

# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## The Effect of Profesionalism and Auditor Experience on Level of Materiality Judgements with Profesional Ethics and Client's Credibility as a Moderation

**Luh Putri Mas Mirayani**

Student, Department of Magister Program in Accounting, University of Udayana, Indonesia

**I Gusti Ayu Made Asri Dwija Putri**

Lecturer, Department of Economic and Business, University of Udayana, Indonesia

**Ketut Yadnyana**

Lecturer, Department of Economic and Business, University of Udayana, Indonesia

### **Abstract:**

*Opinion about the subject of a financial report makes the public accounting or auditor to be an important profession. The auditor considers the decisions regarding opinions in the audit report whether or not the material of a commission is influenced by the professionalism and experience of the auditor. Previous research revealed that there were other factors that could weaken and strengthen the direct influence of auditor professionalism and auditor experience on materiality levels, namely professional ethics & client credibility. The number of samples in this study were 86 auditors. The sampling technique uses saturated samples. The number of respondents who filled in completely and returned the results of the questionnaire was 74 auditors. The analysis technique used is MRA. The test results show that (1) professional ethics is not able to moderate the influence of professionalism on the consideration of materiality levels, (2) professional ethics reinforces the experience of the auditor on consideration of materiality levels, (3) client credibility strengthens the influence of professionalism and auditor experience on materiality.*

**Keywords:** *Profesionalism, auditor experience, materiality judgements, profesional ethics, client's credibility*

### **1. Introduction**

The reason a public accountant or auditor is important is because his profession gives an auditor the authority to give an opinion on the fairness or failure of a financial report or conformity with generally accepted accounting principles. The auditor is expected to be able to provide absolute assurance for the results of the audit to the parties who will use the results of their financial statement audit as a basis for decision making

As parties outside the company or externally, the community and users rely on audit reports to assess a company before making a decision whether it is a long-term decision or a short-term decision. It must also be based on two sides; the first side is the management's desire to inform accountability of funds from outside the company and on the other side the desire of external parties to assess the usefulness of the funds that have been deposited into the company in the form of investment. These two sides of interests lead to developments in the work profession of public accountants or auditors.

Consideration of the materiality level of the audit is influenced by many factors, there is one case that occurs in Indonesia regarding the importance of considering the materiality level of the auditor who will influence the opinion that will be issued. There is a well-known case which has shaken the credibility of an auditor in determining the level of materiality on 7 November 2002. The company that filed at that time was PT. Kima Farma, the auditor who conducted an audit of the fairness of the company's financial statements was unable to find (detect) the existence of a mark-up net profit of Rp32,668 billion at the end of 2001. The increase in the value of this relatively high net profit was used during the implementation of the IPO. In the auditee financial report, it was seen that this was due to overstated sales in the raw material industry unit and the Central Logistics unit, namely the inventory for the Pharmacy unit. The auditor's lack of responsiveness to earnings mark-ups is most likely influenced by the inaccuracy in determining the materiality level at the beginning of the audit plan.

Timing is needed by an auditor when deciding the range of materiality levels that will be applied during the audit period and this is influenced by the professional policies and perceptions of the auditor about the financial statements themselves or commonly known as the materiality level. Situational and conditional aspects can influence the consideration of the materiality level of an auditor. Reflecting on SA 31 (Audit Risk and Materiality of Audit Implementation), consideration of materiality levels is influenced by the auditor's perception of the need for adequate knowledge and the level of trust that can be given to the financial statements. The binding and definite standard regarding materiality cannot be provided by the SA, but usually in the field work an auditor can formulate it in the form of accounts contained in the client's financial statements. It can be concluded that consideration of the level of materiality will be

greatly influenced by the professionalism and experience of an auditor (Faizal, 2012).

Based on studies that are used as a reference for professionalism and auditor experience on materiality considerations found results inconsistencies, this is allegedly due to other factors that influence the relationship between the independent variable and the dependent variable. Govindarajan (1986) argues about the possibility of the unity of results in the determination not yet found a meeting point and it is influenced by other determinants of factors usually this is known as contingency. In order to condition the conflicting results, a contingency approach is needed to find other variables that can be moderating or intervening (Murray, 1990). Haynes et al., (1998) research states that auditor professional ethics and client credibility are able to strengthen and weaken the auditor's judgment when evaluating audit evidence

