

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Attribution Theory

Attribution theory tries to explain how we judge someone differently, depending on the purpose of action given (Robbin, 2013). Attribution Theory was introduced by Heider (1958). According to Fritz Heider, attribution theory is a theory that explains a person's behavior. Theory attribution explains the process on how to determine causes and motives about a person's behavior. This theory refers about how someone explains the causes of other people's behavior or their self who will be determined whether from internal factor for example characters, attitudes, ability, etc. or external factor such as situation pressure or certain conditions that will influence behavior individual (Suartana, 2010).

Both of these factors are very important because when auditor takes judgment, they will consider many things not only based on the findings or evidence. Auditor's professionalism is one of the factors contained and auditor can give a positive or negative response to the assessment of something. An auditor must have a professional attitude as not to violate existing rules when facing things that are beneficial or detrimental to an auditor. Besides that, auditors also face external factors, namely compliance's pressure and the complexity of task. Auditors face many tasks with different levels of precision and pressure of obedience

from clients, superiors, and colleagues when conducting a judgment audit such as determining the level of materiality.

Attribution theory related with auditor's experience because with this experience, auditor can determine what auditor do to gain the evidence. It also related with expertise and knowledge an auditor in handling a case. The auditor works to check reasonableness of the client and everything which is related to the client. In addition to relevant evidence, in the audit process also need information that can support examination process. (Adi, 2012) states that auditors who have different experiences will also differ in viewing and responding to information obtained during conduct an examination and also in providing audit conclusions on the object being examined. When auditor considers decisions regarding what opinions will be stated in the audit report, material or not, it will affect the type of opinion that will be given by the auditor.

2. Cognitive Dissonance

In 1957, Leon Festinger introduced a theory which is called the Cognitive Dissonance theory. In this theory, he states that humans actually like consistency. Therefore humans have a tendency to choose attitude which are not mutually opposed to one another and stay away from actions that are contrary to that attitude it has. Dissonance itself means there is an inconsistency. This theory explains that cognitive dissonance is discrepancy between two cognitive elements that are no consistent so as to

cause psychological discomfort. In this cognitive dissonance theory, the uncomfortable feeling experience someone happens because of attitudes, thinking patterns and behavior inconsistency will give rise to someone's motivation for take action with the aim of minimizing feelings of no comfortable, so that the occurrence of cognitive differences are inconsistencies can lead to motivation influences on a person's behavior and judgment (Noviyanti, 2008). According to Kushasyandita (2012), this theory is able to help to predict individual tendencies in changing attitudes and behavior in order to reduce the dissonance that occurs.

The cognitive dissonance theory in this research is used for explain the effects between auditor's skepticism and the factors that influences towards determining the level of materiality on auditing process. Auditor's requirement is have skepticism attitude, so it can collect audit evidence adequate and does not easily accept an explanation from the client as the basis for giving the right audit opinion in the financial statements. Cognitive dissonance occurs when auditor has high trust towards the client thus causing an attitude of skepticism at a low level. In fact, the Public Accountant Professional Standards (SPAP) requires that auditor have to be skeptical. Situational events such as the discovery of fraudulent financial statements or situations such as communication problems between old auditor and new auditor who auditing companies will also affect opinion that given to the company.

3. Understanding of Auditor's Professionalism

In general terms, someone is said to be professional if it fulfills three criteria, first, they have to be expertise to carry out tasks according to the field. Second, doing a task or profession by setting standard in the relevant profession, and carrying out his professional duties with adhere to established professional ethics. The conceptually of profession and professionalism can be differentiated. Profession is a type of work that fulfills several criteria, while professionalism is an individual attribute important without seeing a job is a profession or not (Lekatompessy, 2003 in Kusuma, 2012). Professionalism concepts which developed by Hall R. in Alvina (2011) stated that there are five dimensions to examine the auditor's professionalism, including:

- 1.) Dedication in profession. This attitude is a totality expression towards the profession. It means that a main goal of life and not only a tool to achieve goal and it is about personal commitment.
- 2.) Social obligation. Social obligation is a view about the important of profession role also good advantages that obtained from society or other professional because the existence of that profession.
- 3.) Autonomy demands. It means a view that a professional have ability to establish own decision without pressure from other parties.

4.) Belief in self-regulation. This concept define that someone who have a competence to evaluate the professional profession is fellow profession, not other parties who don't have any competencies on that field.

5.) Professional community affiliation. It means that using profession as a reference, including formal organization and other informal college as a main source of ideas.

