rejected because of excessive risk rather than fee considerations alone.	Questionnaires and pre-engagement forms were evaluated by the risk management team. Fee and profitability considerations are the dominant factors in client rejection decisions.	KAP ABC demonstrates a stronger quality-oriented approach to critical business decisions, whereas KAP XYZ balances quality considerations with commercial priorities.
5. Resources	Both firms apply structured recruitment procedures, continuous professional development programs and performance evaluations aligned with global standards. The implementation of technological and intellectual resources largely depends on global network policies. Both firms adopt limited local innovations using tools such as Microsoft Excel and SharePoint. No significant differences were observed. Both firms are highly dependent on global network directions for resource management, with limited flexibility for local technological innovation.		
6. Engagement Performance	Supervision and review are driven by quality leaders and documented through system-based signoffs. Policies for resolving differences of opinion cover both internal and global network levels. The final audit file archiving deadlines are a maximum of 60 days (or 50 days in specific cases). Compliance is consistent and supported by automated reminders and performance evaluation consequences for partners.	Supervision and review are documented in audit tools; however, review notes are no longer accessible after final archiving. Policies for resolving differences of opinion are defined only at the internal firm level. Final archiving deadlines are very strict (maximum 15 days, previously 60 days), but compliance remains inconsistent.	KAP ABC demonstrates a more mature and internalized ISQM One implementation, characterized by robust documentation, global-level resolution mechanisms, and consistent archiving practices. KAP XYZ faces challenges related to policy consistency, limited scope of dispute resolution, and sustainability of quality documentation, despite stricter formal standards.
7. Monitoring and Remediation	It applies layered mechanisms, including quarterly self-assessments (by RO), annual certifications (by BPO, ORP, URP), and ongoing SQM monitoring. Remediation processes remain manual but are structured.	It relies heavily on cyclical inspections conducted every three years by independent parties or the global network. It primarily focuses on completed engagement evaluations.	The KAP ABC emphasizes internal, systematic, and continuous monitoring mechanisms to support continuous improvement. KAP XYZ relies more on external inspections as the primary quality evaluation instrument, reflecting a more compliance- and correction-oriented approach.
8. Information and Communication	Clear procedures define the authorized parties for reviewing and approving internal and external communications. Information and communication processes are more disciplined and can be escalated directly to the URP when urgency is high. Communication occurs through official emails and regular meetings, all documented in the system.	Uses global platforms to identify information needed to support the quality management system through directive prompts and mandatory procedures. Communication is handled by the CRO and risk management team, supported by the firm secretariat.	KAP ABC emphasizes procedural rigor with more formal and hierarchical communication flows to ensure authorization and accountability. In contrast, KAP XYZ prioritizes technological tools for the automation of information identification, processing, and maintenance, supported by more integrated monitoring procedures.

Source: processed from research data

The following section presents a comparative analysis of the remaining four gap indicators associated with ISQM 1 implementation at KAP ABC and KAP XYZ.

Table 6. Comparison of Other Gap Analyses in ISQM 1 Implementation

Indicator	KAP ABC	KAP XYZ
<i>Strategic Alignment Gap</i>	ISQM 1 is perceived as a best practice and quality strategy, not merely a compliance requirement.	Predominantly compliance-driven, with limited strategic orientation.
<i>Capability Gap</i>	Human resource capabilities, audit tools, and supervision systems are well-developed and consistently implemented.	Supported by global resources, however, its internal capabilities are not as strong as those of KAP ABC.
<i>Awareness/ Perception Gap</i>	Awareness at the partner and manager levels is high, whereas understanding among engagement staff remains varied.	Awareness exists, but staff perceptions are largely limited to compliance rather than substantive audit quality.
<i>Resource Utilization Gap</i>	KAP ABC excels at optimizing internal resources, particularly human and intellectual capital, through training, coaching, and an integrated local quality structure, resulting in greater independence and the potential for a sustainable competitive advantage.	KAP XYZ relies more heavily on global resources, particularly the SoQM technology platform and standardized network policies, although some internal tools have been developed to address local needs.

