

CHAPTER I

INTRODUCTION

A. Background of the Problems

Nowadays, a lots of business in the world are growing rapidly, it also increase the competition between each entity. They will have many policies to gain income, develop their business, and still survive. One of the policies is auditing their financial reporting in Public Accountant Firm. Public Accountant Firm is a professional institute who has a permission from government and minister of finance to provide some services for general public, firm, or entity especially service in auditing of financial reporting. Auditing is a systematic process of checking a financial reporting of firm or entity that conducted by external parties who have competent, objective, and neutral attitude, it calls external auditor.

Based on Act No. 5 year 2011 about Based on Statement of Financial Accounting SFAC no.2, describes that relevancy and reliability are important and useful for decision makers. To reach them, external auditor have to check about the content of financial reporting, notes, and entry of any transactions are fulfills with the Indonesian Standard Accounting (PSAK) or not. They have a very important role by giving opinion about the fairness of financial reporting and making sure that the financial reporting are free from irregularities then can be trusted for taking decision of that parties.

Public accountant, as a professional have to understand the power of responsibility to general public, their client, and other parties. For public accountant, it is important that clients and external parties or users of financial statements have a belief in quality of audit or other types of services provided. Professionalism itself is not only fulfilling the responsibility to clients but also have responsible to the laws and regulations of society.

Auditor professionalism and the level of materiality are important in auditing. Both of them are included in the auditing standard. General standards in auditing standards relate to the competencies and attitudes that must be possessed by an auditor in carrying out his profession, while materiality is related to fieldwork standards and reporting standards. Professionalism becomes a critical issue for the accountant profession because auditor professionalism describes the auditor's performance itself.

Beside professionalism, the auditor has to be skepticism. Public Accountant Professional Standard (SPAP) defines auditor professional skepticism is auditor in carrying out an audit assignment in the field should be not just following the audit procedures listed in the audit program, but also must be accompanied by his professional skepticism. Public Accountant Professional Standard defines professional skepticism as an auditor's attitude includes thoughts that are always questioning and conducting evaluations critical to audit evidence. A skeptical auditor, will not take for granted explanations of the client, but will ask a question to obtain a reason, evidence and confirmation of the object in question. Without applying professional

skepticism, the auditor will only find out the misstatement caused by mistake only and difficult to find misstatements caused by cheating, because cheating will usually be hidden by the culprit. Professional skepticism is very important for auditors in audits evidence.

Skepticism is a critical attitude in assessing the reliability or facts obtained, in audit process which has a high level of trust in assertion or evidence that has been obtained and also considers the adequacy and suitability of the evidence obtained (Handayani, 2015). Low auditor skepticism will cause the auditor to be unable to detect fraud because the auditor believes in the assertion given by management without having supporting evidence for the assertion. If the auditor's professional skepticism is high, the probability of fraud being detected is getting higher. This difference poses a problem because the responsibility of auditor to be able in detecting fraud is the same even though their level of skepticism is different (Nandari, 2015).

Audit experience is an important factor in predicting the performance of public accountant. So, experience is included as one of the requirements in obtaining permission to be a public accountant (Minister of Finance Constitution No.5 Year 2011 about Public Accountant). Auditors who have better financial experience about financial statements also more able to provide reasonable understanding of mistakes in financial statements. While inexperienced auditors will do mistakes are greater than experienced auditors. Period time to work as an auditor is an important part can affect audit quality.

As the auditor's working time increases new experience will be obtained (Hutabarat, 2012).

Auditor's experience is important because it can affect the decision. Auditor who has different experiences will have a different view. When the auditor considers the decision regarding what opinion will be stated in the audit report, whether the material or not of that information, it can influence the type of opinion that will be provided by auditor. Information that is immaterial or unimportant is usually ignored by auditor and deemed to have never existed. But if the information exceeds the materiality limit, auditor's opinion will be affected.

Level of materiality is a professional policy problem and influenced by auditor's perception that is based on information and evidence obtained from those client and financial statements. Materiality level of report finance will not be the same depending on the size of the financial report. As explained in the FASB Statement of Financial Accounting Concepts No. 2, materiality is about the elimination size or misstatement of accounting information that highlights the around situation, can lead to consideration of someone who relies on information it changes or is affected by the removal or misstatement.