As a professional, auditor has an obligation to fulfill specific behavior role, which depict an ideal attitude. The form of that obligation is a basic responsibility. Someone called professional has high responsibility to understand the impact of that activity. Professionalism concept is an important thing because an auditor is asset form Public Accountant Firm where success of auditor becomes the indicator of Public Accountant Firm's success.

Professionalism consists of two aspects namely structural aspects and attitude aspects. Structural aspects whose characteristics are part of school formation research, formation of professional associations and formation code of Ethics. Although aspects of attitude or behavior are related to the formation of professionalism's spirit. Community affiliation is a relation that developed through profession ties as a reference, which in there is a formal organization and informal colleagues as a main source of work ideas. So, it built profession awareness through profession ties. Autonomy demand is the view that it requires independence in carrying

out the professional's task. Independence mean own decision making without any pressure and other parties (government, clients and parties who are not members of the profession). When being under pressure and outside parties or strict supervision, it will difficult to realize independence in carrying out tasks. In special situations it takes freedom to do what best according to the employee as a form of independence. Professional tend to control their work and theoretical knowledge to avoid intervention and outside.

Self-regulation is a belief that truly understands a profession is a member of the profession itself, not someone outside the profession. This belief is based on the assumption that a profession based on knowledge and competence each professional. Professionals are assumed to have extensive theoretical knowledge and skills based on that knowledge and applicable in practice. Dedication realized on sincerity in using the knowledge and expertise owned professionally. Dedication attitude is a full of totality work's attitude with strong personal commitment, determination in carrying out his professional duties though extrinsic compensation or compensation is reduced. Dedication attitude more prioritize on spiritual satisfaction rather than material satisfaction. Social obligation is a view that a profession has an important and beneficial role for community and professionals. The most successful profession will achieve high status, prestige, and rewards that are appropriate for its members. This can be considered as an acknowledgment towards the

services they provide for the community. A professional has environmental responsibility social, so they have to work based on commitment professional.

The five dimensions above certainly become a benchmark that can be used by the auditor to test whether they have been professional. Besides that, it also becomes a new reference in behavior aside from the rules given by Indonesian Institute of Certified Public Accountants (IAPI). Because of devotion, social obligations, independence, confidence in professional rules, and relationships with fellow professions are things that must be auditor's attention. For example, how is the form of an auditor's service seen, for example with the totality of work done and they felt satisfied with its performance. Then how do auditors feel that they are also a social being who needs each other, for example, with his job, auditor believes that there is mutual feeling need between auditor and client. Furthermore, independence certainly must be owned by an auditor as a decision maker regarding audit opinion, and have confidence that the person who has the right to judge their performance is a colleague and a collaboration with colleagues. For this reason, the relationship between the five dimensions must become thought material for auditor as parties involved directly in the professional world.

According to Code of Ethic for Professional Accountants (2011) said that:

“The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know may discredit the profession. This includes conduct that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude adversely affects the good reputation of the profession.”

According to the explanation above, a professional auditor must comply with applicable law. It goes back to ethics professions that mention prudence is needed in execution of their tasks do not let the negligence cause violation of the law, which in this case is possible established rules. Then the auditor is expected not carry out activities that can discredit his profession. Because nowadays many fraud have been discovered by auditor, for example accepting bribes, and other fraud. Of course this makes the auditor's profession questionable, including all activities that can create a negative impression. So, the point is auditors who have the spirit of professionalism must have a carefully attitude and through in carrying out their duties, and always guarding good name of the profession.

An auditor can be said professional if they have meet and comply with the code of ethics standard that have been determined by Instituted of Indonesian Chartered Accountants (IAI), including: a). established principle by IAI, the ideal standard of ethical behavior that has been established by IAI as in philosophical terminology, b). rules of behavior such as the minimum standards of ethical behavior that are defined a

special regulations which are a must, c). achievement behavioral regulations are not mandatory, but practitioner must understand it, and d). ethical determination such as a person public accountants are obliged to uphold the principle freedom in carrying out the audit process, even though the auditor paid by his client. So, there are several criteria to make an auditor become a professional, auditor must also comply with existing standards and not favor a client and must be responsible for the reports presented.

