

## **CHAPTER II**

### **THEORETICAL REVIEW**

#### **2.1 Literature Review**

##### **2.1.1 Auditor Performance**

Auditor performance comes from auditor attitudes and behaviour. If it is viewed from the scope of work, performance of an auditor is resulted from the evaluation of audit work in doing the examination measured with the applicable audit standards (Sunyoto, Ghozali, & Purwanto, 2017). There are so many factors that can measure auditor performance, such as professionalism of the auditor in doing audit and the experience.

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. Performance is the factor that can be assessed or can be evaluated by other people. In a company, it talks about employee performance that will be evaluated by their managers or directors. According to Sarmiento et al. (2007) in Osman-Gani, Hashim, & Ismail (2012), he argued about the factors that determine performance which is usually coming from 2 factors such as abilities and skills. Performance may also be based on the auditor or employee motivation.

##### **2.1.2 Auditor Independence**

Independency is an important factor that is needed by an auditor. Independence is the same as integrity. The definition of independence in the CPA

Handbook according to E.B Wilcox in Alim, Hapsari, & Purwanti (2007) is an important standard in doing audit to make a financial report of the company or clients to be more credible.

Hudiwinarsih (2010) stated that independence is attitude that auditor or public accountant is expected to have. Independence means that auditor cannot have a personal interest on the client in doing the audit. The concept is the same with integrity and objectivity while doing audit. It will affect the opinion of auditor if the auditor is not independent. They can hide the mistakes and give a different opinion that supports the client.

According to Sukriah et al. (2009) auditor independence is an auditor that is not easily affect or be affected by the client. According to the result of the research, she found that independence did not have a significant impact toward audit quality. Independence is an important factor that is needed by auditor. However, whether it is an important factor, it does not affect the auditor performance significantly.

### **2.1.3 Auditor Experience**

According to the common perception stated in Kotur & Anbazhagan (2014), the educated people can do certain tasks easily and efficiently compared to the uneducated or those who have lower education level. This is in accordance with the dictum "knowledge is power". It implies that a person who is knowledgeable and can perform better at tasks that require that knowledge. The same hold good in the case of a skilled or experienced worker. A worker having

good experience in his job can become a leader due to his special gift of experience he acquired during his work.

Experience according to Libby & Frederick (1990) stated that the more experience the auditor, the better accuracy in doing audit. The more experienced auditor is able to reach a conclusion quickly compared to the less experience auditor. Auditor experiences increase when they are doing so many auditing tasks given to them and it also increases when they have knowledge about doing audit.

Tubbs (1992) stated in his research that the more experienced accountant or auditor, the more they are aware with mistakes and error that occurred when they are doing audit of financial statements. They are also aware of the mistakes that is uncommon or unusual and they are good at analyzing those mistakes or error happened. They will be more familiar with some uncommon mistakes, because they have ever found those mistakes before and that is why auditor experience is needed.

#### **2.1.4 Auditor Competence**

According to the explanation of Suraida (2005) about competence, she stated that competence of auditor is measured from their certificate and the frequency of participating in any training or seminar about auditing. She stated that if auditor has many certificates and training, it can be said that the auditor is more capable while doing audit compared to the auditor who has just a small amount of certificate and training.

According to (Suhayati & Rahayu, 2010) 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.

Competence based on the research done by Lasmahadi (2002) in Alim et al. (2007) can be defined as a personal aspects from an employee or auditor to reach a great performance in work. These personal aspects are attitudes, knowledge, personality, and the ability of the employee or auditor itself. Those aspects will determine how competent the auditor can do audit. Usually, competence also can be determined using experience. It means that these 2 factors have a connection in measuring the auditor performance.

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### **2.1.5 Religiosity**

According to Al-Goaib (2003) in Achour, Mohd Nor, & MohdYusoff (2015), religiosity in Islam is a commitment of people to their religion by following the religion fundamental based on the theory and the practices, such as going to their worship place for praying, and attending religion occasion. Weaver & Agle (2002) stated that religiosity can influence individual value or ethical

behavior. Religious and spiritual symbols and practices now are being acceptable in a workplace.

There are 2 types of religiosity, the first is intrinsic religious orientation and the second is extrinsic religious orientation. According to Liu (2010) intrinsic religious orientation has a significant impact to person emotional intelligence and Extrinsic religious orientation has a negative impact or correlation with person emotional intelligence. According to (Holdcroft, 2006) intrinsic or intrapersonal religiosity is one who internalize the total creed of his or her faith and moves beyond mere church attendance. Extrinsic or interpersonal religiosity as a self-serving and utilitarian outlook on religion that provides the believer with comfort in salvation.

