

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Financial statements are written records that convey the financial information in the accounting period of an organization that contains all business activities. In financial report there are several important elements for every company and government agencies, this is because the financial statements used as a source of financial information in decision making and as an indicator of company performance measurement. In the preparation of financial statements, there are companies that compile reports by relying on the expertise of the internal management and some who use the services of consultants who are made as problem-solving by companies that have financial problems. The role of the auditor as third party is to evaluate and determine the fairness of a financial statement whether it has been presented fairly in accordance with generally accepted accounting principles. The profession of public accountant is a profession of public trust. In order to support its professionalism as a public accountant, the auditor should be guided by the Public Accountant Professional Standards (SPAP) established by the Indonesian Institute of Accountants (IAI), i.e. general standards, field work standards and reporting standards. Where a general standard reflects to the personal qualities that an auditor must possess that requires the auditor to have enough technical skills and training in performing the audit procedures.

This research is the result of replication from previous research conducted by Susmiyanti (2016). Research from Susmiyanti (2016) uses three variables that affect audit quality and one moderating variable, namely audit fees, time budget pressure, and complexity of tasks and auditor experience as moderating variables. The research results of Susmiyanti (2016) show that these variables influence audit quality. The research conducted by Susmiyanti (2016) is not in line with what was done by Rizal and Liyundira (2016) because it was based on their research if time budget pressures did not affect the audit results, they provided. While based on Susmiyanti (2016) that the higher the time budget pressure that is given, the more it will affect audit quality. Furthermore, based on research conducted by Wijaya and Yuliana (2017) the task complexity audit cannot make auditors fail in conducting audits, but this is also not in line with the results of Susmiyanti's research (2016) because of the results obtained by Susmiyanti (2016) task complexity has a negative effect on audit quality produced.

The difference between this research and several previous studies are that the subject of this study includes all auditors in the Supreme Audit Abroad in the Central Java Province, while most of the previous research was carried out to the auditors in Public Accountant Firm (KAP). In addition to the differences from this study with previous research there is an addition of independent variables and a reduction in the moderating variable, because in this study did not use the moderating variable. In this study the researchers added two independent variables in accordance with the suggestions from the study of Susmiyanti (2016), namely competence and audit tenure.

Competency variable is added because, auditor competence is an audit skill possessed by an auditor to achieve audit objectives well. Having the ability to think to collect, process and analyze information in conducting audit (Shanteau, 1987). As well as competent auditors have the characteristic ability to think to adapt to new situations and ignore or filter out irrelevant information. The audit tenure variable is added because of the tendency that auditor rotation is carried out to avoid creating a close relationship between the auditor and the client. So that there is a small possibility of the influence that the auditee gives when the auditor conducts an audit, and this will have an impact on audit quality. With the regulation of auditor rotation, the public trust in the audit opinion will be even greater because the auditor will be more independent in conveying his findings (Seidman, 2001).

According to RI Law no. 15 of 2006 on the Audit Board, The Supreme Audit Board abbreviated as BPK, is a state institution who have task to examine the management and responsibility of state finances as referred to in the 1945 Constitution of the Republic of Indonesia. BPK will provide opinions on improving the quality of state financial management and accountability, and to play an active role in finding and preventing all forms of state financial misuse and fraud. As the only external audit of state finance, BPK has the duty to examine the management and responsibility of state finances conducted by the central government, regional government, other state institutions, Bank Indonesia, State-Owned Enterprises, Public Service Bodies, Regional-Owned Enterprises, and institutions or other entities that manage state finances. Audits conducted by BPK include financial audits, performance checks, and

checks for specific purposes. Financial audits conducted by BPK in order to provide opinions on the fairness of the information presented in the financial statements the results of state financial audits submitted to the House of Representatives, Regional Representatives Council, and the Regional House of Representatives. The BPK is expected to be able to manage state financial management and accountability management can be accounted for properly. Based on RI Law no. In order to support the successful implementation of state governance, state finances must be managed in an orderly, law-abiding, efficient, economical, effective, transparent and accountable manner with due regard to the sense of justice and decency the duties must be guided by the State Financial Audit Standards (SPKN). In conducting audits, if management conditions and financial accountability are found that do not comply with the existing criteria, these conditions will be explained in the audit findings. The audit findings are part of the results of the audited.

