

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Nowadays, competition in the business world has increased along with the various types of industries. Multiple methods are used to continue to survive amid competition is so tight. The company competes by showing high profits, and the fairness of the financial statements is much more critical. The company's efforts are to conduct examinations of financial statements by an independent third party, a public accountant. It is not despite the increasing number of those who need financial report audit results that can be trusted. As companies develop in Indonesia today, the need for public accounting services is increasing to ensure that the financial statements presented by management are free from material misstatement. Therefore the company needs a public accounting firm whose financial reports have been independently tested and support business decision-making (Ariestanti, 2019).

Auditors too considered having contributed to providing false information regarding the situation companies so that many parties feel disadvantaged, especially the investors. Quality audit results can affect the image of the public accounting firms themselves (Berikang, 2018). Audit quality contains clarity information from the auditors' audits on the report finances that are audited according to auditing standards.

The audit quality is critical because the financial statements' information will be used as a basis for reliable decision-making by stakeholders, namely stakeholders' interests in business, including shareholders, suppliers, creditors, workers, customers, and government (Muliawan, 2017). Audit quality is used to improve the credibility of accounting information users' financial statements to reduce the risk of non-credible information in financial reports for financial report users, especially investors. The public accounting profession is a profession of public trust. People expect a free vote and impartiality of the company management's information in the public accounting profession's financial statements. The public accounting profession is responsible for raising the reliability of the company's financial statements so that the public obtains reliable financial information as a basis for decision making. A public accountant is an accountant who has received permission from the finance minister to provide public accounting services in Indonesia. The provisions concerning public accountants in Indonesia are regulated in the Republic of Indonesia Number 5 of 2011 on Public Accounting and Finance Minister Regulation No. 17 / PMK.01 / 2008 on Public Accountant Services. Accountants are often subjective when there is a close relationship between public accounting firms and their clients. Auditors of the most honest and accurate even inadvertently distort the figures to cover a company's actual financial situation. As a result, society becomes not believe in the existence of the public accounting profession.



Financial manipulation cases befell the company and got involved auditors to make auditors pay attention to the resulting audit quality. Auditors are often in a dilemma, and auditors must act independently in providing opinions regarding the fairness of financial statements that meet various parties' interests. Still, on the other hand, the auditor must also meet the client's demands so that the client is satisfied with work and continues to use the same auditor services in the future. De Angelo (1981) defines audit quality as the probability that an auditor finds and reports on a violation in the client's accounting system. The violation is a mismatch between statements about an economic event written by the client with the actual conditions in the field and the standards set. Audit quality is the findings that violate the client's accounting system and deliver results in the audit report.

Public accountants are also eligible parties to examine and test the financial statements that are presented following General Acceptable Accounting Principles (GAAP) or not. When auditing the client's financial statements, the auditor can find violations in the client's accounting system and report them in the audited financial report. In carrying out their duties, they are guided by auditing standards and relevant public accountant codes.

An audit is a process for reducing the information that contained inconsistencies between managers and shareholders. It required a third party (Public Accountant) to give investors and creditors confidence that management's financial statements are believed. An auditor in making an audit consideration should gather

and evaluate evidence. This case includes the determination of materiality, assessment of internal control systems, the decision of the level of risk, audit strategy used determination, the decision of audit procedures performed, the evaluation of the evidence obtained, the assessment of going concern company, and came to the opinion given by the Auditor (Praditaningrum, 2012). The individual aspect is one of the factors that can influence individual behavior in making audit considerations. The judgments made by an auditor are influenced by the way the auditors perceive them in responding to information. Not all auditors can do their job correctly, and some public accountants still make mistakes. Therefore, several influencing factors are needed to obtain a good audit quality, such as auditor experience, task complexity, and time budget pressure. The factors taken above are critical to ensure the accounting profession fulfills its responsibilities to investors, the general public and the government, and other interested parties. The quality or not the auditors' audits in response to and evaluating information are determined by the factors above.