Based on the research done by Ntalianis & Darr (2005) people who hold and follow certain religious dogmas will get affected by set of behavior that can be implemented in their social lives. Employee behavior also can be affected by religious preferences. They will think more when they do their work, whether it is in-line with the theory from their religion or not.

## **2.2 Theoretical Basis**

### **2.2.1 Attribution Theory**

Attribution theory according to Kelley (1980) is a theory that people interpret behavior in terms of its causes and that these interpretations play an important role in determining reactions to the behavior. A person seeking to understand why another person did something may attribute one or more causes to

that behavior. According to (Luthans, 2012), attribution theory is a theory that explains about human behavior. This theory describes how scientist/people measure human's behavior both internally and externally. According to Maulidya, *et al* (2014) in Wijaya (2017), there are 2 types of attributions, those are dispositional attributions and situational attributions. Dispositional attribution or internal causes refers to the individual factors, such as attitude, skill, self-perception, and motivation. In the other hand, situational attribution or external causes that refers to an environment that can affect individual behavior, such as social conditions, other people perspectives, and social value.

### **2.2.2 Value Theory**

Based on Rescher (1970), value theory seems to refer to a body of techniques developed for describing, analyzing, and explaining human values. The notion of values is inextricably connected to two human characteristics. First is the existence of wants about needs and desire and satisfaction and dissatisfaction. Second, the rationalization of activity. It encompass all branches of political philosophy, moral and social philosophy, aesthetics, and sometimes feminist philosophy and the philosophy of religion, whatever areas of philosophy are deemed to encompass some evaluative aspect. Value theory was designed to catch up the area or moral philosophy. Usually, it covers the questions about the value or the goodness of any kind of variety.

## **2.3 Review of Previous Study**

### **2.3.1 Auditor Independence on Auditor Performance**

A research conducted by Kresnantari (2015) stated that independence could affect the determination of audit quality. It can be seen from the result from the test that is done in the research. The result shows that independence has a significant impact to the auditor performance or in the making of audit quality. According to Pandoyo (2016), he stated that the independence of auditor has a significant effect in determining audit quality or auditor performance. We can see the result of the research that independence has 12% impact on determining audit quality.

As stated by Imansari (2015) in her research, independence means that people are free from influence of other people and there is honesty in the auditor itself in considering between audit evidence and the facts found while doing audit. Based on the research result, the significant value of independence is showing that independence has a significant impact to the making of audit quality.

The result of the study in the research done by Septiari & Sujana (2013) in inspectorate in Bali shows that the impact of independence has the same impact with the previous journal stated above that the impact is significant. Therefore, based on the research results, independence has a significant effect toward audit quality or auditor performance. By this means, this result shows that auditor in Inspectorate in Bali provinces has a high independence. Every auditor will always explain every report in accordance with the audit findings.

### **2.3.2 Auditor Experience on Auditor Performance**

Experience is one of the factors that can determine the performance of the auditor. That is why there is senior auditor and junior auditor. According to Irianto & Baridwan (2015), the more experience that the auditor have, the better audit quality or performance that they can do, especially in the making of audit assessment. A research done by Coklin (1993) in Irianto & Baridwan (2015) found that with the more experience auditor in doing the audit, they are having a better ability in doing a case resulting to a better audit quality.

A research done by Pandoyo (2016) stated that audit experience has a significant influence to the audit quality, because the higher experience that auditor has, the better the quality of the audit produced. The factors to have a good experience is by having a good audit performance, professional skills in doing audit, and long conducting the audit itself. Those four factors can be used as a main concern to improve the experience in doing audit.

Auditor experience is an experience that the auditor had in doing audit toward financial statement and the ability to learn from the past event, based on the audit task that they have ever taken. From the test that is done in the research, the significant value of experience shows that experience of the auditor has a significant impact toward auditor performance while doing audit (Imansari, 2015).

### **2.3.3 Auditor Competence on Auditor Performance**

According to Furiady & Kurnia (2015) competence can influence performance of the auditor. Competence here means that auditor has a broad-



minded, high curiosity, able to work in group or team, and they are able to handle uncertainty. Competence has a principle that required the auditor to have a professional knowledge that can ensure the professional services provision for the client. Auditor still has to improve their competencies on an outgoing level so that the clients can get a professional service from them.