Parties related to audit findings can be recommended by the BPK to be subject to administrative or criminal sanctions. However, the BPK as an inspector was also not free from the threat of being sanctioned. In 2012 and 2016, there were cases of BPK auditors receiving gratuities or rewards in giving opinions. In 2012 involving BPK auditors, Bahar and Munzir, those BPK auditors served in North Sulawesi. Both received bribes of Rp 600 million given by the Mayor of Tomohon, Jefferson Rumajar to provide qualified opinion, Bahar and Munzir also obtained hotel facilities and rented vehicles taken from the Tomohon city government fund of Rp 7.500.000. Another case was carried out by a senior auditor from BPK Rochmadi who had been proven to

receive 240 million rupiah from the Ministry of Rural Development and Transmigration. The bribe was given with the intention that Rochmadi gave a reasonable unqualified opinion to the Audit Report (LHP) of the Ministry of Finance's Financial Report 2016.

These cases show that the quality of BPK audits still needs to be improved. This is the background of the author in examining several factors that influence the quality of audit. The factors that chosen by author are competence, time budget pressure, audit tenure, and task complexity. This research will be conducted in BPK of Central Java, because the biggest BPK in Indonesia with 36 entities and 1 province and have 97 auditors that are expected would give a reliable result on this research.

Each person's profession will be judged and linked to the quality that will be produced, including the auditor's profession. An auditor can be said to be qualified while performing his duties in auditing if the auditor follows auditing standards based on the Public Accountant Professional Standards (SPAP). Lee and Stone (1995) said that competency as a skill that is quite explicit can be used to conduct audits objectively. To perform the auditing task, the auditor requires auditing knowledge (general and specialized) and knowledge of the auditing, accounting, and industrial fields of the client.

In each audit, the inspection team is given a certain time budget to complete the work. The length of time given is usually adjusted to the available budget or determined based on previous similar audits or based on legislation. Therefore, time budget pressure can be a challenge for the auditors because based on the treasury law article

56 paragraph (1) Government Report (LKPD) is submitted by the governor / regent / mayor to the BPK no later than 3 (three) months after the fiscal year ends and according to Law Number 15 Year 2004 Article 20 paragraph (3) states that BPK must complete the report examination within 60 days after the report is given. The deadline requires that the inspection team must be clever in allocating time for planning, implementing, and reporting checks so that the Audit Report (LHP) can be completed on time. While on the other hand, the procedure that must be done is quite large and each local government has many Regional Work Units (SKPD), which are more than 25 SKPD. Because of the many steps that must be taken as well as the number of government entities that must be audited but the auditor has a limited time, causing the auditor to take samples. Incorrect selection of samples can influence the opinion of the auditor, so that time allocation pressures can affect the quality of audit, in line with Arisinta (2013) if time budget pressure has significant positive effect, when time budget pressure is high then the quality of the audit will decrease.

Audit tenure is a period of cooperation that exists between the KAP with the same audited. The fear of losing a substantial amount of pay will trigger doubts for the auditor to provide an audit opinion. In Indonesia it has been affirmed by the regulation on audit tenure stated in Government Regulation No. 20/2015 Article 11. This Regulation explains that the general audit services for the financial statements of an entity shall be conducted by KAP for a maximum of 5 consecutive years. The auditor may receive the audit assignment back to the client after 2 years of the book does not provide general audit services to the client's financial statements. Based on these rules

if the auditor has a long relationship to his client can interfere with the principle of independence of the auditor itself. According to research Syahputra & Yahya (2017) that audit tenure gives effect to the quality of audit opinion, but the result is contrary to research conducted by them Yanti, Amilin, & Syarif (2014) audit tenure on audit quality. The interesting thing related to tenure audit is if the auditor has deeper knowledge of his client, of course, the auditor will be easy in detecting an error and vice versa if the auditor has a lack of knowledge about his client will be difficult in determining a decision because it can be built based on how the nature of the auditor has a relationship with the client, which strengthens the reason of the researcher in discussing audit tenure as one of the indicators that influences an audit opinion, because there is still a different understanding among academics and auditors.