Audits carried out by public accountants can be of high quality if they meet auditing standards. Based on the auditing standards that have been determined by the Indonesian Accountants Association (IAI), there are three categories into which auditing standards can be grouped : (1) standards general, (2) fieldwork standards, (3) and reporting standards. The general standard is a standard related to the qualification and quality of an accountant's work public. The standards for fieldwork are related standards by conducting audits on the premises or the client's business. In

comparison, standard reporting is a standard relating to presentation, disclosure, and statement of opinion on the results of audits on the premises or the client's business. Good audit quality will produce good financial reports that can be trusted and the basis for decision-making by other parties like investors. Besides, there is a fear of widespread scandals in finance, which can erode public confidence in audited financial statements and the public accountant profession (Setyawati, 2010). Public trust is very much crucial for the survival of a company. The public is judging a company from audited financial statements that look good; however, it also required auditors who can be trusted and can affect the auditor in producing a quality audit need to be considered.

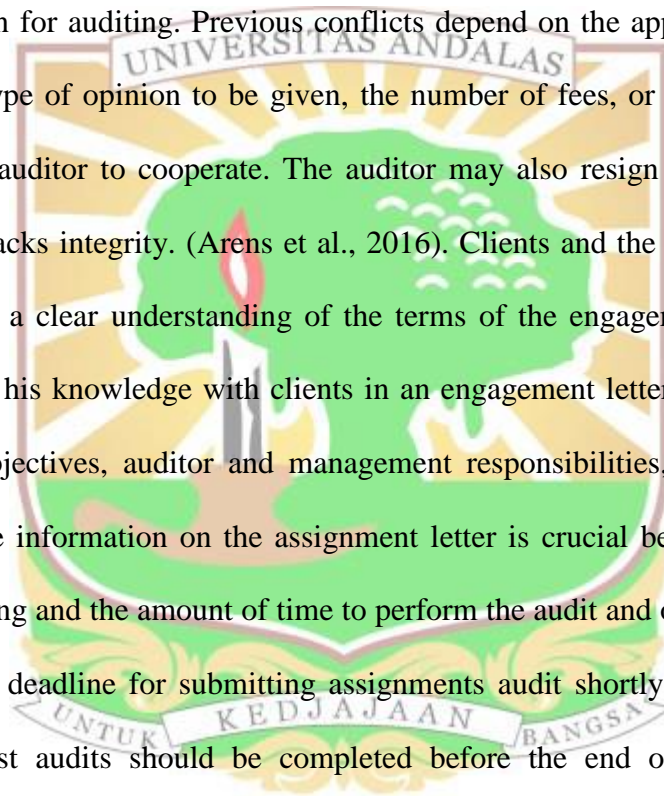
The study results (Josoprijonggo, 2005) were so that quality auditors generated the audit reports, and then the auditors must carry out their work in a professional manner. Including when facing complex audit problems. Therefore, a Public Accounting Firm is fundamental to get quality audit results. Auditors must meet the client's demands, despite how high the level of complexity given so that clients feel satisfied with their work and continue to use the same auditor services in the future. Auditors must carry out their job professionally so that the audit report is generated quality, including when facing complex audit issues within organizations that are becoming increasingly complex as the business progresses, which is executed. However, progress is increasingly fast at this time. It will also create new complexities in auditing because it added to the workload, which is getting more

significant, considering the increasing number of reciprocal transactions (Prasita and Adi, 2007). This kind of problematic situation can be a hindrance or vice versa, a challenge in itself an auditor