Source: processed from research data

Table 7. Scoring of Gap Analysis

No.	Gap Analysis Indicator	Weighted	KAP ABC		KAP XYZ		Theoretical Basis
			Score (1-5)	Weighted Score	Score (1-5)	Weighted Score	
1.	Implementation Gap, consist of:	40%					
	- Governance and Leadership	5%	5	0,25	5	0,25	
	- Risk Assessment	5%	4	0,20	3	0,15	
	- Relevant Ethical Requirements	5%	5	0,25	5	0,25	
	- Acceptance and Continuance	5%	5	0,25	4	0,20	
	- Resources	5%	4	0,20	4	0,20	
	- Engagement Performance	5%	5	0,25	3	0,15	
	- Monitoring and Remediation	5%	5	0,25	5	0,25	
	- Information and Communication	5%	4	0,20	4	0,20	
2.	Strategic Alignment Gap	15%	4	0,60	3	0,45	ISQM 1; Puerzer & Rooney, 2002
3.	Capability Gap	15%	5	0,75	4	0,60	Signaling Theory; Connelly et al., 2011; Robert S. Kaplan & David P. Norton, 1996
4.	Awareness/ Perception Gap	15%	3	0,45	3	0,45	RBV; Barney, 1991
5.	Resource Utilization Gap	15%	5	0,75	4	0,60	Gendron et al., 2002
							RBV; Clark & Fujimoto, Grant, 1996

Total	54	4,40	47	3,75
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Source: processed from research data

Taken together, the results demonstrate that quality management deficiencies extend beyond procedural compliance with ISQM 1 requirements. Although both firms exhibit relatively high maturity levels, differences emerge in strategic alignment, capability development, awareness, and resource utilization. These findings indicate that the effectiveness of risk-based quality management depends not only on the existence of quality policies and procedures but also on how firms internalize and operationalize them within their organizational contexts.

explain the observed gaps in implementation maturity, this study analyzes the findings using Signaling Theory and the RBV. These perspectives provide complementary explanations of how firms communicate their commitment to audit quality and how organizational resources and capabilities influence implementation maturity. Tables 4 and 5 present the qualitative evaluation results from the perspectives of Signaling Theory and RBV, respectively, while Table 6 summarizes the key distinctions between KAP ABC and KAP XYZ.

ISQM 1 Implementation Gaps: Signaling and RBV Perspectives. To further

Table 8. Qualitative Evaluation Results: Signaling Theory Perspective

Aspect	KAP ABC	KAP XYZ
Objective of ISQM 1 implementation	Strengthening audit quality and organizational quality strategy	Strengthening market position and global client access
Signaling orientation	Strategic quality signal	Compliance-oriented quality signal
Primary focus	Compliance documentation and alignment with standards	Use of audit quality as a business instrument
Message conveyed to the market	Compliance with regulations and professional standards	Capability and reputation to handle complex clients
Observed outcomes	Strong compliance signals, but not always perceived as value-adding by clients	ISQM 1 becomes a prerequisite for obtaining referred clients from the global network

Source: processed from research data

Table 9. Qualitative Evaluation Results: Resource-Based View Perspective

Aspect	KAP ABC	KAP XYZ
Resource structure	Develops and optimizes local internal resources	Highly dependent on global network resources
Human resources and capabilities	Capabilities are developed through internal training and coaching	Capabilities follow network-wide standards and policies
Quality systems and tools	Internally develops risk and quality assessment tools	Fully adopts global platforms and templates
Local autonomy	High, with system adjustments to local context	Limited, adhering to global standards
Implementation outcomes	Relatively independent and sustainable quality management system	Consistent implementation, but limited flexibility for local innovation

Source: processed from research data

Table 10. Summary of Key Distinctions between KAP ABC and KAP XYZ

Comparative Dimension	KAP ABC	KAP XYZ
Quality strategy orientation	Strategic quality integration	Compliance and standardization
Use of ISQM 1	Strategic and reputational instrument	Compliance and quality control tool
Basis of advantage	Internal resources and local structures	Network access and global standards
Implementation pattern	More autonomous and internalized	More standardized and centralized
Initial implications	Quality is maintained, but value added is not always perceived by clients	Quality becomes a prerequisite for client expansion

Source: processed from research data

The findings suggest that the two firms exhibit different patterns of ISQM 1 implementation despite operating under similar regulatory environments. From a signaling perspective, KAP ABC tends to internalize ISQM 1 as part of its strategic commitment to audit quality, whereas KAP XYZ emphasizes compliance and consistency through globally standardized quality systems. From an RBV perspective, the higher implementation maturity observed in KAP ABC appears to stem from its stronger governance structures, greater investment in human resources and audit technologies, and more extensive organizational capabilities. Consequently, implementation maturity is shaped by the interaction between firms' quality signaling strategies and their internal resource configurations.