4. Understanding of Skepticism

Skepticism comes from the word skeptic, in the Kamus Besar Bahasa Indonesia and Oxford Dictionary means doubts, suspicions, and mistrust of the truth of a matter, theory, or statement. In the book of accounting and auditing term, skepticism means being hesitant about statements that are not strong enough on the basis of proof (Islahuzzaman, 2012). Indonesian Institute of Certified Public Accountants (2014) stated that skepticism can be interpreted as an attitude that includes a thought which is always questioning and alert to conditions that indicate the possibility of misstatement or fraud that is measured on audit evidence. A skeptical auditor must have an attitude of distrust in the explanation of evidence obtained directly from the client but the auditor must ask questions to obtain reasons, evidence and confirmation of the findings obtained. The attitude of professional skepticism of an auditor can be tested when they can carry out his duties according to previously established standards and

maintain the rules and norms, so the quality and profession of auditors remain good. Skepticism also began with suspicion contained in the form of questions which then led to the discovery of an answer. Anggriawan (2014) said that skepticism is a critical attitude in assessing assertion reliability or evidence obtained, so in carrying out the audit process an auditor has high confidence in an assertion or evidence that has been obtained, and also considers the adequacy and suitability of the evidence obtained.

American Institute of Certified Public Accountants (AICPA) defines skepticism as:

“Professional skepticism in auditing implies an attitude that includes a questioning mind and critical assessment of audit evidence without being obsessively suspicious or skeptical. The auditors are expected to exercise professional skepticism in conducting the audit, and in gathering evidence sufficient to support or refuse management’s assertion.”

According to International Standard Accounting (ISA), skepticism is necessary for auditor to evaluate the critical audit. It includes audit evidence, reliabilities of those evidences and other information which are gains from company. It also includes consideration of the adequacy and suitability audit evidence. Where in case of doubt about the reliability of indication or about the information of possible fraud, for example if maybe document already falsified, ISA needs auditor to investigate or add another procedure’s audit to solve this case. Auditor cannot be expected to ignore past experience of honesty, integrity of management entity and others

party which are related with those responsibility. However the management entity and others party are honest and have integrity, it does not relieve the auditor from skepticism or allow the auditor to be satisfied with less than persuasive audit evidence when obtaining reasonable assurance. Skepticism are includes, for example, audit evidence that contradict with other audit evidence obtained, information that brings into question the ability of document and responses to inquiries to be used as audit evidence, Conditions that may indicate possible fraud, circumstances that suggest the need for audit procedures in addition to those required by the ISAs. Maintaining skepticism of auditor is needed to reduce the risk, for example confront unusual circumstances, over generalizing when make the conclusion from audit observations, using inappropriate assumption when determine the nature, time, and the extent of evaluating audit result and audit evidence.

Applying the level of skepticism in auditing is very important because it can affect effectiveness and audit efficiency. Too low skepticism will worsening audit, while going high will increase costs that must be issued (Financial Reporting Board, 2010). Skepticism is not limited to being alert when there is initial evidence that was audited from the beginning (even before receiving an audit assignment) must be vigilant, even prospective clients can lie to auditor by manipulating financial statements. Skepticism is a reasonable response from auditor where is at risk material misstatement in financial statements, mistake or

fraud (Tuanakotta, 2015). However, along with the process audit evidence, auditor can increase his alertness if there is financial information that has material misstatement or intentional cheating. Skepticism are important to increase audit quality, because being skeptical make auditor more initiative and gain more information from management about accounting decision already taken, and assess their works in gaining the audit evidence. Auditor also needs to apply skepticism on evaluating the audit evidence. Because of that, auditor does not accept the evidence as is, but estimate possibilities that can occur, such as evidence obtained can be misleading, incomplete, or a party that provides incompetent evidence even deliberately providing misleading or incomplete evidence. The higher audit risk or the greater risk of material misstatement, then auditor needs to apply high professional skepticism as well.

According to Tuanakotta (2015), elements of professional skepticism in the International Federation of Accountants (IFAC) definition: 1) a critical assessment; 2) with a question mind; 3) Audit validity's evidence obtained; 4) be alert to contradictory evidence; 5) questioning the reliability of documents and answers to questions and other information; and 6) obtained from management and those who are authorized in management (company).

Hurtt et al., in Maciej Ciołek (2010) developed the main six characteristics of professional skepticism consisting of three characteristics related to examination of evidence namely questioning mind, suspension

of judgment, and search for knowledge. The fourth characteristic is related to the consideration of human aspects and understanding of information providers when evaluating audit evidence, namely interpersonal understanding. The last two characteristics are self-confidence and self-determination regarding professional auditors' courage.

The first characteristic of professional skepticism is questioning mind. It means that the mind is always questions something. A person who is skeptical will question a reason, adjustment, and proof, of something he is facing or getting. Indonesian Institute of Certified Public Accountants (2017) express skepticism as an attitude that includes a mind that is always questioning, alert to conditions that may indicate the possibility of misstatement, whether caused by fraud or error, and the importance of an evaluation of audit evidence. This character is formed from several indicators, namely rejecting a statement or statement without the characteristics of professional skepticism the first is the mind that always questions something.

