

# CHAPTER I INTRODUCTION

## 1.1 Research Background

In today's increasingly competitive business world, every company will compete and be competent to look better than other competitors, one of which is in terms of corporate financial reporting. Financial reports are one of the important results that needed for communicating conditions and facts about the company. The financial statements of a company must provide complete, easy to understand, trustworthy, and not misleading information for readers. To convince outsiders, the company needs the help of a public accountant to ensure and justify the results of these financial statements so that they can be trusted by outsiders and proven its validity.

From the audit process carried out by the public accountant auditor, public hopes that they can get accurate information that is not misleading and does not take sides with the company. The auditor is responsible for all information contained in financial reports. Financial statements present quantitative information needed in decision making by internal and external parties of a company. There are 2 characteristics in the financial statements according to the FASB, namely relevant and reliable (Singgih and Bawono, 2010).

Auditors are expected to produce quality audit reports so as to reduce inconsistencies between management and owners. Many businesses are destroyed

because of an auditor's error in auditing a company's financial statements, the quality or not of the work carried out by the auditor can affect the final conclusions about the decisions that will be taken by the company's management. Therefore, auditors are required to be responsible in carrying out their work and have a high attitude of professionalism.

Ethics are generally defined as behavioural values or rules of behaviour that are accepted and used by an individual (Sukamto, 1991 in Suraida, 2005). Understanding ethics can be distinguished from morality, because morality is a measure of how a person should live as a human being. According to the teachings, morality provides rules for humans or accurate instructions about how to live, how to behave in life as a good human being and avoid bad behaviour. Meanwhile, ethics discusses the moral values and norms that determine human behaviour in life (Sueseno Magnis, 1998 and Sony Keraf, 1991).

The public accountant profession is very important in today's business world, it is important for companies to choose competent public accountants, in order to support their professionalism as a public accountant, in carrying out their audit duties, auditors must comply with auditing standards set by the Indonesian Institute of Certified Public Accountants (CPA). And also must comply with the code of ethics of the Indonesian Institute of Accountants, there are eight principles of professional ethics that must be obeyed by public accountants, namely: 1. Professional responsibility, 2. Public interest, 3. Integrity, 4. Objectivity, 5. Professional

competence and prudence. , 6. Confidentiality, 7. Professional behavior, 8. Technical standards.

There are four reasons why financial statements must be audited by a public accountant, namely:

1. Conflict of interest

Where many users of the submission report pay special attention to the actual and potential conflicts of interest between them and the management of the entity.

2. Consequence

Published financial reports provide important information. In some cases, it is found to be the only source of information that is used to make significant investment decisions, borrowings, and other decisions.

3. Complexity

Accounting problems in the process of preparing financial statements are complex. As the level of complexity increases, the risk of misinterpretation and the risk of accidental error also increases.

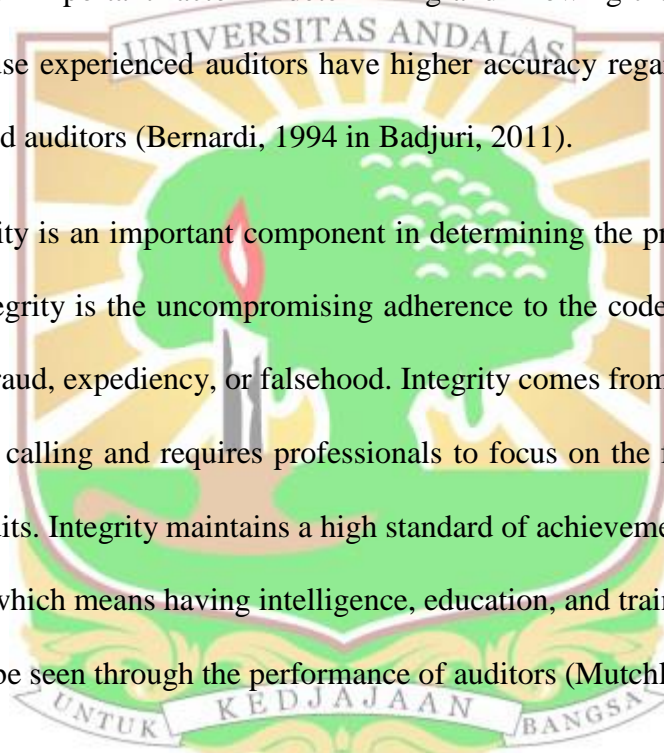
4. Remoteness

Users of financial statements find it impractical to seek direct access to key accounting records to verify financial statement assertiveness due to distance, time, and cost factors (Boynton et al., 2006, p. 20).

Based on the description above, we can see that public accountants have a very important and strategic position according to both management, readers, and users of financial statements. The great trust of readers of audited financial statements and the services provided by public accountants ultimately requires public accountants to pay attention to the quality of public accountant audits. Work experience is an important factor in determining and knowing the performance of auditors, because experienced auditors have higher accuracy regarding errors than less experienced auditors (Bernardi, 1994 in Badjuri, 2011).

Integrity is an important component in determining the professionalism of an auditor. Integrity is the uncompromising adherence to the code of moral values and avoiding fraud, expediency, or falsehood. Integrity comes from the idea that the profession is a calling and requires professionals to focus on the fact that they are conducting audits. Integrity maintains a high standard of achievement in performing competencies which means having intelligence, education, and training to get added value that can be seen through the performance of auditors (Mutchler, 2003).