Discussion

ISQM 1 Implementation Gaps across Quality Components. The findings demonstrate that ISQM 1 implementation maturity is influenced by more than regulatory compliance. Although both KAP ABC and KAP XYZ have formally adopted ISQM 1 and established quality management structures, differences remain in how the standard is internalized and integrated into organizational practices. The results presented in Tables 5 to 7 indicate that KAP ABC exhibits a more mature and coherent implementation pattern, while KAP XYZ still faces several maturity differences related to strategic alignment, capability coordination, and resource utilization. These findings are consistent with prior studies suggesting that ISQM 1 implementation is an incremental and context-dependent process rather than a uniform transition (Knechel & Van Staden, 2021; Nasran, 2025; Lubenchenko et al., 2022; Pisani, 2022). Moreover, the results support Rahmawati and Hastuti (2023), who argue that quality management implementation extends beyond compliance-oriented implementation and requires deeper organizational internalization.

The weighted gap analysis in Table 7 enables a more nuanced understanding of ISQM 1 implementation across different analytical dimensions. Overall, KAP ABC achieved a higher total weighted score (4.40) than KAP XYZ (3.75), indicating a more integrated quality management practice. This difference appears to be driven not by the existence of formal policies alone, but by the extent to which quality objectives are embedded into governance structures, strategic priorities, and organizational routines.

First, the Implementation Gap, which aggregates performance across the eight ISQM 1 components, shows relatively strong results for both firms. KAP ABC demonstrates consistently high scores across governance and leadership, ethical requirements, acceptance and continuance, engagement performance, and monitoring and remediation, suggesting that ISQM 1 principles have been effectively translated into operational practices. In contrast, although KAP XYZ has established comparable formal structures, lower scores in risk assessment and engagement performance indicate that risk-based thinking has not yet been consistently applied across audit engagements. This finding aligns with Lubenchenko, et al. (2022), who emphasize that the transition toward risk-based quality management

requires continuous organizational adaptation and learning beyond procedural compliance.

Second, the Strategic Alignment Gap highlights a more pronounced divergence between the two firms. KAP ABC's higher score reflects stronger integration between ISQM 1 objectives and the firm's overall governance and quality strategy. Quality management is positioned not merely as a compliance mechanism but as a strategic organizational priority that guides decision-making and resource allocation. Conversely, the lower score of KAP XYZ suggests that ISQM 1 implementation remains partially decoupled from strategic processes. Such findings reinforce Nasran (2025), who argues that the effectiveness of quality management systems depends heavily on leadership commitment and the alignment of quality objectives with organizational strategy.

Third, the Capability Gap reveals that both firms possess relatively strong human and technical resources to support ISQM 1 implementation. However, the findings indicate that implementation maturity is influenced not only by resource availability but also by how these resources are coordinated and embedded within organizational processes. KAP ABC appears more effective in integrating personnel competencies, quality monitoring, and supporting technologies into its audit quality infrastructure, whereas KAP XYZ still faces challenges in fully leveraging these capabilities. This observation suggests that gaps in implementation maturity are less related to resource scarcity and more associated with organizational integration and capability deployment.

Fourth, the Awareness/Perception Gap emerges as the weakest dimension for both firms. Lower scores in this category suggest that ISQM 1 principles have not yet been fully internalized as shared organizational values. While formal policies and procedures are already established, personnel may still perceive ISQM 1 primarily as a compliance obligation rather than as a framework for continuous quality improvement. The persistence of this gap indicates that institutionalizing ISQM 1 requires sustained communication, leadership reinforcement, and organizational learning processes. Similar findings have been reported by Rahmawati and Hastuti (2023), who highlight the importance of cultural and behavioral dimensions in quality management implementation.

Finally, the Resource Utilization Gap shows relatively strong performance, particularly for KAP ABC. This finding indicates that available resources, including technology, human capital, and quality management infrastructure, are generally deployed to support ISQM 1 implementation. Nevertheless, the slightly lower score of KAP XYZ suggests that resource utilization has not yet been fully aligned with identified quality risks and strategic priorities. Taken together, these findings imply that higher implementation maturity is achieved not solely through compliance with ISQM 1 requirements, but through the effective integration of governance, strategic alignment, organizational capabilities, and resource management into a coherent quality management system.