Audit complexity is based on individual perceptions of adversity an audit task, difficult for one person but easy for others (Prasita and Adi, 2007). Audit complexity is essential because conducting an audit is a task that faces many complex problems. The auditor tries to meet the client's demands in every job, regardless of how high the level of complexity given so that clients feel satisfied with their work and continue to use the future. Still, the auditor is considered to be involved in company manipulation; this indicates the auditor's inability to maintain audit quality. One of these is the failure to deal with complexity auditing. Bonner (1994) in (Jamilah et al. 2007) stated three fundamental reasons why examining the audit complexity for an audit situation needs to be carried out. First, the audit's complexity is thought to have a significant effect on an auditor's performance. Second, the tools and techniques for making decisions and exercises certain are considered conditioned in such a way as the researchers understood peculiarities to the audit's complexity. Third, understanding an audit's complexity can help the company's audit management team find the best solution for audit staff and audit tasks. The audit will become more complex if the level of difficulty and variability of the higher audit task. When auditors have complex or poorly structured tasks, no matter how high auditors' efforts will be challenging to complete the job so well. It reduces its performance which

results in decreased audit quality assigned to him. Audit complexity is essential to research because there is a tendency that the audit task is task complex. In every audit engagement, an auditor must manage the complexity of its job to produce audit quality.

Every year many public accounting firms, existing clients determine whether there is a reason for auditing. Previous conflicts depend on the appropriate scope of the audit, the type of opinion to be given, the number of fees, or other matters that may cause the auditor to cooperate. The auditor may also resign after determining that the client lacks integrity. (Arens et al., 2016). Clients and the public accounting firm must have a clear understanding of the terms of the engagement. The auditor must document his knowledge with clients in an engagement letter that includes the assignment's objectives, auditor and management responsibilities, and engagement boundaries. The information on the assignment letter is crucial because this affects the time of testing and the amount of time to perform the audit and other services. For example, if the deadline for submitting assignments audit shortly after the balance sheet date, most audits should be completed before the end of the year. If an unexpected situation arises and helps unavailable clients, they must agree to an extension of the deadline assignment or an additional time budget. Restrictions are whether the client applies to the audit may affect the procedures performed and possibly influence the type of opinion expressed (Arens et al., 2016). Time budget

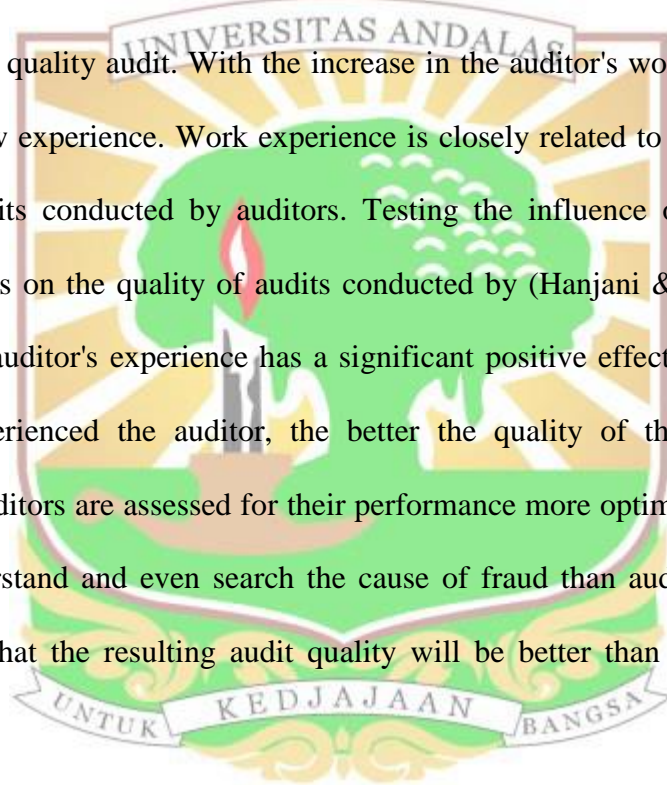


limitations that can affect implementation audit procedures can also affect the audit quality, and then time budget pressure is one explanatory factor of audit quality.

