The Effect of Professionalism, Knowledge Detect Errors and Auditor’s Experience to Judgment of Materiality Level of Financial Statements Audit

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Abstrak


Abstract

The object of this study is to get empirical evidence about the effect of professionalism, knowledge detects errors and auditor’s experience to judgment of materiality level of financial statement audit. The population and sample of this study was auditors who work in the public accounting firm of Semarang. Moreover, the technique for taking the sample used convenience sampling technique. There were 64 respondents in this study. Data collection used questionnaire method. Whereas, the data was analyzed through descriptive and inferential analysis with SPSS version of 21. The results of this research showed that professionalism, knowledge detects errors and auditor’s experience simultaneously had significantly affect on judgment of materiality level of financial statement audit. The result of partial test showed that professionalism and knowledge detects errors had significantly affect on judgment of materiality level of financial statement audit and auditor's experience did not have significantly affect on judgment of materiality level of financial statement audit.

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INTRODUCTION

Facing the development of business world that is more rapid causing business people are required to be more transparent in processing their financial statements. Users of financial statements will always seek information about the reliability of corporate financial statements, this is where the duty of a public accountant to conduct a qualified audit of financial statements. Financial statements need to be audited by external auditors as an independent third party, due to (a) financial statements are likely to contain both deliberate and unintentional errors, (b) financial statements which have been audited and get unqualified opinions, it is expected that the users of financial statement can be assured that the financial statements are free from material misstatements and presented as appropriate with generally acceptable accounting principles.

Professional Standard of Certified Public Accountants in Chapter of Auditing Standard (SPAP SA) Section 312 defines materiality as the amount of accounting information which if it occurs disappearance or misstatement, judging by the circumstances surrounding it, may alter or affect the consideration of the person who placed trust in the information. The purpose of establishing materiality is to assist the auditor in planning the collection of sufficient competent evidence material. Auditor's judgment of materiality was a professional judgment and influenced by auditor's perception on the needs of persons that have adequate knowledge and who will place trust in the financial statements. An auditor must be able to determine how much rupiah materiality of his/her client's financial statements. If the auditor establishes a low level of materiality, then the amount of evidence that must be collected becomes more in the auditing process and the auditor will consume the time and effort that is not actually required. So that, it will raise problem that will harm the auditor and the Public Accounting Firm where he works due to inefficient time and effort used by the auditor to determine the amount of materiality of his/her client's financial statements. Conversely, if the auditor determines the amount of materiality Rupiah is too high, the auditor will ignore a significant misstatement so that he gives unqualified opinion to financial statements which actually containing material misstatements, which will cause problems that can be a public distrust to the Public Accounting Firm where the auditor works will arise because he/she gives a reckless opinion on the financial statements containing material misstatements (Mulyadi, 2002: 161).

A public accountant is required to keep improving their performance in order to produce a reliable audit report. In practice, however, auditor encounters difficulties in determining the amount of materiality level of his/her client's financial statements. Swart (2013) concludes that there is no definite or basic rule for calculating materiality and risk checking. In addition, it is indicated by the many cases that occurred among others the cases of violations that struck Indonesian banking around the year 2002. Many banks which are considered healthy by public accountants for the audit of financial statements based on Indonesian Banking Accounting Standards turned out some of the banks are unhealthy conditions, this can occur because the auditors give a reasonable opinion on the financial report that actually contains material misstatement and this is the responsibility of the auditor (Www.antara.co.id).

Another case comes from two previous auditors' company who audited financial statements of a reputable real estate company in Singapore were found guilty and fined SGD 775,000 (US $504,049) because they were proven to fail in alerting the company management about fraud committed by the company’s former financial managers that was done during 2002 and 2004 where the manager did not deposit the company's money to the bank designated. The cheating of the financial manager is discovered after the new audit firm received a bank reconciliation report that is different from the company's accounting report. The court ruled that the previous audit firm should be able to detect the fraud and provide a warning report to the management on irregularities in the company's financial statement (http://ahliasuransi.com).
The consideration in determining the materiality level of financial statement audit becomes important to do, because when the auditor is right in judging materiality level of financial statement audit and know what factors can effect the judgment of materility level, then the auditor will be appropriate in giving opinion and audit objectives can be achieved as well Public trust in the reliability of these financial statements become increasing. In this study, the researchers choose three independent variables to be examined: professionalism, knowledge detect errors and auditors' experience. These independent variables are chosen because they correspond to the grand theory taken and based on previous studies. Theories used in the research are cognitive dissonance theory and attribution theory.