The second and third characteristic of skepticism is suspension on judgment. This dimension of skepticism leads to behaviors that delay making audit conclusions until sufficient evidence is collected (Hurtt et al., in Maciej Ciołek 2010). This character is formed from several indicators that require more information, requires time in making a decision, and will not skepticism is the search for knowledge. Skeptic based on high curiosity. This curiosity is intended to increase knowledge that can be used

in conducting audits. Individual motivation plays a major role in the process of finding knowledge, from initiating the search for knowledge to ending the process when the decision maker feels they have gained sufficient knowledge. This character is formed from several indicators, namely more searching and trying to find new information that is up to date, fun when discovering new things, and will not make decisions if all information has not been revealed.

The fourth characteristic of auditor's professional skepticism is interpersonal understanding. Someone who is skeptical tries to understand the purpose, motivation, and integrity of the information provider. This is done to identify whether the information provided is valid or not. This character is formed from several indicators, namely trying to understand the behavior of others and the reasons why someone behaves. The fifth characteristic of professional skepticism is confidence. An auditor who is skeptical believes in his own ability to professionally respond and process all the evidence that has been collected. They are tends to choose to seek information themselves and not rely on statements from information obtained. This character is formed from several indicators, namely believing in one's own capacity and capabilities. The sixth characteristic of professional skepticism is self-determination. An auditor who is skeptical concludes something objectively on the evidence that has been collected. They decided for themselves about the level of evidence needed to accept a particular hypothesis (Hurtt et al., in Maciej Ciołek 2010). This character

is formed from several indicators, namely not directly accepting or justifying statements from others, considering the explanations and responses of others, emphasizing things that are inconsistent, and not easily influenced by others about something.

Auditor who increases indicative of skepticism behavior, for example willingness to extend standard audit procedures, will receive more high evaluations of his performance. From description above, skepticism is an auditor's attitude in conducting audit assignments where this attitude includes thoughts that always question and critically evaluate audit evidence. Because audit evidence is collected and assessed during the audit process, skepticism must be used throughout the process. Skepticism is a manifestation of objectivity, it does not mean being cynical, criticizing too much, or doing insult. Skepticism is an important audit character that has been strongly emphasized in recent years because less skepticism in auditor make publicized audit are failed and lost the investor's trust. A greater understanding of skepticism could help auditors acquire and maintain adequate levels of professional skepticism, which in turn will improve audit quality (Popova, 2013).

5. Auditor's Experience

Audit requires high expertise and professionalism. This expertise not only affected by formal education but also external factor such as experiences. Audit experience is an auditor's experience in doing

examination financial statements in terms of time or the number of assignments carried out. One of the keys to the success of auditors in conducting audits is depends on an auditor who has two skills elements of knowledge and experience. In this case the work experience has been seen as an important factor in predicting auditor performance on the audit quality it produces.

Audit experience is the auditor's experience in doing examination of financial statements in terms of length of time, as well the number of assignments ever made. An auditors who have different experience, will be different in looking at and respond to information obtained during the inspection and also in concluding the audit's object that being examine in the form of giving opinion. The more experience an auditor has, hence the consideration of the level of materiality in the financial statements on company will be more precise. In addition, the higher the level the experience of an auditor, the better views and responses about the information contained in the financial statements, because auditor have done a lot of their work or have checked many reports finance from various types of industries. Experience is a good way of learning for auditor which will make the auditor rich in audit techniques. Experience also forms auditor to be able to face and resolve obstacles and problems in carrying out their duties, and being able to control trends emotionally to the party being examined. In addition, experience of member auditor's contribution is relevant in improving auditor competence.