ISQM 1 Implementation Gaps: Signaling and RBV Perspectives. The findings can be further interpreted through the complementary lenses of Signaling Theory and the Resource-Based View (RBV), which provide insights into how firms communicate their commitment to audit quality and how internal resources shape implementation maturity. Rather than merely representing differences in technical implementation, the observed gaps between KAP ABC and KAP XYZ reflect distinct strategic orientations and organizational capability configurations.

From a signaling perspective, ISQM 1 functions as a quality signal that reduces information asymmetry between audit firms and external stakeholders, including regulators, clients, and global audit networks (Connelly et al., 2011; Spence, 1973). The findings suggest that KAP ABC positions ISQM 1 as a strategic signal that demonstrates its commitment to audit quality and strengthens its organizational legitimacy. ISQM 1 is embedded within governance structures, risk management processes, and strategic decision-making, indicating that quality management has become an integral part of the firm's long-term strategy. Consequently, compliance with ISQM 1 serves not only to satisfy regulatory requirements but also to enhance the firm's reputation and differentiate it within the audit market.

In contrast, KAP XYZ appears to employ ISQM 1 primarily as a compliance signal. The implementation of quality management practices is strongly influenced by globally standardized policies and procedures designed to ensure consistency and conformity across network firms. While such an approach strengthens legitimacy and regulatory compliance, it may limit flexibility in adapting quality management practices to local organizational contexts. This finding supports the argument of Connelly et al. (2011) that the effectiveness of signaling depends not only on the credibility of the signal itself but also on the organizational mechanisms that sustain and reinforce it.

From an RBV perspective, differences in implementation maturity are associated with variations in governance, human capital, technological resources, and organizational capabilities (Barney et al., 2021). KAP ABC demonstrates stronger governance mechanisms and leadership commitment, enabling quality objectives to be integrated into strategic planning and operational processes. The firm also benefits from well-developed human capital, supported by continuous training and professional development, as well as the effective use of audit technologies and quality monitoring systems. These resources collectively strengthen the firm's organizational capabilities and facilitate deeper internalization of ISQM 1 principles.

Conversely, KAP XYZ relies more extensively on the resources and infrastructure provided by its global network, including centralized platforms, methodologies, and quality policies. Although these resources promote consistency and efficiency, dependence on externally standardized systems may constrain local autonomy and reduce opportunities for innovation and capability development. Consequently, implementation maturity is influenced not only by the availability of resources but

also by firms' ability to mobilize, integrate, and adapt resources within their specific organizational contexts.

Taken together, these findings suggest that audit quality management should not be understood merely as a compliance mechanism but as a strategic organizational capability that combines credible quality signaling with effective resource mobilization. Firms that can integrate quality objectives into governance structures, develop internal capabilities, and strategically deploy resources are more likely to achieve higher levels of ISQM 1 implementation maturity and sustain their audit quality in the long term.

Theoretical Implications. The findings of this study contribute to the emerging literature on ISQM 1 implementation by extending prior research that has largely emphasized regulatory compliance, governance structures, and technical aspects of audit quality systems. Consistent with earlier studies that view audit quality standards as socially and organizationally embedded practices rather than purely technical frameworks (Basri et al., 2025; International Auditing and Assurance Standards Board (IAASB), 2020), this study confirms that the effectiveness of ISQM 1 implementation cannot be fully explained by the mere presence of policies, procedures, or professional competence. Instead, the results underscore the importance of organizational context in shaping how quality governance frameworks are enacted in practice.

This study advances the literature by providing empirical evidence that implementation disparities persist not because of insufficient capabilities, but due to differences in strategic alignment, organizational internalization, and resource orchestration. While prior research has highlighted the symbolic risks associated with quality management systems and regulatory compliance, the weighted gap and maturity analyses employed in this study demonstrate that firms with comparable levels of technical capability may exhibit materially different levels of ISQM 1 implementation maturity. This finding refines existing interpretations by showing that symbolic and substantive dimensions of quality management may coexist rather than operate as binary conditions.

Beyond these empirical contributions, the findings suggest that ISQM 1 implementation should be conceptualized as an organizational transformation process rather than a static compliance exercise. The standard's emphasis on risk-based thinking, proactive quality management, and continuous improvement implies that implementation maturity develops progressively as quality objectives are embedded within strategic planning, governance mechanisms, and operational routines (International Auditing and Assurance Standards Board, 2020). From this perspective, uneven maturity across ISQM 1 components reflects not implementation failure, but different stages of organizational learning and internalization.