Professionalism is the main requirement owned by the auditor, this is because the auditor plays an important role of the quality of financial statements entrusted to him to be audited and can describe auditors’ performance, in this case related to the decision-making related to the judgment on the financial statements. Accountants with a high professionalism view will give reliably contribution to service users. Knowledge of public accountants is used as one of the keys of work effectiveness. In the audit, knowledge of the various patterns associated with the possibility of error in the financial statements is important to make effective audit planning (Noviyani and Bandi 2002). Work experience can deepen and expand work skills. Auditors who have different experiences will differ in viewing and responding to information obtained during doing examination and also in giving audit conclusions to the object being examined in the form of giving opinion. This research is conducted to obtain empirical evidence about the effect of professionalism, knowledge detect errors and auditor’s experience to judgment in determining the level of materiality of financial statement audit.

METHOD

This research type was a survey research by using questionnaire as research instrument. The population in this study was all auditors working on Public Accounting Firm (KAP) located in Semarang, which amounted to 17 KAP, with 259-population number of auditors. The sample selection was done by convenience sampling method. The author distributed a questionnaire of 80 copies and successfully returned 68 copies. The questionnaires that met the criteria was only 64 copies, meaning there were 4 copies of questionnaires that did not meet the criteria, so it could be concluded that the sample in this study amounted to 64.

The type and source of data in this study was primary data, where the research data was obtained directly by distributing the questionnaire from the original source without going through intermediary. Measurement of variables used an instrument in the form of closed question. Question instrument related to the variables studied and measured using a Likert scale from 1 s.d. 5. Method of data analysis used descriptive and inferential analysis. Descriptive analysis consisted of two types of analysis, namely descriptive analysis of the respondents and descriptive analysis of the variables. Inferential analysis used multiple linear analysis by using SPSS version 21 application.

RESULTS AND DISCUSSIONS

The distribution of questionnaires was conducted in May 2016 starting from May 11, 2016 to June 3, 2016 to 17 KAP in Semarang City. Only 9 KAP that accepted and willing to participate as respondents. The number of questionnaires distributed was 80 questionnaires and only 64 questionnaires could be processed by the researcher. Table 1 below was a descriptive statistical data of the research:
Based on Table 1, it was explained that on the variable of Judgment of Materiality Level, the minimum answer of respondents was 36 and the maximum was 55 with the mean of total answer was 43.09 and standard deviation of 4.027. Furthermore, on variable of Professionalism, the minimum answer of respondents was 51 and the maximum was 71. Mean of the total answer was 60.22 and the standard deviation was 4.638. As for Knowledge Detect Errors variable, the minimum answer of respondents amounted to 36 and the maximum amounted to 59. Average or mean of total answers was 46.63 and the standard deviation was 5.406. Variable of Auditor’s Experience had a minimum answer of 4 and a maximum of 14. Average or mean of the total answers obtained was 9.56 and the standard deviation was 2.839. The standard deviation value for each variable was smaller than mean value meaning that the standard error of this study was low so that the determination of the variables used in this study was good for further investigation. To examine the effect partially and simultaneously, then it was conducted testing by t test and F test. Here was the result of F test and t test:

**Table 2. Simultaneous Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>258,801</td>
<td>3</td>
<td>86,267</td>
<td>6,787</td>
<td>.001</td>
</tr>
<tr>
<td>Residual</td>
<td>762,636</td>
<td>60</td>
<td>12,711</td>
<td>1</td>
<td>2,001</td>
</tr>
<tr>
<td>Total</td>
<td>1021,437</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y  
b. Predictors: (Constant), X3, X2, X1  
Source: Primary Data processed, 2016

The significance value of F test result was 0.001, it meant that all independent variables, that was professionalism, knowledge detect errors and auditor’s experience simultaneously had influence toward judgment of materiality level of financial statement audit.

**Table 3. Partial Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>14,678</td>
<td>6,748</td>
<td></td>
<td>.034</td>
</tr>
<tr>
<td>X1</td>
<td>,239</td>
<td>,098</td>
<td>,275</td>
<td>.017</td>
</tr>
<tr>
<td>X2</td>
<td>,285</td>
<td>,084</td>
<td>,382</td>
<td>.001</td>
</tr>
<tr>
<td>X3</td>
<td>,077</td>
<td>,159</td>
<td>,055</td>
<td>.627</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y  
Source: Primary data processed, 2016
The coefficient of determination (R²) measured the extent of the model's ability to explain the variation of the dependent variables. Here was the result of the coefficient of determination which could be seen in Table 4:

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.503a</td>
<td>.253</td>
<td>.216</td>
<td>3.565</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), X3, X2, X1
b. Dependent Variable: Y
Source: Primary data processed, 2016

R-squares value was 0.253 or 25.3%. This indicated that the variables of professionalism, knowledge detect errors and auditor's experience could only explain 25.3% of judgment of materiality level variable. Meanwhile the rest, ie 74.7% was explained by other causes outside the model.