At the beginning of audit plan, auditor must make an introduction judgment to materiality in the financial statements as a whole with adequate planning of nature, timing, and extent of audit procedures. When making conclusions about an audit, auditor evaluates whether the misstatement is

intentional and frequent occurrence will cause financial statements contains material errors overall.

Auditor must carefully in considering the assessment of materiality at the audit planning stage, because an auditor have to be able in determining the amount of rupiah materiality of a client's financial report. If the auditor is too low in determining the amount of rupiah materiality, auditor will consuming actual time and actually their effort is not needed, so it will bring up problems and will harm auditor itself as well as the Public Accountant Firm where they works, due to inefficiency the time and effort used by auditor to determine the amount of materiality of a client's financial report. Conversely, if auditor determine the amount of rupiah materiality is too high, auditor will ignore significant misstatements, so they gives opinions unqualified for actual financial statements that contain incorrect material serving, which can harm Public Accountant Firm because it gives careless opinions to the report finance that contains material misstatements.

For an auditor, it is important to convince clients and users of financial report on audit quality. If the clients do not have confidence in auditor, the ability of professionals to provide services to client will be effectively reduced. To carry out professional assignment, an auditor must plan beforehand auditing financial statements, including determining levels materiality. A professional public accountant will consider material or incorrect information, because this is related to the type of opinion that will be given. So, when an auditor becomes more professional, then consideration of

materiality's level in financial statements will be increasingly. Therefore, auditor must have enough knowledge in the application of this materiality principle.

Based on Al-Qur'an surah Al-Hujurat verse 6 stated that,

يَا أَيُّهَا الَّذِينَ ءَامَنُوا إِن جَاءَكُمْ فَاسِقٌ بِنَبَأٍ فَتَبَيَّنُوا أَن تُصِيبُوا قَوْمًا
بِجَهْلَةٍ فَتُصِحُّوا عَلَىٰ مَا فَعَلْتُمْ نَادِمِينَ ﴿٦﴾

Translate: "O you who have believed, if there comes to you a disobedient one with information, investigate, lest you harm a people out of ignorance and become, over what you have done, regretful."

Under the development of technology, humans are easy in delivering news through existing media or internet. Through the internet, humans can spread the news quickly. Especially nowadays there are many gadgets such as smartphones that can be reached. When information is entering easily, it is not uncommon for people to receive information as it is without looking at the truth of the information. As a Muslim human we have to be tabayyun. Tabayyun is explaining. So, tabayyun means finding the truth of information by verifying the correctness of information from more than one source. But, by being tabayyun it does not mean we are syu'udzon against Muslims. We have to be a more careful when receiving important news or information. When news or information has been conveyed, it would be nice if we verify the truth of the news through some people who can be trusted and can account for what they say.

The result of research which conducted by Kusuma (2012) on Public Accountant Firm Yogyakarta is more than 50% of auditor strongly agree with professionalism. So, professionalism affects auditor towards determining the level of materiality. Besides that, the result of research which conducted by Minanda and Muid (2013) on Public Accountant Firm in Semarang is professionalism has a significant effect towards determining the level of materiality on public accountant. This result implies that the better of professionalism of auditor, it make public accountant's consideration of the level of materiality in the financial statements more appropriate.

Aulia and Handoyo (2015) did a research about auditor and the level of materiality, and the result of their research is experience variables has significant positive effect on materiality level considerations. This shows that the more experience an auditor has, the level of materiality's consideration in conducting audits by auditors will be more appropriate. Ningsih and Nadirsyah (2017) said that skepticism has significant affect to the quality of audit. The quality of audit itself could achieve if auditor show his professional skepticism with think skeptically by increasing alertness auditor in evaluating the evidence based doubt or curiosity. From that skeptically, auditor can determine the level of materiality that have to be set to make a quality of audit.