Auditors in conducting an audit must complete work on time, according to the client's time. The time-limited quality reports demand different pressure for auditors. Public Accounting Firms must be able to allocate time appropriately in determining the amount of the audit cost. Allocation of time that is too long can mean higher audit costs. Consequently, the client will bear a hefty audit fee, as well. Auditors are inclined to behave dysfunctionally under stressful conditions, over-confident client presentations and explanations, and failed to investigate relevant issues due to auditors who are too hasty so that they can produce low-quality audit reports. The time-limited quality reports demand different pressure on auditors. His study (Azad, 1994) found that auditors tend to behave dysfunctionally in stressful conditions (in time). For example, doing premature sign-off, trusting client presentations and explanations, and failing to investigate relevant issues can produce low-quality audit reports. Research (Coram, Ng, & Woodliff, 2003) shows a decrease in auditors' audit quality under pressure due to the strict time budget. Time pressure effect on the quality of the audit is essential to research because, in every job the audit, time budget pressure is always there, and an auditor is required to able to work efficiently but not violating or neglecting audit procedures apply so that the resulting audits are of high quality



Another factor that is also important in influencing audit quality, namely, auditor's experience. According to (Loehoer 2002), experience is an accumulation of a combination of all obtained through dealing and repeatedly interacting with each other, objects, nature, circumstances, ideas, and senses. From the research results (Hardiningsih 2002), an inexperienced auditor will make a more significant mistake than experienced auditors. Duration of work someone as an auditor is an important part that affects quality audit. With the increase in the auditor's working time, it will be obtained new experience. Work experience is closely related to the work period's length and audits conducted by auditors. Testing the influence of the experience variable auditors on the quality of audits conducted by (Hanjani & Rahardja, 2014) found that the auditor's experience has a significant positive effect on audit quality. The more experienced the auditor, the better the quality of the audits it does. Experienced auditors are assessed for their performance more optimal and better able to detect, understand and even search the cause of fraud than auditors who do not experience so that the resulting audit quality will be better than an inexperienced auditor.



Based on the background, the results of several previous studies, the influence of audit complexity factors, time budget pressure, and the auditors' experience on the audit quality, the researcher researched to obtain empirical evidence in the Public Accounting Firms in Padang. Based on the description and study previously described, the authors propose research with the title "The Effect of Audit

Complexity, Time Budget Pressure and Auditors Experience on Audit Quality (Empirical Study at the Public Accounting Firms in Padang)."

## 1.2 Problem Statements

Public Accounting Firms is an organization that offers services; one of them auditing the company's financial statements. The auditor highly determines quality audit results. In this connection, this research tests the variables that affect audit quality or, for that matter, the independent variable, including audit complexity, time budget pressure, and the auditors' experience. Respondents in this study were auditors at Public Accounting Firms in Padang, with respondents' limitations only on senior and junior auditors. Because, who often experience audit complexity, time budget pressure and experience are senior and junior auditors. According to the auditors' professional level, senior auditors and junior auditors are below Partners and Managers who generally receive a more significant portion of the task.

## 1.3 Research Questions

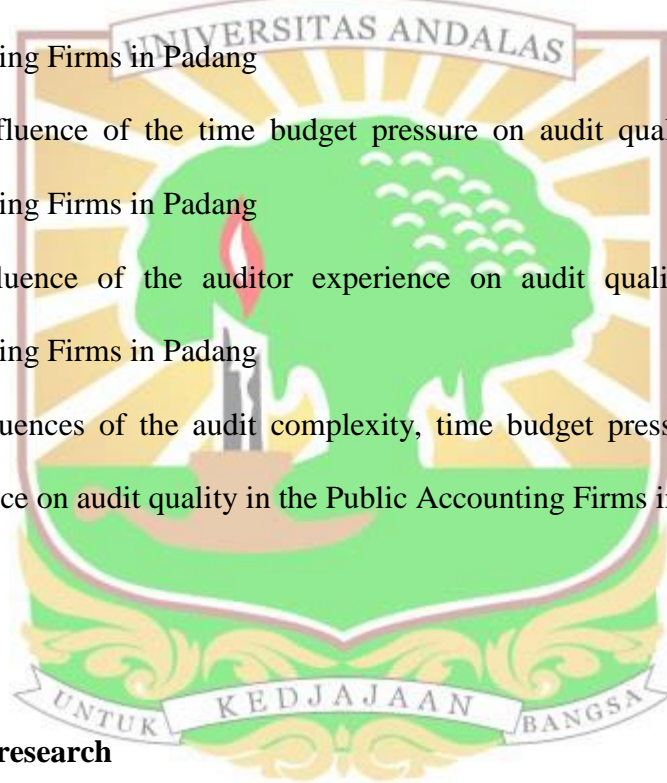
1. Does the audit complexity influence the audit quality of the Public Accounting Firms in Padang?
2. Does the time budget pressure influence the audit quality of the Public Accounting Firms in Padang?
3. Does the auditor's experience influence the audit quality of the Public Accounting Firms in Padang?

