

CHAPTER 1

INTRODUCTION

1.1. Study Background

Accountants have a responsibility in maintaining and complying ethical standards in their organizations which are required to be competent and to maintain integrity. In connection with economic crisis in Indonesia, accountant seems to be a needed profession in Indonesia. Audit field is related to accounting field. Accounting is having a fundamental profession in financial audit field. Audit is playing an important role in developing and enhancing the global economy and business firms. Thus auditors must be sensitive to the misstatement of financial statements then recognize and report it.

The auditor is one of an accounting profession. They should raise their skill in order to increase the audit quality. Auditors express an opinion on the fairness of financial statements. This is important for financial statements users to gain assurance that the data are being reported, properly measured, and fairly presented (Al-Khaddash, Nawas, & Ramadan, 2013). Indonesian Institute of Accountants stated that the auditor's audit quality is containing several criteria such as auditing standards and quality control standards. A professional accountant auditor should perform the audit based on the auditing standards established by the Indonesian Institute of Accountants (IAI), such as the general standards, standards of field works, and reporting standards. Auditors must raise their skills in order to increase the probability to rely more on audit quality.

However, in recent years, legal issues mainly related to corruption, collusion and nepotism (CCN) with any practice such as money laundering, account balance fraud, illegal collecting, bribe, as well as the use of state money for individual purposes (Wanodya, 2013). People's desire to establish a country free of corruption needs supervision and internal control. It was not an easy process to recognize whether a company has already had a good audit quality or not. Therefore, it required consistency, commitment, and understanding of how the process runs in the company.

Many accounting scandals that happened in an organization such as Enron, Parmalat, and WorldCom are revealed in last decade. Moreover, these scandals bring the company into bankruptcy. In Indonesia, scandal such as public accountant who makes financial statements of Raden Motor Company (RMC) to obtain capital loan worth Rp 52 billion from BRI bank on Jambi in 2009, is allegedly involved in corruption cases in bad debts. This revealed after the attorney in Jambi uncovered an alleged corruption cases in bad debts for an automotive field business development. On Tuesday (18/05/2010), there was a strong suspicion of the involvement of Mr. BS as a public accountant in this case after his client was inspected. The examination result, Mr. BS as suspect also as witness revealed errors in RMC's financial statements for their loans application to BRI. According to Mrs. F as an attorney, there are four activities of financial report that are not reported by public accountant, then there was an error in the credit process and she found allegations of corruption. When RMC's financial statement data was submitted to the BRI, it supposed to be complete, but in the

financial statements given by the suspect Mr. MZ as head of RMC, there was alleged data that was made inappropriate and incomplete by the public accountant (“Akuntan publik diduga terlibat”, 2010). As a public accountant, Mr. BS should perform tasks based on the existing professional ethics. Five rules of ethics that were not performed by Mr. BS such as: independence, integrity, objectivity, general standards, accounting principles, and peer review. In the case above, low of internal auditor’s professionalism and internal intervention while performing the audit has influenced the public accountant in doing fraud. Fraud can be happened when the independent auditor has bad attitude and ethics.

Audit quality is every possibility that the auditor can determine fraud or misstatement that occurred in the client's accounting system during the client’s financial statement audit then report it in the audited financial statement, where the auditors performance based on the auditing standards and codes of conduct in accounting (Kovinna & Betri, 2009). A higher audit quality will detect and report any instances law noncompliance, regulations, and any internal control weaknesses over financial reporting.

Basic roles of public accountant are fundamental which consist of competence, independence, and experience. An auditor in finding a fraud must be competent, prudent, professional, and has attitude of austerity. An auditor must has common standards in knowledge and expertise in the fieldwork of accounting based on the procedures (Kurnia, Khomsiyah, & Sofie, 2014). Competence is one of requirement that needed by auditor to do their task in audit. In doing audit, an

auditor must has good personal, wide knowledge, and good capability in their subject.

Public accountant must keep their independency in examining a company or client, then a public accountant should not be affected by the other parties related to the company or clients currently in the process of examination conducted by public accountant (Dewi & Budiarta, 2015). Independency drives auditors to not take sides with anyone and any interest that would affect the freedom in giving an opinion on the financial statements.

Auditor professionalism is supported by the quality of the audit result. The auditor professionalism cannot be separated from the ability to perform audit based on standards (Wardhani, Iriuwono, & Achsin, 2014). Professionalism can be affected by other common standards. Longer auditor working experience will give more extensive knowledge and higher mastery level of the fieldwork (Wardhani et al., 2014). Professional proficiency requires auditor to think critically about the audit evidence. Due professional care is an important act that should be owned by public accountants in order to achieve adequate audit quality in the execution of their professional work (Wiratama & Budiarta, 2015).

Beside competence, independence, and due professional care, another important factor that influences audit quality is auditor ethics. Auditor ethics is moral principle that guides the auditor in auditing to achieve good audit quality. Ethics is norm and rule that already created and should be obeyed to society especially for accountant (Wanodya, 2013). Accountant ethics code is an

assurance of the service quality provided by accountant to the client. The audit quality is not only influenced by auditors' competency and independency but also theirs ethics in carrying out their profession (Kurnia et al., 2014).

The internal control has been carried out by organization under Government Internal Controller (APIP) such as the Financial Supervision and Development Agency (BPKP), Inspectorate General, Provincial Inspectorate and the City Inspectorate. BPKP is one of the government internal controllers that has the task of supervising the implementation of finance and development based on the valid Act (Wanodya, 2013). In addition, BPKP required creating a process of good governance free from CCN.