An auditor must uphold the professional ethics listed and echoed by the Indonesian Institute of Accountants (IAI), so that unhealthy competition situations can be shunned. In any country the issue of ethics is an important and concrete issue affecting any profession. Along with the occurrence of several ethical violations by accountants, even large enough public accountants, as well as government ethics, the increasingly tense conflict over professional ethics that might occur. The absence of professional ethics, professionalism and auditor experience will certainly not function properly when determining the materiality level of their clients. Professional ethics can also be used as a reference to measure the behavior of IAI members (Murtanto and Marini, 2003) Client credibility is another factor besides professional ethics that can weaken or strengthen the influence of professionalism and experience on the consideration of materiality levels. Client credibility is chosen based on the thought in which the auditor works to examine the fairness of the auditee's financial statements, in terms of business entities, organizations, performance, and all matters relating to his clients. The relevant evidence presented by the client as an auditor's consideration in the audit process, can assist the course of the audit period. The preference or credibility of the evidence provided by this client can later influence the auditor's judgment in ensuring the materiality level. However, regardless of the level of accuracy of the information presented by the client directly or indirectly, professionalism and experience still have a more important role when deciding on consideration of the materiality level (Utami, 2014).

Client preferences are seen from the effectiveness and effectiveness of the client in providing audit evidence needed by the auditor concerned. The evaluation carried out by the auditor in the early stages of audit planning is influenced by the availability and adequacy of sufficient evidence that can be provided by the client. This study will look at the client's credibility as such whether it will affect the auditor's professionalism and the length of experience the auditor has at the consideration of the materiality level to be determined. In the initial stage this is the stage where the client will endeavor to be very good at making persuasions to the auditor because at this stage the golden step is for the auditor to determine the level of materiality. At this time, the professional ethics of the auditor will be questioned and influenced on the consideration of the materiality level that will be decided by the auditor. According to Goodwin (1999) and Peecher (1996) believe that the availability of evidence provided by the client to the auditor is implicit in addition to persuasive efforts to make it easier for clients to obtain the desired audit results.

## 2. Literatur Review

### 2.1. Contingency Theory

It is not an easy situation to describe how a contingency condition, namely professional ethics and client credibility, which act as moderating variables to influence the direct relationship of professionalism and auditor experience in consideration of materiality levels. The rationale of an auditor when conducting an audit of financial statements is that evidence is provided and that the auditor is required to provide reasonable opinions or not on the financial statements audited. However, the rationale that can make the auditor reduce his professionalism even though the auditor has a long enough experience, so the opinion given by the auditor will be subjective. The auditor's objectivity regarding further audit evidence after the initial audit evidence received will be reduced, so that the objectivity of considering the materiality level at the initial stage will also decrease. The auditor is expected to have considered the materiality level at the first time obtaining audit evidence from the client and is expected to have formed an opinion first based on audit evidence received at that initial stage. If that happens, it can be ascertained that consideration of the auditor's materiality level is affected by his professionalism and experience without seeing how his ethics or the credibility of his clients in delivering financial statements.

### 2.2. Profesionalism Auditor

To become a professional auditor during the audit period, the auditor must be careful and careful. Professionalism can be interpreted as an individual's responsibility to behave in a manner consistent with existing legal regulations and norms (Arrens et al., 2004). In addition to that, professionalism is a motivation that can contribute to one's behavior to achieve higher performance (Ifada and Ja'far, 2005). Professional auditors will understand the principle that their responsibility is not only to themselves but to many parties, among others, to the community, users, colleagues, and clients. Honorable behavior shown by the auditor can increase his professionalism even though he must sacrifice his personal interests. One important thing that cannot be separated from professionalism of auditors is that professional auditors will adhere to the code of ethics established by IAI.]

### 2.3. Auditor Experience

The perspective and knowledge of an auditor are not formed by themselves, both of them are influenced by the process. The process of thinking, communicating, and socializing is quite time consuming and this is what is commonly

called experience. The three important processes will change the way the auditor views and the way he thinks in considering the materiality level to be determined, the process will be obtained as long as the auditor processes the audit assignment, the auditor's knowledge will form from the audit experience. Pratama and Sudarno (2015) found that the auditor's knowledge gained from his experience would make the auditor develop a more effective mindset while evaluating audit evidence and be able to analyze the evidence integrally. In addition, auditors with more experience would be able to generate suspicions right when finding a problem in the client's financial statements. Experience is also a learning process and a growth mindset, supporting formal and non-formal education that has been previously owned.