This study contributes to the theoretical debate on symbolic versus substantive compliance by demonstrating that quality management practices under ISQM 1 often evolve along a continuum. Firms may initially adopt formal structures and documentation to

signal compliance, while substantive integration of quality practices emerges over time through experience, monitoring, and feedback mechanisms. This continuum-based interpretation extends prior critiques of symbolic adoption in audit regulation by offering a more nuanced understanding of how quality management systems mature in practice (Basri et al., 2025).

This study integrates Signaling Theory and the Resource-Based View (RBV) to explain ISQM 1 implementation maturity. Existing studies tend to examine external quality signaling and internal capability development separately. The findings show that implementation maturity is shaped by the interaction between these two dimensions. From a signaling perspective, the findings demonstrate that the effectiveness of ISQM 1 as a quality signal depends not only on formal compliance with professional standards but also on the strategic internalization of quality management practices within the organization. From an RBV perspective, implementation maturity is shaped not merely by resource availability, but by firms' ability to mobilize governance mechanisms, human capital, technological resources, and organizational capabilities into a coherent quality governance framework. Together, these findings suggest that ISQM 1 implementation maturity should be understood not solely as a compliance outcome, but as a manifestation of strategic organizational capability. In this regard, the study shifts the discussion of ISQM 1 implementation from a compliance-oriented perspective toward an organizational capability perspective and provides a more comprehensive explanation of why firms operating under similar regulatory environments may exhibit different implementation maturity patterns.

CONCLUSION

ISQM 1 implementation in large Indonesian public accounting firms is not a uniform process. Instead, it represents an evolving organizational transformation shaped by strategic orientation, governance arrangements, and internal capabilities. Although both KAP ABC and KAP XYZ have formally adopted ISQM 1 and achieved relatively high levels of implementation maturity, important differences remain in the extent to which quality management principles are internalized and integrated into organizational practices. The findings indicate that implementation maturity is influenced not merely by firm size or resource availability, but by how firms align quality objectives with governance structures, risk assessment processes, and resource deployment.

This study further demonstrates that KAP ABC exhibits a more mature and strategically integrated implementation of ISQM 1, whereas KAP XYZ tends to adopt a more standardized and compliance-oriented approach. These differences suggest that effective implementation requires more than formal adherence to standards; it requires the development of organizational capabilities that enable firms to adapt, internalize, and continuously improve their quality management practices.

From a theoretical perspective, this study

extends Signaling Theory and the RBV in the context of risk-based audit quality management. The findings show that ISQM 1 functions not only as a quality signal to external stakeholders but also as a strategic organizational capability whose effectiveness depends on the integration of governance mechanisms, human capital, technological resources, and organizational learning. In this regard, the study shifts the discussion of ISQM 1 implementation from a compliance-oriented perspective toward an organizational capability perspective and provides comparative empirical evidence from large Indonesian public accounting firms.

Practically, the findings suggest that public accounting firms should move beyond compliance-oriented implementation and embed ISQM 1 more deeply into their organizational strategies. Strengthening quality leadership, developing context-specific quality risk assessments, and using monitoring and remediation results as inputs for continuous improvement are essential for achieving sustainable implementation maturity. For firms operating within global audit networks, balancing global standardization with local adaptation is crucial for ensuring the long-term effectiveness of ISQM 1.

Limitations and Future Research. This study has several limitations. First, the analysis focuses on only two large public accounting firms, which may limit the generalizability of the findings to firms with different organizational characteristics and resource configurations. Second, the qualitative multiple-case study approach relies heavily on participants' perspectives and organizational documents, which may be subject to interpretation and response bias. Third, the maturity assessment framework was adapted from Crosby's Quality Management Maturity Grid (QMMG), which, although useful for evaluating implementation maturity, was not originally developed for the audit quality management context.

Future research could expand the analysis to public accounting firms of different sizes and ownership structures to provide a broader understanding of ISQM 1 implementation across organizational settings. Quantitative or mixed-method approaches may also be employed to examine the relationship between ISQM 1 implementation maturity and audit quality. Future studies could explore how institutional pressures, organizational culture, and leadership influence the long-term internalization of risk-based quality management practices.

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