As stated by Pandoyo (2016) competence is one of the factors that can affect auditor performance or audit quality. There are 2 (two) components in competency, these components are knowledge and psychology (ability to communicate). Knowledge means that auditor has to have knowledge that is sufficient to perform audit that is accordance with standards. Ability to communicate here means that the auditor needs to have curiosity, able to work in team, and have a good observation while doing audit. From what has been stated above, competence is really needed or can affect auditor performance.

According to Imansari (2015) competence in auditor is the ability of auditor to do their task in doing the audit correctly, the high the competence of the auditor is in-line with the increasing of audit quality or auditor performance. Based on the result of the research, the significant value of competence is showing that it has a significant effect toward audit quality or auditor performance.

#### **2.3.4 Religiosity on Auditor Performance**

Religiosity is a personal factor that could affect people or employee performance in doing their job. Usually, it contains many factors like paying zakat, and showing prayers for 5 times a day for Muslim. Besides, if it is for non-

Muslim, how many time they pray in a week or how often they come to their religious occasion is the factor of religiosity. According to the research done by Osman-Gani et al. (2012) they stated that religiosity has a significant impact toward employee performance in doing their job, for this research especially in doing audit to improve audit quality.

The result from the research done by Purnamasari & Amaliah (2015) shows that religiosity has significant influence on auditor performance, it is stated that the more religious the auditor, the lower the auditor intentions to do fraud in performing audit. They will think that if they did not follow what the religion said, they will get sin, and that is the factor that can make them to stop and avoid fraud. In this term, fraud prevention can be considered as auditor performance while doing audit on financial statements. The value of religiosity toward fraud prevention is significantly influence the fraud prevention or auditor performance.

## 2.4 Conceptual Framework

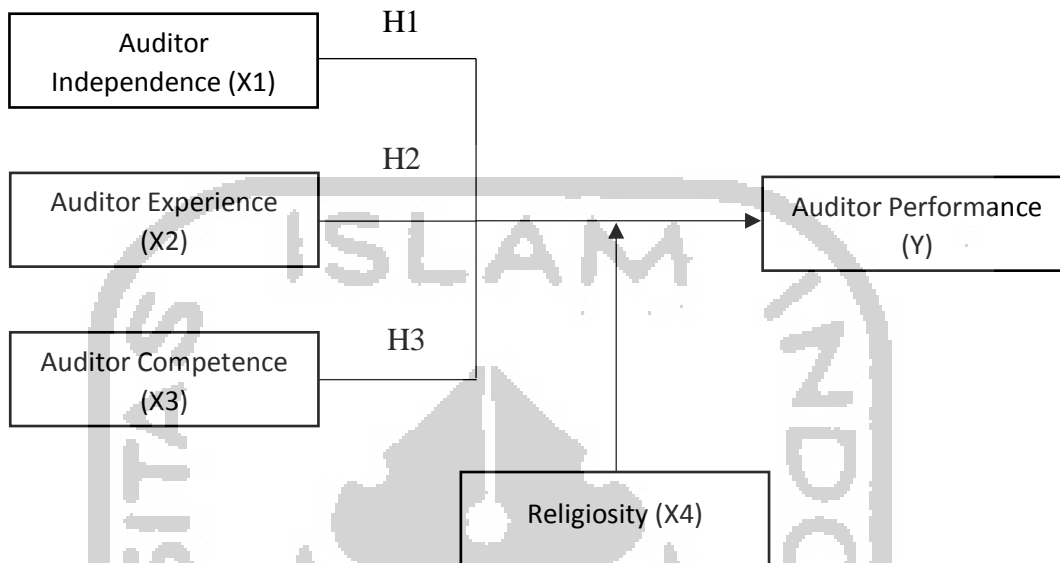


Figure 2.1 Conceptual Framework of Research

## 2.5 Hypotheses Development

### 2.5.1 Auditor Independence on Auditor Performance

Auditor independence is an important factor that will determine auditor performance. By having a high independence, auditor can make a high quality audit. It is because the independence of auditor can be seen from the report that the auditor make. They are not affected by other people comments. Furthermore, they do not work together with the client, so the client cannot intervene the audit opinion from the auditor. The research done by Nirmala & Caryonowati (2013) stated that independence is having a positive significant effect on audit quality.