The indicator of auditor's experience according to Ismiyati (2012) is as follows:

a) The length of time in the audit experience

The more work experience, the more objective of auditor conducts an audit and the higher level of competence the auditor has, the more quality of the audit results do it.

b) The number of audit assignments

Technically, the more tasks they does, it will sharpen his skills in detecting things that require special treatment or treatment that are often found in his work and vary greatly in characteristics. So, it can be said that if someone does the same job continuously, it will be faster and better at completing it. This is because they have really understood the technique or how to solve it, and have experienced many obstacles or mistakes in his work, so that they can be more careful and careful in solving it.

c) Types of companies that have been audited

The more and varied types of companies audited by auditor will make the auditor experience increases. Work experience has been seen as an important factor in predicting the performance of a public accountant, so that experience is included as one of the requirements in obtaining a license to become a public accountant (Decree of the Minister of Finance

of the Republic of Indonesia No17 / PMK.01 / 2008) concerning Public Accountant Services stated that a public accountant must have practical experience in the field of general audit of financial statements for at least 1000 (one thousand) hours in the last 5 (five) years and at least 500 (five hundred) hours including leading and / or supervising general audit engagements authorized by Public Accountant Firm Partner Leaders. Based on the above provisions, becoming an experienced auditor must have at least 5 (five) years of experience and at least 500 hours.

5. Understanding of Materiality

The application of materiality is not a new problem. Materiality is applied in almost all decisions involving economic activity. Various accounting profession institutions, the public accounting profession, the profession of government auditors, capital market authorities in the United States, as well as the International Accounting Standards Committee provide various views on materiality, mainly related to the presentation in financial statements. Materiality is an important thing to consider in determining the type of audit report that will be issued in certain situations. If misstatements are relatively immaterial to the financial statements, then it is more appropriate for auditor to issue an unqualified opinion (Alvina and Suryanawa, 2011). However, if the misstatement is relatively material, the auditor needs to issue a fair audit report with the exception. And when the misstatement is relatively very material so that the fairness of the financial statements as a whole is doubtful, the auditor

needs to refuse to give an opinion or give an adverse opinion, depending on the conditions. According to Professional Standards of Accountant Public (SPAP) said that materiality is:

“Performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures (ISA 320:9).”

In the Basic Framework for Preparation and Presentation of Financial Statements (KDPPLK) paragraph 30, materiality is considered as threshold or dividing point rather than a qualitative characteristic the subject possessed by the information to be considered usefully. Information considered material if negligence to include or note that information can affect decisions taken by users of financial statements.

Another definition of materiality according to Financial Accounting Standards Board (FASB) in Arens (2012) is:

“The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

The concept of materiality stating that some things are good physically individual or more important is the obligation of presentation financial statements in accordance with generally accepted accounting status in Indonesia. This shows the auditor's sense that the report finance

as a whole does not contain material misstatement. Materiality is also a good concept in audits or important and fundamental accounting. Auditors must consider materiality to plan audits and design audit procedures. With considering materiality, the auditor can design audit procedures efficiently and effectively. Materiality in the audit concept is to measure audit scope. Audit materiality describes the maximum amount there may be errors in financial statements, which can still show financial position company and company operating results based on accounting principles generally acceptable. Two reasons why the concept of materiality is important in the audit, namely: (a) some users of accounting information are not can understand accounting information easily, then disclosure of important data must be separated from data that is not important, because the disclosure of data together tends to mislead financial report users, (b) the process of accounting checks is intended to obtain a level of guarantee that is reasonable regarding the fairness of presentation financial statements at a certain time (Febryanti, 2012).

Determining the level of materiality certainly has a purpose, namely as a form of planning for collection of sufficient evidence material carried out by the auditor. The evidence collected must be adjusted to the amount being audited and even better if the collection of evidence is collected in large numbers (Winadi and Mertha 2017). If auditor sets a low amount then more material evidence that must be collected from a high amount, and if auditor sets a high amount then less material evidence that

must be collected. Auditor often changes the amount of materiality in this initial consideration during the audit. If this is done, the amount of new one was called a revised consideration regarding materiality. The causes include changes in factors used to determine it, or the auditor believes the amount in the initial determination is too small or large.

Materiality can be determined according to its financial statements or account balance. In the financial report, there are two ways to implement materiality, namely by planning audits and audit implementation. In planning the audit, of course the auditor requires the amount of evidence to be collected. The book can be said to be material when there are elements of considerations such as professional considerations. These considerations can change if throughout the new developments of audit process is found. And in its application, auditor determine more than one level higher because the reality of client's financial statements has more than one level of materiality such as a balance sheets, materiality can be based on total assets, total capital and total liabilities. This is also indicated by the research conducted by Aulia (2012) which said that the auditor's initial consideration of materiality is often made six to nine months before the balance sheet date and the annual financial report data. Whereas to measure materiality based on the account balance is done by estimating the materiality made, there is an audit plan that enters into the accounts of the financial statements separately, such as accounts in the balance sheet. According to Mulyadi (2010), said that the

materiality at the account balance level is the minimum misstatement that can occur on the account balance which is seen as a material misstatement. The account balance recorded can affect decisions. In considering the materiality of the auditor's account balanced, it is necessary to look at the level of the financial statements of the client.

