

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Theoretical Basis**

##### **2.1.1 Quality of Audit**

Auditor quality is the professional ability of individual auditors in doing their job. De Angelo (1981) stated audit quality as the probability that the auditor will find and report violations on the client's accounting system. Auditors who have multiple clients in the same environment will have a deeper understanding of the specific audit risks that the industry has but will require more skill development than most auditors.

The definition of the quality in the Book "Management Accounting" Hansen Mowen, (2009) is the degree or degree of perfection; in this case, quality is a relative measure of goodness, has a very general meaning has no operational meaning. Audit or examination in a broad sense means evaluation of an organization, system, process, or product while the person conducting the audit is called the auditor. It is not easy to describe and measure audit quality objectively with some indicators. This is because the quality of the audit is a complex concept and difficult to understand so that there are often errors in determining the nature and quality.

From the description then the researchers can conclude that the quality of the audit is an assessment of the process in performing audit tasks performed

by an auditor to produce an audit report assessed based on factors that may affect audit quality.

### **2.1.2 Competency**

According to Spencer and Spencer (2007) suggest that competence exhibits the underlying characteristics of behaviors that describe the motives, personal characteristics (self-characteristics), self-concept, values, knowledge or skills that a superior performer performs at the workplace. There are 5 (five) characteristics that form the competence that is:

1. Factors of knowledge include technical, administrative, humanitarian processes, and system
2. Skills; refers to a person's ability to perform an activity
3. Self-concept and values; refers to one's attitudes, values and self-image, such as one's belief that he can succeed in a situation
4. Personal characteristics; refers to the physical characteristics and consistency of responses to situations or information, such as self-control and the ability to remain calm under pressure
5. Motives: are emotions, desires, psychological needs or other drives that trigger action.

According to Rahayu and Suhayati (2010:2) explained Competence means that the auditor must have the ability, expertise and experience in understanding the criteria and in determining the amount of evidence needed to be able to support the conclusions to be taken.

#### **2.1.4 Tenure/Audit Tenure**

Tenure audit is the length of the relationship between the auditor or the KAP against their clients which can be measured by the number of years (Junaidi and jogiyanto, 2010). It is also stated by Praptika (2016) that the tenure audit is measured by calculating the number of years of engagement in which the auditor of the same Firm performs an audit engagement to the auditee, the first year of engagement begins with the number one and plus one for subsequent years. This information is seen in the independent auditor's report for several years to ensure the length of the KAP auditor auditing the company.

Tenure is a period of audit engagement between KAP and clients related to audit services that have been agreed upon previously. Tenure is usually associated with its influence on auditor independence. The long relationship between KAP and clients has the potential to give rise to closeness between them, this can hinder auditor independence and reduce audit quality Al-Thuneibat et al. (2011)

#### **2.1.3 Time Budget Pressure**

According to De Zoort (1998) time budget pressure is the pressure that arises from the limited resources possessed in completing work, in this case interpreted as the time given to complete the task. Based on (IAI), Standard field work requires the auditor to plan and control his work effectively. Of course, this is directly proportional to the opinion of Suprianto (2009) which

states it is so important to plan the audit time well. Good time allocation will lead to a performance or generate a better audit opinion, so here auditors are required to spend time wisely and not waste time with data or information that is not relevant to their clients. It is also revealed by Setyorini (2011) that time budget pressure is a condition that must compel auditors to conduct all audit and examination activities efficiently, in accordance with predetermined targets where time here is something very strict and rigid.

#### **2.1.5 Task Complexity**

According to William C. (2010) defines the complexity of tasks is an unstructured task, difficult to understand, ambiguous and related to each other. The complexity of the task is the individual's perception of the difficulty of a task caused by the limited capacity and memory and the ability to integrate the problems that a decision maker has Irwanti (2011). The more complex a task the auditor must think more and more things. The complexity of the task is very close to the auditor's performance and may affect audit policies made by the auditor. Duties with a high level of complexity require considerable innovation and audit considerations, while tasks with a low level of complexity require relatively few levels of innovation and audit considerations Prasojo (2011)

## 2.2 Previous Study

There are several preliminary researches related with this research “The Influence of Competency, Audit Tenure, Time Budget Pressure, and Task Complexity (Empirical Studies in BPK RI Central Java Province)”