The first hypothesis was that professionalism partially positively affected the judgment of materiality level. Based on the result of hypothesis testing that has been done by the researchers in Table 4.26 could be seen that significance value was 0.017. The significance value was less than 0.05. This was also evidenced by the amount of t count 2.445 > t table of 1.9983 meant that professionalism affected the judgment of materiality level, so hypothesis 1 was accepted. This meant that the higher the professionalism of an auditor, the more appropriate in the judgment of the materiality level of financial statement audit. This result was consistent with cognitive dissonance theory which stated that auditors in their assignments were required to take an opposite attitude with their personal attitudes, thus making the auditors tend to change their attitudes to align with the behaviour they were supposed to do by being professional and maintaining independence.

Professionalism in a job was very important. This was due to professionalism related to the need for public trust on the quality of services provided. In the same way as an auditor, it was important to convince clients and users of the financial statements concerning their audit quality in relation to the judgment of materiality level of the financial statements. If the service users did not have trust to the auditor in considering the level of materiality, then the professional accountant's ability in providing services to clients and society effectively would be reduced. The result of this study was also in line and supported the research conducted by Minanda (2013), Kusuma (2012) and Basri (2013) which stated that professionalism had an effect on the judgment of materiality level of financial statement audit.

The second hypothesis was knowledge detect errors partially had a positive effect on the judgment of materiality level. Based on the result of hypothesis testing that has been done by the researchers in Table 4.26 could be seen that significance value was 0.001. The significance value was less than 0.05. This was evidenced by the amount of t count 3.403> t table of 1.9983, which meant that knowledge detect errors affected on the judgment of materiality level, so hypothesis 2 was accepted.

Auditors' knowledge was used as one of the keys of work effectiveness. Knowledge concerning possible mistakes by an auditor would be useful for creating an audit plan. This was due to knowledge detect errors was needed to minimize the emergence of wrong so which later associated with the need for public trust on the quality of services provided by profession. Auditors who had more knowledge of error would result in accurate judgment of materiality level. So it could be concluded that an auditor who had a lot of knowledge about mistakes would be more expert in performing examination duties, especially those related to the disclosure of error. The result of this
study was in line and supported the research conducted by Herawaty and Susanto (2008), Minanda (2013) and Kusuma (2012) which stated that knowledge detect errors affected the judgment of materiality level of financial statement audit.

The third hypothesis was auditors’ experience partially positively affected the judgment of materiality level. Based on the result of hypothesis testing that has been done by the researchers in Table 4.26 could be seen that significance value was 0.627. The value of significance was greater than 0.05. This was evidenced by the amount of tcount 0.488 < ttable of 1.9983, which meant that the first hypothesis was rejected so that any score or value of the audit situation did not affect the judgment of materiality level. This was not in line with attribution theory that explained that one's experience could be interpreted as a process that could lead someone to a higher behavioural pattern.

The result of this study was also not in line with research conducted by Minanda (2013) and Kusuma (2012) where the results of their research explain auditors’ experience significantly affected on the judgment of materiality level. The reason for the rejection of this hypothesis was suspected because in carrying out the audit task, the auditor who was often confronted by various situations related to the level of materiality caused by fraud or error has not been fully experienced in performing audit process. Referring to respondents who was distributed to some KAP city in Semarang, this condition occurred due to most respondents in this study were junior auditors with total number of 42 people or 65.5% of the total sample and average education of S1 a number of 52 people or 81.25% of the total sample so that the experience in auditing was still less when compared with senior auditors. In addition, judging from the respondent's answer for the indicator of work length as an auditor with an average amount of 2.94 in the category enough with an average of under 2 years, so the response of respondents to answer question related to experience variable tend to produce negative answer. The result of this study was in line with Sularso and Nai'm (1999) and Lestari and Utama (2013) studies which concluded that auditor's experience did not have effect on the judgment of materiality level. This meant that the duration or the number of audit assignments completed and the training / seminar on audits that have been followed by public accountants have nothing to do with them in the judgment of materiality level.

CONCLUSIONS

Based on the analysis and discussion, it could be concluded that professionalism and knowledge detect errors partially have a positive effect on the materiality level of the financial statements audit and auditor’s experience partially does not have effect on the judgment of the materiality level of financial statements audit. This research has some limitations, namely using survey method with a questionnaire, so that allowing for dishonesty in answering statements. Recommendation for further research is to use interview method in order to get real condition description. The result shows that the three variables influenced by 25.3%.

Recommendations for further research are suggested to add some other variables that allegedly affect the judgment of the materiality level of financial statements audit in order to generate greater influence, such as independence, audit situation and competence. Research is only done at Public Accountant Firm of Semarang City. Future research is expected to use broader research objects, such as involving KAP in Java and DKI Jakarta and included Big 4 KAP so as to obtain a broader research conclusion. Thus, the research result has a generalized power on the Public Accounting Firm (KAP).
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