Therefore, it can be concluded that the consideration of materiality's level is an auditor's consideration in finding evidence in the form of financial statement information that can influence consideration based on the influence of the importance of materiality level, knowledge of materiality level, adequacy of evidence, adjustment of measurement of evidence, order of materiality level in audits, materiality at the level of financial statements, materiality on the level of account balances and allocation of materiality of financial statements on the account balance.

B. Research Hypothesis

1. The Effect of Auditor's Professionalism towards Determining the Level of Materiality on Auditing Process

Attribution theory explains the understanding of someone reactions to the stories around them, by knowing their reasons for the events experienced. Therefore it can be said that only see his behavior will be known attitudes or characteristics of the person and also can predict one's behavior in the face certain situation. Basri (2011) stated that auditors in carrying out their duties have responsibilities for clients, society, colleagues and for themselves. It means that auditor awareness for the

continuation of profession and services provided depends on the responsibilities given to them, so they will foster a moral attitude to do their job well. With high moral and attitude in doing the work, an auditor will be able to consider materiality levels well. Auditor professionalism and materiality levels are important in auditing a financial report, because both of these are included in Auditing Standards. General Standards in Auditing Standards relate to competencies and attitudes that must be possessed by an auditor in carrying out his profession, while materiality is related to the Field Work Standards and Reporting Standards. The definition of materiality is the minimum of overall magnitude wrong serving in a financial report is sufficiently important to make it financial statements become not presented fairly in accordance with the principles general accounting.

The reason for implementing high professional behavior at each profession is needed for public trust in the quality of services given the profession, regardless of what individuals do. For an auditor, it is important to convince clients and users of the report financial audit quality. If service users do not have confidence in the auditor, the ability of the professionals to provide services to clients and the community effectively reduced. To carry out their duties professionally, auditor must make a plan before conducting the report auditing process, including determining the level of materiality. An auditor professional will consider the material or not information correctly, because this relates to the type of

opinion to be given. So, the more professional an auditor is, then consideration of the materiality level in financial statements will be increasingly right. According to Kirana (2012), the situation identifies that high audit procedure accuracy is needed to know or if possible minimize the element of risk in an audit. This is where the attitude of auditor professionalism is needed in determining the level of materiality from audited financial statements. Lestari (2015) stated that professionalism of auditor has a positive effect towards determining the level of materiality.

Research that conducted by Sinaga and Jaka (2012) about The Effect of Professionalism towards Determining the Level of Materiality on Financial Statement Auditing Process has result that there is a positive correlation between auditor professionalism variables with consideration of materiality level; between the dimensions of service in the profession, independence and relations with fellow professions with materiality level variables. The positive correlation between independent variables and dependent variable shows that the higher professionalism of an auditor, the more appropriates in determining the level of materiality in auditing financial statements that conducted by auditor. From the five dimensions of professionalism there are three dimensions that are significantly related to the consideration of the level of materiality, namely service to the profession, independence, and relationships with fellow professions. While the dimensions of social obligations and beliefs in the profession do not have a significant relationship. This result also supported with research

that conducted by Aulia (2012) if an auditor who views work as an auditor as a personal commitment and prioritizes spiritual satisfaction rather than an intrinsic reward element, uses his knowledge and can be separated from the pressure of others, with this means they can avoid outside intervention because it can be considered an obstacle. So, auditor will be more focused in determining the level of materiality.

In conclusion, auditor itself has to be professionalism because it set on the regularity. Besides that, professionalism is important obligation for auditor to convince client and financial statement's user about the audit quality. To carry out his duties, auditor has to establish a plan before doing an auditing process including determining the level of materiality. So, the more professionalism of an auditor, it make more appropriate in determining the level of materiality.

H₁ : Auditor's Professionalism has positive significant effect towards Determining the Level of Materiality on Auditing Process

2. The Effect of Skepticism towards Determining the Level of Materiality on Auditing Process

Cognitive dissonance theory has the meaning of an unpleasant psychological condition that appears within the human conflict occurs between two behaviors and conflicts. Cognitive elements in this theory is every knowledge, opinion, or what people believe about something,

environment, themselves or behavior. This theory is explains of auditor's skepticism on determining the level of materiality. When auditor has high cognitive dissonance, it might effects the skepticism attitude. Skeptical attitudes include thinking that is always questioning in evaluating evidence critically in order to be able to provide opinions appropriately (IAPI, 2014). Professional skepticism arises when auditor confronts the evidence presented by the client directly. There is an association with consideration of materiality levels, when an auditor has a skeptical attitude can find material misstatements in the financial statements and account balances because auditor can search and find sufficient evidence to find misstatements in the financial statements or in account balance. To increase effectiveness in finding these misstatements, both misstatements are very material and non-material, auditor is required to carry out their duties carefully, thoroughly and in accordance with the third general standard on auditing standards (Arens, 2014).