#### 2.4. Professional Ethics

In Martadi and Sri (2006) it was explained that in Indonesia professional ethics of an auditor has been regulated in the Indonesian Code of Accountants Ethics. This rule is binding on the auditors who are part of the IAI and also used as a measure of auditor behavior. The contents contained in this code of ethics are rules about the intent and purpose of the profession of auditors who must work by adhering to the principle of not harming the public from negligence either intentionally or unintentionally. The second content in this code of ethics is that the profession of public accounting must be upheld and avoid the behavior of parties who are unprofessional but claim to be the most professional. So in professional ethics it contains rules that can later be used to assess personality, responsibility, implementation, interpretation, and improvement of the ethical code carried out by the auditor.

#### 2.5. Client's credibility

Hovland & Weiss (1952) explained further about credibility which includes two important things, namely expertise and trustworthiness from the source. Expertise is how the client's expertise conveys information needed by the auditor, while trustworthiness is how the client delivers information that is appropriate and can be trusted by the auditor. Goodwin (1999) and Peecher (1996) further explain the credibility of clients, according to them client credibility can influence an auditor's evaluation of the audit evidence provided. The time when the credibility of the client plays an important role and operational characteristics as a form of compensation for evidence, at that time the auditor will decide the source of evidence presented by the client whether it can be trusted and believed and more reliable the truth. If that happens, the auditor will give a higher value for the initial evidence provided by the client and will influence the consideration of the auditor's materiality level. Jenkins and Haynes (2003) add that client credibility can be a preference for auditors whether they will be persuaded or not. The statement becomes a relevant statement on the results of research regarding client credibility that can be generalized to assess client preferences.

### 3. Hypothesis

- H<sub>1</sub> : Professionalism on materiality judgements.
- H<sub>2</sub> : Auditor experience on materiality judgements.
- H<sub>3</sub> : Professionalism on materiality judgements with profesioanal ethics as moderation.
- H<sub>4</sub> : Auditor experience on materiality judgement with profesioanal ethics as moderation.
- H<sub>5</sub> : Professionalism on materiality judgements with client's credibility as moderation.
- H<sub>6</sub> : Auditor experience on materiality judgement with client's credibility as moderation.

### 4. Research Methods

All auditors are part of the directory published by IAI in the Province of Bali and use 2018 as the observation period used as a population in this study. For determining the sample, saturation sampling technique is used. Saturation sampling is a sample method that uses all members of the population as a sample with the aim of generalizing the results of the study.

Questionnaires given to respondents were tested by instruments validity and reliability. Then the regression model is tested with classic assumption test to see the feasibility of the regression model to be used. The data in this study will be tested using multiple linear regression analysis and MRA testing. To be able to assess the results of the questionnaire scores, the data must be converted into interval data and the transformation is done using the Successive of Internal (MSI) technique before regression. This is because the score of the questionnaire is still a statement which means that the data is still qualitative rather than quantitative so that regression calculations cannot be made if they are not in the form of intervals.

### 5. Result Discussion

Testing of Model 1 was conducted to determine the effect of independent variable on dependent variable, this test used multiple linear regression analysis techniques. The test results are shown in Table 1 as follows:

	Unstandardized Coefficients	Signifikansi	Result
	B		
(Constant)	0,189	0,010	Signifikan
X <sub>1</sub>	1,204	0,000	H <sub>1</sub> accepted
X <sub>2</sub>	0,543	0,000	H <sub>2</sub> accepted
X <sub>3</sub>	2,980	0,000	Signifikan
X <sub>4</sub>	6,399	0,000	Signifikan
Sig. F	0,000		
Adjusted R Square	0,999		

*Table 1: Model 1 (Multiple Regression Analysis)*

*Source: Primary Data, 2018*

Based on Table 1, the unstandardized beta coefficient X1 is obtained for 1.204 and the significance of 0.000 is smaller than  $\alpha = 0.05$ , this means that Professionalism partially influences the consideration of the materiality level. The supervisor is very important to have the right professionalism, because the profession of the sister is related to the wider community and their needs to be trusted by the public for the services they provide. An auditor must be able to believe the auditee and its users for the quality of services provided. The auditor's consideration of materiality is a professional perception and influences his behavior and professionalism. The auditor's perception in determining the consideration of the materiality level is understood by qualitative and quantitative considerations of the surrounding environmental conditions. Reliable auditors at the time of going through the audit planning stage will assess the evidence that ultimately affects the consideration of the materiality level. The more professional an auditor, the more precise the level of materiality will be at the planning stage of the audit. In line with research conducted by Gusti and Ali (2008); Herawati and Susanto (2009); Irayadi and Vannywati (2011); and Bayu and Kusuma (2013) who found that auditor professionalism had a significant positive effect on consideration of materiality levels.