Lau and Jonathan (2016) said that the more experience an auditor has, the level of materiality's consideration in the company's financial statements will be more appropriate. In addition, the higher level an auditor's experience, the better views and responses about the information contained in the financial

statements, because auditors have done a lot of their work or have examined financial reports from various types of industries. Glover and Prawitt (2014) in their research said that due to past high-profile audit failures, reported audit deficiencies in regulator inspection reports, and the growing number and size of complex estimates in the financial statements, there is a growing need for reliability and trust in financial reports and a corresponding increased demand for enhanced audit quality. Hurt, Brown, and friends (2013) defines there is evidence that professional skepticism allows auditors to identify more fraud cues, expand budgeted audit hours, identify more contradictions, generate more alternative explanations, and negotiate more forcefully with client. They suggest that professional skepticism can influence auditor judgment and also auditor actions.

This research is the development of research conducted by Alvina (2011). The difference between this study and research previously is in adding skepticism variable and auditor's experience variable. Researcher adding those two variables because when auditor decides his materiality, skepticism and auditor's experience also important in order to determine the level of materiality and become more appropriate. Based on Aditama (2018) and Wibowo (2013), skepticism has positive effect towards determining the level of materiality. It means that auditor who has carefully attitude and always has questioning mind about the evidences through auditing process, it will determine the level of materiality as well. So, auditor can minimize fraud or conflict and can be more objective. Auditor's experience is needed because

when auditor has many experiences, they will more accurate towards determining the level of materiality (Pratiwi, 2017). Madali (2016) also stated that auditor's experience is significant influence towards determining the level of materiality. More high of auditor's experience can be seen from the duration's work, the quantity of the task and examination, the kind of company that already audited so it will make auditor more appropriate towards determining the level of materiality.

Based on the background of that problem, Researcher is motivate to do a research because an auditor have to be maximal in doing their tasks and consider the level of materiality, then can achieve the quality of audit itself. Determining the level of materiality is closely related with professionalism, skepticism, and auditor's experience. So, this research is titled: "The Effect of Auditor's Professionalism, Skepticism, and Auditor's Experience towards Determining the Level of Materiality on Auditing Process".

B. Limit of Research Problems

Determining the level of materiality in financial report will influence the opinion given by auditor. This study will be limit to possible factors which influences in determining the level of materiality on auditor, namely professionalism, skepticism and auditor's experience. This research is conducted on auditor who works in the Public Accountant Firm in Surabaya, Malang, Semarang, and Yogyakarta. This research is conducted in Yogyakarta because the basic location of researcher is in Yogyakarta. Then, researcher choose Semarang because Semarang in the capital city of Central Java.

Besides that, researcher has chooses Surabaya and Malang because those cities are big cities in Java and have a lot Public Accountant Firm.

C. Formulation of Research Problems

Based on the description above, the subject matter in this research will be formulated in the form of questions as follows:

1. What is the effect of Auditor's Professionalism towards Determining the Level of Materiality on Auditing Process?
2. What is the effect of Skepticism towards Determining the Level of Materiality on Auditing Process?
3. What is the effect of Auditor's Experience towards Determining the Level of Materiality on Auditing Process?

D. Research Purposes

Based on the main problems formulated, the purposes of this research are:

1. To give empirical evidence about the effect of Auditor's Professionalism towards Determining the Level of Materiality on Auditing Process.
2. To give empirical evidence about the effect of Skepticism towards Determining the Level of Materiality on Auditing Process.
3. To give empirical evidence about the effect of Auditor's Experience towards Determining the Level of Materiality on Auditing Process.

E. Benefits of Research

1. Theoretical Benefits

In theoretical aspects, the benefits of this research are:

- a) The theoretical benefit of this study is to be an additional reference or about the effect of Auditor's Professionalism, Skepticism, and Auditor's Experience towards Determining the Level of Materiality on Auditing Process.
- b) The results of this study are expected to provide additional knowledge for the development of science, especially in the field of audit.
- c) This research can be a comparison or reference material development of further research, especially in the field of audit.

2. Practical Benefits

In practical aspects, the benefits of this research are:

- a) This research of this study is expected to be an advice for Accountant Public Firm in order to take related policies.
- b) This research of this study is expected to be an advice for external parties and related parties in order to take related policies.