In planning the audit, auditor determines the initial materiality level. Professional skepticism is needed which is done so the auditor can properly consider the materiality level. According to Oktania (2013) also said that regarding with the relation to audit risk, the risk was assessed on the completeness of audit evidence and suspicion of available evidence could be increased by professional skepticism.

Research conducted by Marito, *et al* (2014) with the title is The Relations of Auditor Professional Skepticism, Audit Situation, Ethic,

Audit Experience, Fraud Detecting Knowledge with Considering the Level of Materiality, stated that skepticism has significant positive effect. It means that professional auditor required to always be skeptical in carry out his duties with carefully. Kautsarrahmelia (2013) stated that skepticism has positive effect towards accuracy of giving opinions. Professional auditor proficiency will greatly affect the accuracy of giving opinions by the auditor, so, professional auditors are not immediately skeptical will affect the accuracy of opinion support by public accountants.

Pardede (2015) with the tittle is The Effect of Professional Judgment, Experience, Expertise, Audit Accounting Knowledge, and Auditor Skepticism towards Accuracy Giving Audit Opinion concluded that the variable skepticism influences significantly and positive for the accuracy of giving audit opinions. It means that when auditor giving opinion, auditor is necessary to determine the level of materiality with appropriate before doing next plan. Then, auditor can give an opinion based on their judgment. Amelia, *et al* (2014) stated that skepticism partially gives 30.8% as much influence on auditor judgment. It means that the direction of the relationship between professional skepticism towards audit judgment is positive. So, the higher of skepticism will increase audit judgment in the public accounting firm. Skepticism in public accounting firm is measured through three things, namely checking and testing, understanding information providers, and taking action on evidence.

In conclusion, skepticism is an attitude includes the mind that always questions and conducts a critical evaluation of audit evidence. The auditor may not assume that his client's management is dishonest, but also they should not assume that the honesty of his client's management is undoubted. In this case the skepticism needs to be applied by auditors in order to carry out audits with high standards. The application of adequate skepticism will help the auditor determine the level of materiality.

H₂ : Skepticism has positive significant effect towards Determining the Level of Materiality on Auditing Process

3. The Effect of Auditor's Experience towards Determining the Level of Materiality on Auditing Process

This study tries to see Attribution Theory that effect the behavior of auditors in carrying out audit tasks, which is experience. Experience is a combination of all that obtained from the results of interactions or all that has been experienced. A person's work experience shows the types of work someone has done and provides a great opportunity for someone to do a better job with more detailed thinking. Some auditors stated that the experience they have is very help in their duties, this is because the auditor has identified posts which is prone to abuse. The experience meant here is auditor experience in conducting examination of financial reports and assignments audit in the field both in terms of duration time, as well as the

number of audit assignments ever done. Auditor makes better consideration in professional assignments than inexperienced auditor. Auditor with more experience in creating more things stored in his memory can produce a good understanding of events (Ekawati, 2013).

Audit experiences can be measured from the level of position in the structure where the auditor works, years of experience, a combination of levels of office and years of experience, expertise possessed by auditor related to audits, and trainings that have been followed by auditor about audits. Important issues related to auditor experience will be related to the level of accuracy of the auditor. Kushasyandita (2012) states that the audit experience is indicated by hours of flying auditors in doing audit procedures related to giving opinion on the audit report. Thus, experience is an important element to build knowledge and expertise auditor, so auditor can determine the level of materiality properly.

Another relevant researches are conducted by Kuncoro and Nanik (2017) about The Effect of Independency, Experience, Knowledge, and Profession Ethic towards Determining the Level of Materiality which has result that independence has contribution to support the level of materiality, because public accountant have responsibility to their result, fulfill public interest, and objectivity as a material to decide in compile the auditor statements. Besides that, the knowledge of auditor is influence because it can make auditor more easily when they do their duty and become more careful in determining the level of materiality.