Based on the situational attribution theory that refers to an environmental factor that could affect individual behaviour, independence of the auditor can be affected by other people or parties. Also, auditor cannot be intervened by other

people because they have to work independently. Therefore, based on the explanation above, the hypothesis can be formulated as follow:

*H1: Auditor Independence has positive effect toward Auditor Performance.*

### **2.5.2 Auditor Experience on Auditor Performance**

Auditor experience can be measured from how long the person work as an auditor and how many tasks the auditor has done. In the research done by Pandoyo (2016) stated that audit experience has a significant influence to the audit quality, because the higher experience that auditor has, the better the quality of the audit produced. According to Purnamasari (2005) in Furiady & Kurnia (2015) stated that employee who has high working experience in doing audit will have many advantages like they will be easier to understand, to detect, and to look for error caused in the financial statement.

Based on the dispositional attributions theory that refers to an individual factor caused by the individual itself, experience of an auditor can be increased by how long the auditor has been working and it comes from themselves. Experience can deepen and broaden the ability of the auditor in doing their work. Therefore, based on the explanation above, the hypothesis can be formulated as follow:

*H2: Auditor Experience has a positive effect toward Auditor Performance.*

### **2.5.3 Auditor Competence on Auditor Performance**

Auditor competence is the ability of auditor to work correctly and in-line with the audit standard. Suraida (2005) stated that those ability of competence can

be achieved from audit training, seminar, and symposium. By having those training, auditor can have the knowledge in doing audit that is in-line with audit standards. Therefore, the quality of audit will increase and the performance of auditor can be seen from the audit opinion produced.

According to the dispositional attribution theory that refers to the individual factors that caused by the individual itself, competence of an auditor is important and it can be achieved by training or seminar. The more competent the auditor, the better performance and audit quality. So, based on the explanation above the hypothesis can be formulated as follow:

*H3: Auditor Competence has a positive effect toward Auditor Performance.*

#### **2.5.4 Auditor Independence on Auditor Performance using Religiosity as moderating variable**

Auditor independence is the same with integrity and objectivity in performing audit. It is a really needed factor that auditor should have. Religiosity can be a factor that can determine audit performance. If an auditor has a high religiosity, auditor will remain independent because the auditor will think more to do the audit. Meanwhile, if auditor is not independent and the auditor is trying to help the client from the mistakes that the client did, the auditor will think about the consequences from their religion. Because of that, religiosity can drive the auditor to be independent and can drive them to have a good performance.

Based on the situational attribution theory and value theory, independence that is affected by religiosity refers to the external causes and how they value a thing based on their religion, it can press the auditor to be more independent. The auditor will know which one is good or bad because they follow what the religion has said. Therefore, based on the explanation above, the hypothesis can be formulated as follow:

*H4: Auditor Independence moderated by Religiosity has a positive significant effect toward Auditor Performance.*

#### **2.5.5 Auditor Experience on Auditor Performance using Religiosity as moderating variable**

Auditor experience has a positive significant impact on auditor performance. It is based on the research done by Imansari (2015) which stated that the significant value of experience is  $0.000 < 0.05$ , it means that the experience is positive and significant. Religiosity also has a significant effect toward auditor performance. Human being always has a religion in their heart and mind, religion always taught people to always find an experience, to be able to work correctly, and to know about the past events.

Based on the dispositional attributions theory and value theory that refer to the individual factor caused by the internal of the individual and how they value thing or any kind of actions that taught by the religion, auditor tend to increase their experience in work because religion has taught people to always find new experience and learn from the mistakes that have ever been done, so that the

auditor will understand more about the past mistakes and know how to overcome it.

Because religiosity is connected to experience and employee performance, the hypothesis can be formulated as follow:

*H5: Auditor Experience moderated by Religiosity has a positive effect toward Auditor Performance.*

#### **2.5.6 Auditor Competence on Auditor Performance using Religiosity as moderating variable**

Auditor competence according to Suraida (2005) is measured from their certificate and the frequency they joined or participated in any training or seminar about auditing. She stated that if auditor has many certificates and training, it can be said that the auditor is more capable while doing audit. Religiosity taught people to always gain knowledge, even when become old, people still have to study to gain knowledge as much as possible. It means that religiosity can support auditor competency in determining auditor performance. By participating in training, seminar, and symposium, it is the same with gaining knowledge that is taught by religion.

According to the dispositional attribution theory and value theory that refers to the individual factor caused by the internal of the individual itself and how to value thing based on their religion, competence is an important thing to have as an auditor, because the more competent the auditor, the better performance and audit quality. Religion also taught to always gain knowledge. It

is because by gaining knowledge, people will know what they should do in work, and able to do the work correctly as what the standard said. Therefore, based on the explanation above, the hypothesis can be formulated as follow:

*H6: Auditor Competence moderated by Religiosity has a positive effect toward Auditor Performance.*