Table2.1 Previous Study

NO	AUTHOR	Variables	RESULTS
1	Ningsih & Yaniartha, (2013)	Independent variables are independency, competency, time Budget pressure and the dependent variable is audit quality	Data analysis model used is multiple linear regression analysis to see the goodness of fit. The results show the competence and independence of positive influence on the quality audit, this means that the higher the competence and independence of the auditor who owned a goof quality of audit. While variable time budget pressure which means the negative effect high time budget pressure it will decrease the quality audit.
2	Putri & Cahyonowati, (2014)	Independent variables are auditor tenure, audit firm size, and client size and the dependent variable is audit quality	The results of this study indicate that auditor tenure and client size have negative impact on audit quality as measured by the level of discretionary accrual. Meanwhile audit firm size that proxied by BIG 4 auditor and non-BIG 4 auditor has no significant impact on audit quality as measured by the level of discretionary accrual
3	Susmiyanti, (2016)	Independent variables are audit fee, time Budget Pressure, task Complexity and the dependent variable is audit Quality. The moderating variable is auditor Experience	The results showed that: (1) Audit Fee has positive and significant effect on Audit Quality with value of $r^2$ 0,169. (2) Time Budget Pressure has negative and significant effect on Audit Quality with value of $r^2$ 0,263. (3) Task Complexity has negative and significant effect on Audit Quality with value of $r^2$ 0,413. (4) Auditor Experience hasn't positive effect on relationship between an Audit Fee, Time Budget Pressure, and Task Complexity on Audit Quality with value $r^2$ 0,474

4	Jelista, (2015)	Independent variables are audit complexity, time budget pressure, experience of auditor, auditor experience and the dependent variable is quality. The moderating variable is understanding of Information Systems	Results of hypothesis testing in this study show that, the variable complexity of the audit time budget pressures and experience of auditor's variable effect on audit quality. The moderating variable understanding of the interaction of information systems of the variable complexity of the audit time budget pressures and experience of auditors no effect on audit quality.
5	Abdika (2015)	Independent variables are competence, complexity, professional skepticism, independence, emotional intelligence and the dependent variable is audit Quality	The results showed that the variable competence, complexity, Professional skepticism significant effect on audit quality on the Supreme Audit Agency (BPK) and the Supreme Audit Agency and development (BPK) Representative Riau Province. While variable independence and emotional intelligence has no effect on audit quality were significant at the Supreme Audit Agency (BPK)
6	Shintya, Nuryatno, & Oktaviani, (2016)	Independent variables are competency, independence, time budget pressure and the dependent variable is audit quality	Based on the results it can be concluded that the competency positive significant, independence positive significant, time budget pressure positive significant effect on audit quality
7	Furiady & Kurnia, (2015)	Independent variables are experiences, competency, motivation, accountability, objectivity and the dependent variable is audit Quality	The results showed if competency has significant influence on audit quality, competency in here means that auditor has a broad-minded, high curiosity, and able to work in group or team

## 2.3 Goal Setting Theory

The goal setting theory is part of the motivation theory proposed by Locke (1960) asserting that individual intentions to achieve a goal are the main source of work motivation. An individual with a difficult, more specific and challenging goal will produce higher performance than an unclear and easy goal. Locke and Lathan (1990) reveal that there are two categories of goal-directed actions, namely: (a) no-consciously goal directed and (b) conscious directed goals or purpose actions. The premise underlying this theory is the second category, namely conscious goal, where in conscious goals, ideas are useful for encouraging individuals to act. The goal-setting theory suggests that there is a direct relationship between the definition of specific and measurable goals with performance: if managers know what their goals are, they will be more motivated to put forth efforts that can improve their performance. Objectives that have challenges are usually implemented in output with a specific level that must be achieved.

The auditor who understands the purpose and what he expects for the results of his performance, will not be deviant when auditor gets pressure from time budget in conduct audit, the leader or the entity being examined and complex audit tasks. An understanding of its objectives can help the auditor make a good audit result. The auditor should understand that the duty of the auditor is to provide professional services to assess the fairness of financial information provided by management to the public who have an interest in these financial statements.



Through this understanding the auditor will remain professional in accordance with professional ethics and applicable professional standards despite facing obstacles in his audit duties.

## **2.4 Attribution Theory**

Attribution theory according to Fritz Heider in Luthans (2005: 182) is a theory that explains about a person's behavior. The attribution theory explains how we determine the causes and motives about a person's behavior. This theory refers to how someone explains the causes of other people's behavior or themselves which will be determined by internal and external factors. Internal factors such as the nature, character, attitude, etc. and external factors such as the pressure of the situation or certain conditions that will influence the behavior of individuals. Attribution theory explains the understanding of a person's reactions to events around them, knowing their reasons for the events experienced. causing a person's behavior in social perception called dispositional attributions and situational attributions. (Luthans, 2005: 183). Dispositional attributions or internal causes refer to aspects of individual behavior that exist in a person such as personality, self-perception, ability, and motivation. Whereas situational attributions or external causes are caused by pressure, environment, social, or derived from existing obedience rules. This study uses attribution theory because researchers will conduct empirical studies to determine the factors that influence the quality of audit.

