

CHAPTER I

INTRODUCTION

1.1 Research Background

The top management often takes employee performance evaluation as an importance indicator in running the company. Performance is an indicator of employee to be evaluated by the top management. In certain company, there is a reward given by the top management to the employee such as Employee of the Month or any other reward and it is given when the employee is doing well when they are working. According to Robbins and Judge (2013) he stated that performance of an employee is the result based on the evaluation of every work that has been done and compared to the standard that has been set in the beginning. In the case of auditor, the term performance usually called as auditor performance. There are many factors that can affect auditor performance, according to the research done by Kresnantari (2015), she stated that auditor competence, auditor experience, and auditor independence are affecting audit quality or auditor performance. Beside those 3 factors, there is another factor that is included in personal factor, and that factor is religiosity. The researcher chose auditor independence, auditor experience, auditor competence and religiosity as the variables because the researcher wanted to test the effect of those variables to the auditor performance whether the impact is positive or negative in affecting the performance of public accounting firm in Daerah Istimewa Yogyakarta (DIY). Also, there is only a few journal or research that is using religiosity as moderating variable to measure auditor performance, not many people think that religiosity

can affect performance or behaviour of an employee or auditor. The researcher asked directly to the auditor in public accounting firm in Daerah Istimewa Yogyakarta to know about the effect of auditor independence, auditor experience, auditor competence, and religiosity to determine their performance based on their own perspectives.

The researcher used auditor independence as one of the factors that can affect auditor performance because in a certain case, there are some auditors that are not independent and tend to support the client and hide any mistakes that is done by the client. As stated by Pandoyo (2016), the auditor's independence relates to the ethical behaviour of auditors. This means that an independent auditor would be more likely to behave ethically. Auditor independence can also be considered as the wall to prevent auditor to do fraud, because auditor should work alone or independently, it means that client cannot intervene the auditor while performing audit to their company/client. Independence is like the integrity had by every single person and the objectivity while doing any kind of work. auditor have to have a high integrity while we are working, they should not do fraud or make mistakes intentionally, they also have to be objective if we are being an auditor, if they are tending to be subjective, then they can feel bad to the client if we are going to tell them that they are making mistakes. In this case, in 2001, called the case of Enron, when the auditor is not independent and tend to help the client to do fraud to their financial statements. Enron wanted to have many investors to invest in his company, to make that happened, Enron tend to increase the price of shares of their company. The increasing of the price of the

shares was not normal. Enron also asked the internal auditor to change their financial statements and pay the external auditor to help them to do fraud. Then, the Security and Exchange Commission (SEC) found that Enron was doing fraud at that time by increasing their price per share. After that, when Enron got caught, they got bankrupt. That's why auditor has to be independent.

The researcher also chose auditor experience as one of the factors that can affect auditor performance because auditor with less experience also can have a good performance or can produce a good audit quality compared to the more experienced auditor. However, there are many people agree that the more experience the auditor, the better quality of the audit. According to Irianto and Baridwan (2015), the more experience that the auditor have, it can determine the better audit quality or performance that they can do, especially in the making of audit assessment.

Competency was also chosen as a factor that can determine auditor performance. Here, the researcher wanted to know whether the competency of auditor really affects auditor performance or not. The researcher specified in public accounting firm in Daerah Istimewa Yogyakarta because there is still lack of study using religiosity to measure the auditor performance in public accounting firm in Daerah Istimewa Yogyakarta and the easiness of getting the respondents. Competency of auditor according to Suraida (2005) is based on their knowledge of performing audit, participating in audit training, and others. It means that the more knowledge an auditor has, the better performance that will be showed by the auditor. Auditor will understand more about their task, they also have a better

understanding of every mistakes or fraud that happened in the financial statement or the mistakes done by the client, because they know every little thing that is needed to be presented in the financial statement of a company.

The gap between the theories with the previous study that is used in this research is that there are some people or researchers that have different perspective about independence which has a significant effect on auditor performance. The previous study about independence according to Sukriah, Akram, and Inapty (2009) found that independence is not significantly affect auditor performance. Based on the research results, there is insignificancy between auditor independence and auditor performance because during the inspection by the auditor, there is an intervention from the boss or manager in determining, evaluating, and examining a certain part and there is also intervention in the procedures chosen by the auditor. The previous study in this research has a contrary opinion with theory, many researchers think that independence has a positive significant impact to auditor performance. According to Pandoyo (2016), he stated that the independence of auditor has a significant effect in determining audit quality or auditor performance. The result is that independency has 12% impact on determining audit quality. Based on the theory and previous research above, it can be seen that there is still some people arguing about the impact of independence toward auditor performance, the results of the study show different conclusion, so that factors can still be argued whether it is having a positive significant effect or negative significant effect. There are also some researchers think that having less experience in doing audit, auditor can still

produce a good audit quality. A study done by Furiady and Kurnia (2015) explain that auditor experience is not having a positive relation to the making of good audit quality. The research was done by asking young auditor in a whole that only have around 3 years in doing assessment of financial statement. They think that they can produce a good audit quality too compared to the more experienced auditor. However, the research done by Irianto and Baridwan (2015) shows that the more experience that the auditor have, it can determine the better audit quality or performance that the auditor can do, especially in the making of audit assessment. There is still different opinion between some researchers about the effect of auditor experience toward auditor performance.

By having many different arguments about those variables, therefore, by doing this research, the researcher wants to know whether auditor independence, auditor experience, auditor competence, and religiosity could affect in a positive or negative way in determining auditor performance from the perspective of auditor in public accounting firm in Daerah Istimewa Yogyakarta.

1.2 Research Problem

Based on the introduction which is explained above, the research questions are:

1. does auditor independence could affect auditor performance?,
2. does auditor experience could affect auditor performance?,
3. does auditor competence could affect auditor performance?,

4. does auditor independence moderated by religiosity could affect auditor performance?,
5. does auditor experience moderated by religiosity could affect auditor performance?, and
6. does auditor competence moderated by religiosity could affect auditor performance?

1.3 Research Objective

The objectives of this study are:

1. to examine the effect of Auditor Independence toward Auditor Performance,
2. to examine the effect of Auditor Experience toward Auditor Performance,
3. to examine the effect of Auditor Competence toward Auditor Performance,
4. to examine the effect of Auditor Independence moderated by Religiosity toward Auditor Performance,
5. to examine the effect of Auditor Experience moderated by Religiosity toward Auditor Performance, and
6. to examine the effect of Auditor Competence moderated by Religiosity toward Auditor Performance,

1.4 Research Contribution

The writer would like to contribute the study for both theoretical and practical use. Those benefits may be useful for the following parties:

a. The Public Accounting Firm (KAP)

The result of this research will be useful as the evaluation of self-assessment system implementation among the auditors in Public Accounting Firm (KAP) in Daerah Istimewa Yogyakarta.

b. The Other Researchers

The result of this research may contribute a literature work to expand the study of the effects of independence, competence, and experience toward auditor performance using religiosity as moderating variable.

1.5 Systematic of Writing

The systematic of writing of this research consists of 5 chapters, those are:

Chapter I Introduction

The first chapter includes the introduction which explains the background of the study, research problem, research objective, research contribution, and the systematic of writing of this research.

Chapter II Theoretical Review

The second chapter includes the theoretical review which explains the literature review, theoretical basis, review of previous study, conceptual framework, and the hypothesis development of this research.

Chapter III Research Method

The third chapter includes the research method which explains the population and sample of the research, the data collection method, the research variables and measurement, the data quality test, and the analysis technique of this research.

Chapter IV Research Findings and Discussion

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

Chapter V Conclusions and Recommendations

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