Audit becomes increasingly complex because of the difficulty level (task difficulty) and task variability audit is getting higher. The auditor also faces a dilemmatic situation because of the diverse interests that must be met. Increased complexity in a task or system, will decrease the success rate of the task. Associated with auditing activities, the high complexity of these audits can lead accountants to behave dysfunctional resulting in a decrease in audit quality Restu and Indriantoro (2000). Based on the theoretical and empirical studies that have been described, it can be explained that the higher the complexity of tasks faced by the auditor, the resulting audit quality becomes increasingly decreased. This is in line with research conducted by Natawirani & Wirajaya (2017) that proves that task complexity negatively affects audit quality. The complexity of the task is an unstructured, confusing task and the

increasing difficulty and variability of audit tasks leads to increasingly complex audits. But based on Locke and Latham (2002) the complexity of the audit task is based on the individual's perception of the difficulty of an audit task. This perception raises the possibility that an audit task is difficult for a person but may be easy for others. It encourages researchers to prove that in today's modern era and full of technology that can facilitate the work of the auditor, whether the stigma or the view that the complexity of the task really become one of the indicators that affect the quality of audit opinions or not.

Based on this background, the authors are interested in doing more in-depth research on the influence of competence, audit tenure, time budget pressure, and task complexity in influencing audit opinion results, with the title ***"THE INFLUENCE OF COMPETENCY, AUDIT TENURE, TIME BUDGET PRESSURE AND TASK COMPLEXITY TOWARD QUALITY OF AUDIT"***

## **1.2 Problem Formulation**

Based on the background description of the problem described above, the research problems are broken down into the following research question:

1. How will the competency affect the quality of the audit opinion given?
2. How will the audit tenure affect the quality of the audit opinion given?
3. How will the time budget pressure affect the quality of the audit opinion given?
4. How will the task complexity affect the quality of the audit opinion given?



### **1.3 Research Objectives**

The purpose of this research is to obtain the data so that can be done in the analysis of preparing the thesis that will be used as a requirement in taking the examination session of Bachelor of Faculty of Economics of Islamic University of Indonesia. The objectives of this research to examine whether there is an influence of competency, audit tenure, time budget pressure, and task complexity on quality of audit.

### **1.4 Research Contribution**

This is designed to add insight about auditing and providing empirical evidence about influence of competency, audit tenure, time budget pressure, and task complexity on audit quality at the Supreme Audit Board of Central Java. Furthermore, this research might be useful for the auditors as a motivation to be more professional in carrying out the audit. Thus, the auditor can improve their performance and the quality of audit results at the Supreme Audit Board of Central Java. For the next researcher, this study is expected to be used as reference material or consideration in further research and as an addition to scientific discourse to conduct research in the same field, especially related with the influence of competency, audit tenure, time budget pressure, and task complexity on audit quality

## **1.5 Systematic of Writing**

### **CHAPTER I: INTRODUCTION**

This chapter provides an explanation of the background of the study, the formulation of the problem, the objectives of the research, the contribution of the research, and the systematics of writing.

### **CHAPTER II: LITERATURE REVIEW**

This chapter contains a study of several theories and references that form the basis in supporting this research study, including the theory of attribution, goal setting theory, competency theory, audit tenure theory, time budget pressure theory, task complexity theory and audit quality theory. This chapter also discusses previous journals that are relevant to this study and are used as guidelines in the preparation of research. In addition, the research hypothesis related to research is also discussed in this chapter.

### **CHAPTER III: RESEACRH METHOD**

This chapter discusses the research methods that contain the population and the determination of research samples, data sources and data collection techniques, definition and measurement of research variables, operational hypotheses, and data analysis methods.

## **CHAPTER IV: DATA ANALYSIS AND DISCUSSION**

This chapter explains about the result of findings and discussion regarding the research analysis. This chapter contains a discussion of the various results of data collection and analysis of these results.

## **CHAPTER V: CONCLUSION, LIMITATION, AND RECOMMENDATION**

This chapter is the closing section, which gives conclusions regarding the whole research process and recommendations for further studies.