Kusuma (2012) also conduct the research with same dependent variable but the independent variables are Auditor's Professionalism, Profession Ethic, and Auditor's Experience, then the result then the result is those independent variables are significant influence towards determining the level of materiality. It means that professionalism in a job is very important. This is because professionalism is related to the need public trust in the quality of services provided by the profession. So, as with an auditor, it is important to convince clients and users of financial statements of the audit quality in this regard relating to consideration of the materiality level in financial statements. Then, every public accountant is also expected to uphold Profession Ethics that has been determined by the Indonesian Institute of Certified Public Accountants, in order to avoid unhealthy competition situation. Without ethics, profession accounting will not exist because the accounting function is provider information for the business decision-making process by related party. By upholding professional ethics, it is hoped that nothing will happen cheating among public accountants, so it can provide auditing opinions that are truly in accordance with the financial statements presented by the company. In addition, more higher the level of an auditor's experience, more proper views and responses to information contained within financial statements, because the auditor has done a lot of work or has examined many financial statements of various types of industries.

Putu (2013) has research with the title is The Effect of Professionalism, Work Experiences, and Level of Auditor's Education towards Determining the Level of Materiality. The result is the more high level of those independent variables is also more appropriate in determining the level of materiality. It means that the work experience and professional expertise of auditor are two interrelated things. Auditor's expertise will increase if the auditor continues to increase working hours in carrying out inspection tasks. Knowledge of public accountants about detection of errors is increasingly developing because of work experience. More higher the knowledge of public accountants in detecting errors, it can increase the ability of auditor in detecting the fraud, so it will more proper in determining the level of materiality. Besides that, auditor has an obligation to maintain and improve his abilities and knowledge through formal or informal education called continuing professional education. The purpose of this provision is for independent auditors to keep abreast of the latest developments in the fields of accounting, auditing, and other related fields and improve auditor performance.

Agustianto (2013) stated that professionalism, auditor's experience and audit quality has significant influence towards determining the level of materiality. It means that the routine of reading publications or journals about auditing and participating in auditor meetings will increase the auditor's ability to consider the level materiality used in conducting audits. Because with these activities can gain knowledge about materiality

through journals or exchange ideas with other auditors. In addition with its responsibility to the public, a sense of dedication to his job, the independent nature of an auditor and confidence in professional regulations, will make the auditor more careful in determining the materiality level to be used in financial report auditing process. Public accountants can find out the quality level or the audit quality through the level of client satisfaction can be achieved. The satisfaction felt by the client will lead to trust the ability of public accountants.

In sum, the auditor's experience is related to materiality considerations, because the auditor's experience is related to expertise and knowledge in solving cases. The experience can be obtained from the length of time, number of assignments, and types of companies that has been received. The auditor's experience is also one of the factors that influence the auditor's judgment in auditing.

H₃ : Auditor's Experience has positive significant effect towards Determining the Level of Materiality on Auditing Process

C. Research Framework

In giving an auditor's judgment, auditor has to be competence. When auditor determines the level of materiality, auditor must have professionalism attitude, skepticism and experience. Based on literature review and previous research, this study explains the effect of professionalism, skepticism, and auditor's experience towards auditor's judgment in the form of determining the level of materiality. Figure 1 is to assist in understanding this research.

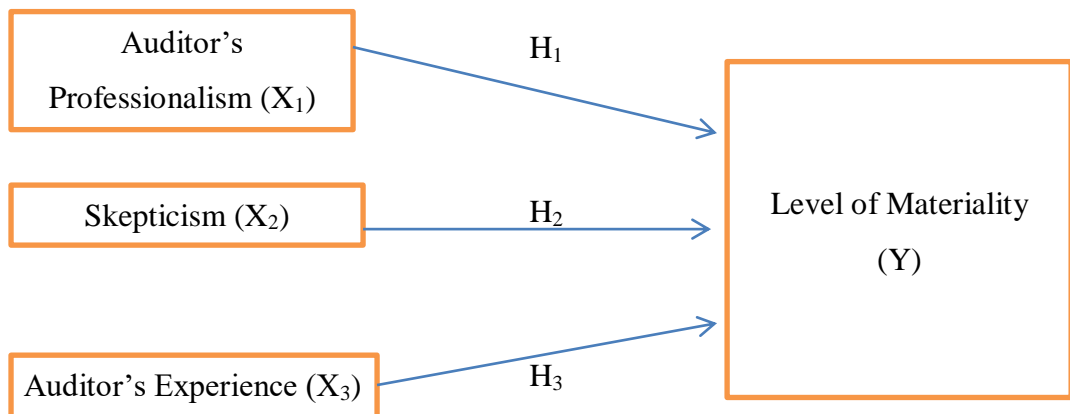


Figure 1. Research Model