The research conducting audit quality was become a trend in many countries including in Indonesia. Every researcher is using different objects although some researchers are using similar variables. Previous research used several variables such as competence, independence, due professional care, and auditor ethics. The current research done by Kurnia et al. (2014) about competence, independence, and ethics have significance influence on audit quality. Research done by Wanodya (2013) about competence, interaction between competence and auditor ethics, and interaction between independence and auditor ethics has positive influence on audit quality. The researches done by Bawono & Singgih (2010); Kharismatuti & Hadiprajitno (2012); and Dewi & Budiarta (2015) about independence has influence on audit quality. Researches done by Kharismatuti & Hadiprajitno (2012) about interaction of independence and auditor ethics have

significance influence on audit quality. In addition, research done by Bawono & Singgih (2010), and Dewi & Budiarta (2015) about due professional care and accountability have significance influence on audit quality. The researches done by Kovinna & Betri (2009); Tarigan, Bangun, & Susanti (2013); Wanodya (2013) about auditor ethics have significant influence on audit quality. Research done by Saputra (2012); and Aqmalia (2014) about competence, independence, auditor ethics influence on the interaction of competence to audit quality, and auditor ethics influence on the interaction of independence to audit quality has positive influence to audit quality. Another research done by Satiti (2016) showed that auditor ethics has influence of the independent variables (independence, experience, due professional care, and accountability) to audit quality.

Different with above researchers that these researchers such as Kovinna & Betri (2009); Kharismatuti & Hadiprajitno (2012) and Tarigan et al. (2013) found that competence has no influence to audit quality. Meanwhile, Satiti (2016); Kovinna & Betri (2009); and Wanodya (2013) proved that independence has no significant influence to audit quality. Recently, Saripudin, Herawaty, & Rahayu (2012); and Satiti (2016) showed that due professional care has no influence on audit quality. Besides that, Kharismatuti & Hadiprajitno (2012) believed that interaction between competence and auditor ethics has negative influence on audit quality. Then, the motivation of this study is to retest those researches which are inconsistent and insignificant.

Based on that background, the researcher wants to reexamine the inconsistent variables then this research is titled “The Effects of Competence, Independence, and Due Professional Care to Audit Quality with Auditor Ethics as Moderating Variable (Study on Financial Supervision and Development Agency in D.I Yogyakarta)”. This research is a replication from previous research which was done by Saputra (2012). The differentiation with that research is additional variable of due professional care that assumed to have influence to audit quality. Also this research changes the sample where in the past uses public accountant in Middle Java and D.I. Yogyakarta as a sample and then the research will use the sample in BPKP D.I Yogyakarta.

1.2. Problem Identification

The inconsistent variables lead this research into several findings that can support the analysis of each variable. Each research has its entities which difference one research to another research. This differentiation creates different perspective which needs to be retest. The used of different model in the previous researches leads the result into inconsistencies which needs to be retest in order to enrich future references. The problem identification of the research is to analyze the influence of competence, independence, and due professional care to audit quality with auditor ethics as moderating variable.

1.3. Problem Formulation

Based on the background, the research problem statements consist of:

1. How is the influence of competence to audit quality?
2. How is the influence of independence to audit quality?

3. How is the influence of due professional care to audit quality?
4. How is the auditor ethics influence on the interaction of competence to audit quality?
5. How is the auditor ethics influence on the interaction of independence to audit quality?
6. How is the auditor ethics influence on the interaction of due professional care to audit quality?

1.4. Research Objective

Based on the problem formulation, the objectives on this research are:

1. To analyze the influence of competence to audit quality
2. To analyze the influence of independence to audit quality
3. To analyze the influence of due professional care to audit quality
4. To analyze auditor ethics influence on the interaction of competence to audit quality
5. To analyze auditor ethics influence on the interaction of independence to audit quality
6. To analyze auditor ethics influence on the interaction of due professional care to audit quality

1.5. Research Contribution

This research is conducted with an expectation that it can give additional scientific benefits and input as well as a new reference for the next research. The result of this research is expected to benefit these following parties:

1. Researcher

This research can be as reference and comparison toward another researcher who will continue or develop in the same topic. The next

researchers can implement and apply the knowledge obtained in the university especially major in Accounting.

2. The companies

BPKP D.I. Yogyakarta can determine the understanding of the result on this research. Also for auditor in BPKP, it can be referred as consideration and reference materials in carrying out its audit process, especially in terms of providing opinions related to audit quality.

3. Academics

This research's purpose is to add more value in the experience and knowledge toward the academicians. This research determine how internal audit practice conduct in BPKP D.I. Yogyakarta.

1.6. Systematical Writing

This thesis consists of five chapters, with the following details:

CHAPTER I: INTRODUCTION

This chapter describes the study background, problem identification, problem formulation, research objectives, research contribution and systematical writing.

CHAPTER II: LITERATURE REVIEW

This chapter provides literature review including basic theories that are relevant to the problem in this research. It also contains theroretical framework, hypothesis formulation and research model.

CHAPTER III: RESEARCH METHOD

This chapter contains type of study, population and sample, research variable, data quality test, analysis technique and discussion.

CHAPTER IV: RESEARCH FINDINGS AND DISCUSSION

This chapter contains the research findings and discussion about the result of the research.

CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS

This chapter describes the conclusions, limitations and recommendation that may be implemented for future research.