Internal factor or dispositional attribution is a factor that exists in an auditor that influences the giving of a response or assessment of something. In giving an assessment

to an entity, the auditor must have competency and a competent experience. An auditor's internal factors are education and auditor competence, and auditor experience (Hidayah, 2017). Internal factor of auditor that can affect audit quality is competence. According to Siti Mariyati and Dicky Arisudhana (2012), competence are knowledge, skills, and abilities related to work, as well as the abilities needed for a job. Competence can be obtained through education both formally and informally, as well as experience in conducting audits. The competence of an auditor can create professionalism in every assignment that aims to fulfill his professional responsibilities to the public while maintaining independence during his work.

In this study there are three external factors or commonly called situational attributions that can influence the auditor and auditor audit quality. The external factor of auditor that can influence the quality of audit report is the length of the audit tenure. In the Minister of Finance Regulation Number: 17 / PMK.01 / 2008 the provision of general audit services for the financial statements of an entity is carried out by the Public Accounting Firm for a maximum of 6 (six) consecutive years and by a Public Accountant for a maximum of 3 (three) successive year. Audit assignments will make it difficult for auditors to maintain their professionalism because in the delivery there will be an influence from the auditee that has had a long previous relationship with the auditor.

The time budget pressure is the one of external factor because this comes from existing compliance regulations and must be followed by auditors. Based on law number 15 of 2004 article 20 paragraph (3) states that BPK must complete the

examination report within 60 days and must give the report to DPRD. Time budget pressure has an influence on audit quality. Time budget pressure can have a positive effect on an auditor's performance in decision making and implementation of audit procedures (Arisinta, 2013) but that research not in line with Timothy, (2000) states that the existence of time pressure tends to make auditors to stop one or several audit procedures and dare to issue opinions before all audit procedures are required to run so that this will directly give negative effect on audit quality.

The last external factor in this research is the task complexity variable, because the auditor will always face with many tasks, different and interrelated with each other. Complexity is the difficulty of a task caused by limited capabilities, and memory and the ability to integrate problems that are owned by a decision maker (Jamilah et al, 2007). Especially in terms of government, like in Central Java Province, there are 36 entities consisting of 35 regencies and one province which will make auditors have to do one-by-one audit process based on the existing standard audit.

The use of attribution theory in this study focused on the auditor's assessment of internal factors in the form of competencies and external factors in the form of audit tenure, time budget pressure and task complexity. However, the assessment is related to the perceptions of each auditor and produces conclusions in the form of the influence of internal and external factors on audit quality.

## 2.5 Conceptual Framework

BPK as the only external body in charge of auditing the state finance has an obligation to perform its duties and functions well in accordance with the SPKN. With these standards hopefully BPK can implement tasks to control and issue state finances. Where the state finances that have been done by the government it will be held accountable by the people represented by it DPRD. Therefore, the task and audit function performed by BPK should be has a good audit quality. A good audit quality is a requirement in auditing the report.