4. Do the audit complexity, time budget pressure and auditor's experience influence the audit quality of the Public Accounting Firms in Padang?

#### **1.4 Objective of the research**

The purpose of this research is to know empirically :

1. The influence of the audit complexity on audit quality in the Public Accounting Firms in Padang
2. The influence of the time budget pressure on audit quality in the Public Accounting Firms in Padang
3. The influence of the auditor experience on audit quality in the Public Accounting Firms in Padang
4. The influences of the audit complexity, time budget pressure and auditor's experience on audit quality in the Public Accounting Firms in Padang.



#### **1.5 Benefits of research**

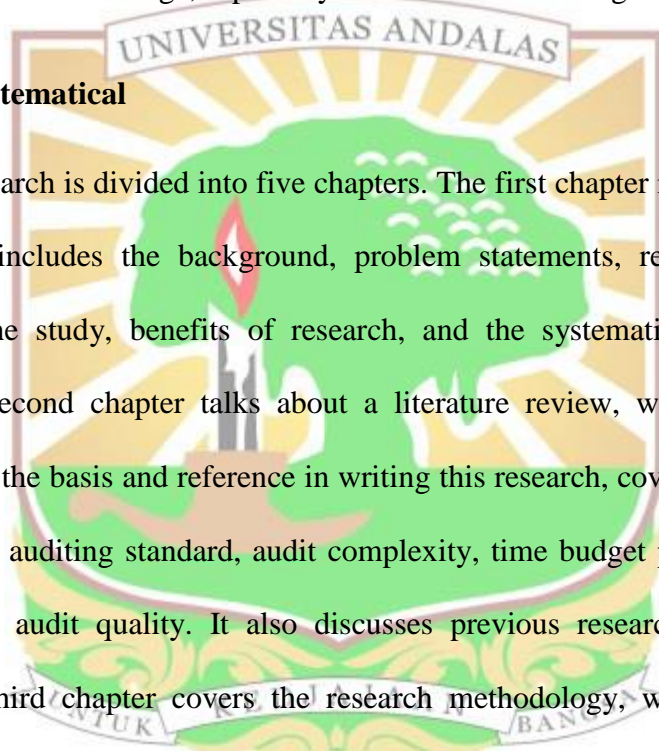
The benefits of this research are as follows :

1. For academics and researchers, it can be a reference for further research that is more deeply related to the complexity of audit, time budget pressure, and auditors' experience on audit quality.

2. For related institutions, as input for auditors at the Public Accounting Firms in Padang to maintain and improve their audit results.
3. As a means to develop and apply knowledge gained from the existing colleges in the world of work
4. Can provide additional information for readers who want to add to the discourse of knowledge, especially in the field of auditing

### **1.6 Writing Systematical**

This research is divided into five chapters. The first chapter is the introductory chapter which includes the background, problem statements, research questions, objectives of the study, benefits of research, and the systematic writing of this research. The second chapter talks about a literature review, which includes the theories used as the basis and reference in writing this research, covers the behavioral approach, audit, auditing standard, audit complexity, time budget pressure, auditor's experience, and audit quality. It also discusses previous research related to this research. The third chapter covers the research methodology, which provides an overview of planning in conducting research. It includes research design, research variables, and variable operational definition, research population and sample, data collection methods, data analysis and discussion, and data processing presented along with this chapter. The fourth chapter contains an overview research object and the results of the research that has been done. The last chapter draws conclusion from



the discussion, contribution of research and provide recommendations for further research.