Audit quality is a probability when an auditor when auditing financial statements finds irregularities that have occurred in a company's accounting system and can report them in the financial statements that have been audited by the auditor. In producing the financial statements, the auditor will provide assurance on the assertions made by the management of the company in the financial statements if the information is true and reliable. In carrying out their duties, auditors are guided by

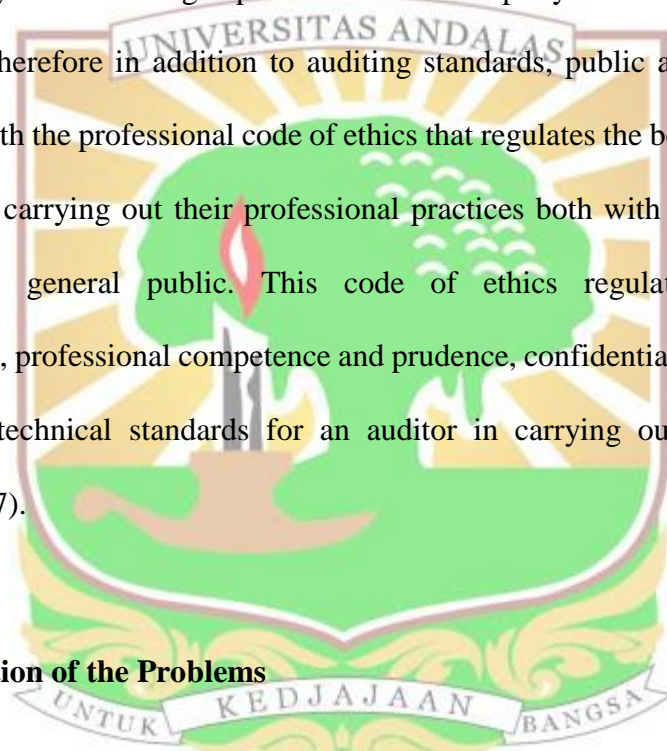


auditing standards and the relevant code of ethics for public accountants (De Angelo, 1981 in Tjun, Marpaung, Setiawan, 2012).

Audit quality is everything that auditor will find and report when auditing a client's financial statements, the auditor can find irregularities that occur in the client's accounting system and report it in the audited financial report, where in carrying out his duties the auditor is guided by the following: auditing standards and the relevant code of ethics for public accountants (Sari, N., 2003), the audit quality of each company must be considered because it is a large measure of trust from users of audited financial statements and the services provided by public accountants. However, in the current era of globalization, people are starting to doubt the quality of the audits produced by the auditors along with the many cases that occur regarding the manipulation of the company's accounting that failed due to the auditor's failure to audit the financial statements. One example of a scandal that occurred abroad is the Enron Corporation scandal, where Enron's financial statements were declared unfair by the public accounting firm Arthur Anderson, but in December 2010, Enron Corporation was surprisingly declared bankrupt.

There is also a similar case that occurred at PT. Great River International, Tbk. This case arose after the findings of an investigative auditor from Capital Market and Financial Institution Supervisory Agency who found indications of inflated sales accounts, receivables and assets of up to hundreds of billions of rupiah in their financial statements. As a result of this incident, the company finally had

difficulty handling cash flow and failed to pay debts. So, based on the results of Capital Market and Financial Institution Supervisory Agency 's investigation that the public accountant who examined Great River was also a suspect in the case and suspended the license of public accountant Justinus Aditya Sidarta for two years in November 2006. Public accountants or independent auditors in their duties audit the client company has a strategic position as a third party in the client company environment, therefore in addition to auditing standards, public accountants must also comply with the professional code of ethics that regulates the behavior of public accountants in carrying out their professional practices both with fellow members and with the general public. This code of ethics regulates professional responsibilities, professional competence and prudence, confidentiality, professional behavior and technical standards for an auditor in carrying out his profession (Elfariani, 2007).



## 1.2 Formulation of the Problems

There are several problem formulations based on the description above, namely:

1. Does the auditor ethics affect audit quality?
2. Does the auditor experience affect audit quality?
3. Does the auditor integrity affect audit quality?

4. Does the personal characteristics of auditors affect audit quality?

### 1.3 Research objective and benefits

Objective of the research:

1. This is to determine the effect of auditor ethics on audit quality.
2. This is to determine the effect of the auditor's experience on audit quality.
3. This is to determine the effect of auditor integrity on audit quality.
4. This is to determine the effect of auditor characteristics on audit quality.

Benefits of research:

For Author: Provides empirical evidence about The Influence of Auditor Ethics, Auditor Experience, Independence, and Personal Characteristics on Audit Quality.

For Auditors: It is hoped that it can be taken into consideration, especially related to the factors that affect audit quality so that it will further improve its performance in future.

For Academics: It is hoped that this research can become an additional source of information or reference related to the influence of Auditor Ethics, Auditor Experience, Integrity, and Personal Characteristics on Audit Quality

For Readers: As material for developing theories from analyse relating to the attitudes and quality of auditors.

#### **1.4 Thesis Writing Systematics**

In writing this thesis systematics the discussion consists of 5 chapters, namely:



##### **CHAPTER I INTRODUCTION**

This chapter describes the background, problem formulation and research objectives. The benefits of research, and the systematics of research writing.

##### **CHAPTER II REFERENCES**

This chapter describes the theoretical basis, discussion of previous research results, framework of thinking and formulation of hypotheses.

##### **CHAPTER III RESEARCH METHOD**

This chapter describes the methods used and operational definitions, population and samples as well as data sources and data collection techniques in data analysis.

##### **CHAPTER IV ANALYSIS AND DISCUSSION**



This chapter contains a description of the object of research, data analysis, and a discussion of the influence of the independent variable on the dependent variable.

## CHAPTER V CONCLUSION AND RECOMMENDATIONS

This chapter describes the conclusions obtained from the results of data processing and analysis and suggestions related to similar research in the future.