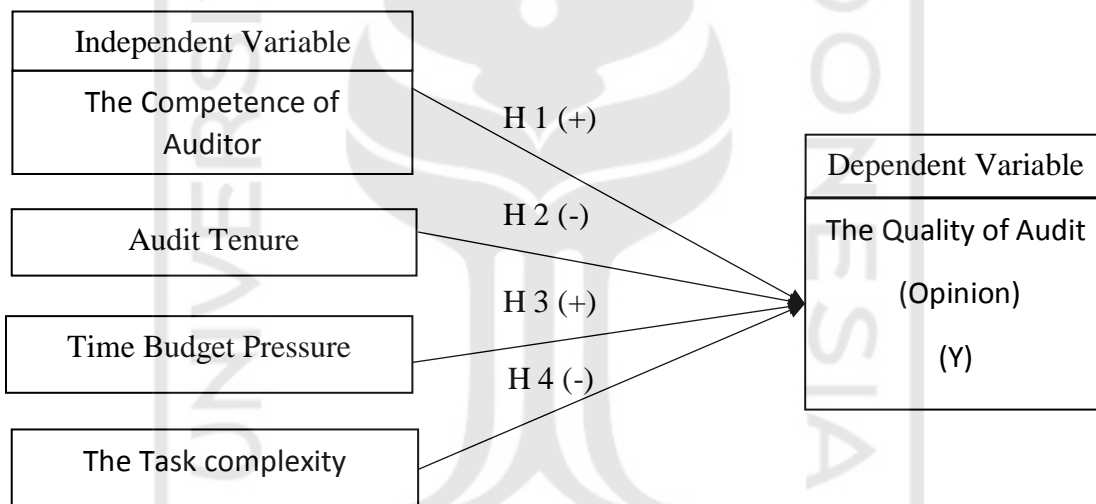


Figure 2.1 Conceptual Framework of Research

## 2.6 Hypothesis

### 2.6.1 The influence of Competence on Quality of Audit opinion

Competency is a set of knowledge, skills, and behaviors that must be possessed, experienced, mastered and actualized by the auditor in performing professional duties (Mardiasmo 2005). According to Libby and Frederick (1990) competence auditors are experienced auditors and have a better understanding of the methods they should use. They are also better able to provide a reasonable explanation for mistakes in financial statements so that it can reduce errors in auditing. The research has been done by Shintya, Nuryatno, & Oktaviani (2016) based on the results it can be concluded that the competency positive significant, mean if the competency of auditor is good or higher the quality of audit opinion will get higher too. The same as Kurnia, Khomsiyah, & Sofie (2014) their research also showed if The competence will affected to the quality of audit opinion. Based on some research above the research showed if the auditor has the better level of competence of an auditor then it will affect the quality of their audit opinion. Based on the above explanation, the hypothesis proposed is:

**H 1: The competence has positive effect on the quality of audit**

## **2.6.2 The Influence of Audit Tenure Auditor on Quality of Audit Opinion**

Auditor tenure is the period of engagement or duration of working relationship between auditors with the client in terms of examination of financial statements. Al- Thuneibat et al. (2011) in (Putri & Cahyonowati, 2014) argue that the long-standing relationship between auditors and clients has the potential to create closeness between them so they can disrupt auditor independence and reduce audit quality. Using the accrual discretionary approach, they conclude that the auditor-client relationship has a negative effect on audit quality. According to Permana (2012) a period of engagement that is too short a time can cause specific knowledge about the client is still low so that the quality of the audit will lower. If too long can cause a drop in the rate objectivity which is a requirement of absolute audit quality due to intimacy excessive between the two parties. Putri & Cahyonowati (2014) based on their research showed if audit tenure has negatively affected the quality of the audit. Thus, this study in line with Al- Thunerbat's and Permana's argument that the longer the duration of the audit assignment will increase a firm's discretionary accrual. Increased discretionary accruals indicate a decreasing quality of audit. Based on the above explanation, the hypothesis proposed is:

**H 2: Audit tenure has negative affect on audit quality**

### **2.6.3 The Influence of Time Budget Pressure on Quality of Audit Opinion**

Time budget pressure is something that auditors are sure to feel, with a limited time budget and complex tasks that the auditor should be able to use the time well in order to produce an appropriate audit opinion. Time budget pressure can reduce an auditor's judgment in evaluating or managing data and it can have an impact on their credibility in giving opinions. According to Coram (2003) the declining quality of audit due to time which is budgeted unrealistic and the time budget is very tight. Budget time arranged based on the estimated time that will be required in each step audit program on each auditor assigned in accordance with routine assignment. This has been done research by Kurnia et al. (2014) in this research showed the time pressure variable has a positive influence on the quality of the audit that the existence of a time budget pressure has been considered a common thing and is a way to encourage auditors to work harder and more efficiently. The results are also supported by the research that has been done by Saputra et al. (2016) based on their result they found have same result's as Kurnia et al. (2014) research if time budget pressure has positive effect on quality of audit, so when the time budget pressure of auditor is high the quality of audit will increase. Based on the above explanation, the hypothesis proposed is:

**H 3: Time budget pressure has positive effect on audit quality**

#### **2.6.4 The Influence of Task Complexity on Quality of Audit Opinion**

According to Prasita and Priyo (2007) who put forward a theory that increasing complexity in a task or system, will decrease the success rate of the task. Furthermore, Purnamasari and Merkusiswati (2017) stated that audit complexity has a negative effect on audit quality. This means that the complexity of the task being faced by the auditor will negatively impact the quality of the resulting audit. The higher the level of task complexity carried by an auditor the lower the audit quality. The opinions expressed by Purnamasari and Merkusiswati (2017) are directly proportional to the research done by Hasbullah (2014) that task complexity negatively effects on audit quality. Which means proving that task complexity negatively affects the quality of audit opinion is given. Based on the above explanation, the hypothesis proposed is:

**H 4: Task complexity has negative effect on audit quality**