Unstandardized beta value of the positive X2 coefficient is 0.543 with a significance level of 0.000 smaller than  $\alpha = 0.05$  this value means the auditor's experience is partially related to the consideration of materiality level. Someone who has the auditor's profession and has a different duration of experience, when faced with a situation of assessment of information belonging to the same client will have a different assessment. the longer a person who works as an auditor the way of view and how to respond to information about information on financial statements will be more precise and more reliable. This is because the auditors have eaten a lot of salt in the world of auditing with different clients, different financial reports, different financial systems, different types of industries, even with different cases. Supported by research by Sarwini et al. (2014) which states that the longer the time or experience possessed by an auditor, the perception of the financial statements will be more reliable and consideration of the determined materiality level will be more appropriate.

The model in this study is said to be feasible (fit), because the results of the goodness fit test or better known as the F test obtain a significance value of 0.000 smaller than the significance value  $\alpha = 0.05$ . The amount of adjusted R square is 0.999 which shows the consideration of the level of materiality explained by professionalism, experience, professional ethics, and client credibility of 99.9%, the remaining 0.1 percent is explained by other variables not included in this research model.

	Unstandardized Coefficients	Signifikansi	Result
	B		
(Constant)	8,712	0,000	Signifkan
X <sub>1</sub>	4,038	0,000	H <sub>1</sub> accepted
X <sub>2</sub>	6,318	0,000	H <sub>2</sub> accepted
X <sub>3</sub>	2,980	0,000	Signifikan
X <sub>1</sub> * X <sub>3</sub>	0,003	0,267	H <sub>3</sub> rejected
X <sub>2</sub> * X <sub>3</sub>	0,062	0,001	H <sub>4</sub> accepted
Sig. F	0,000		
Adjusted R Square	0,995		

*Table 2: Model 1 (Multiple Regression Analysis)*

*Source: Primary Data, 2018*

Table 2. shows the results that H3 is rejected and H4 is accepted. Based on the results of professional ethics research, it is not able to moderate the influence of auditor professionalism on consideration of materiality levels. However, professional ethics strengthens the influence of the auditor's experience on materiality considerations.

Professionals can mean being responsible for the workload that an auditor has done to the auditee rather than just fulfilling the rules or GAAP. An auditor can be said as a professional when the auditor is able to avoid dishonesty and negligence, in addition, the auditor must carry out the overall audit tasks carefully and carefully. Each profession has its own code of ethics, and every person who works in the framework of providing services and is responsible for the public must comply with his code of ethics. The code of ethics relates to values, norms, procedures and rules in carrying out their profession. Professional ethics focuses on the behavior of an auditor not on his consideration. A professional accountant has professional ethics inherent in his professional attitude. To produce the best quality audit report, the auditor must

consider the materiality level carefully and precisely, without reducing his ethics. This research is in line with the research of Putri and Saputra (2013) which states that professional ethics is very closely related to morals and behaviors and functions as a control of the implementation of activities.

Audit experience is the process of learning and developing behavior of an auditor. Auditors with different periods of experience, the way they view things, behavior, and even mindset will be different. An auditor who has more experience when determining the consideration of materiality levels will be more precise and clear than auditors who lack experience. The auditor is required to hold the professional code of ethics that IAI has determined, the reason for maintaining the relationship between the auditor and the auditor and the relationship between the auditor and the client, while reducing the unhealthy behavior of the auditor. When ethics are eliminated the profession of auditors will not be able to carry out its function as a giver of judgment on the fairness of financial statements, the profession of auditors is responsible to the public, without the ethics of public trust will decrease, over time it will eliminate the profession of auditors themselves. If the auditor upholds the professional ethics of each other, the fraud of the auditor will decrease, the opinion given will be purely regarding financial statements according to or not on the GAAP, not according to the client's request even the request of fellow auditor colleagues, for example the previous auditor's request.

Auditors who have high experience, are more careful when they have to determine the level of materiality, in addition, auditors with high experience have ethics for their profession which is better than auditors with insufficient levels of experience. So the professional ethics of an auditor will strengthen auditors who are more experienced in determining the consideration of their materiality level.

	Unstandardized Coefficients	T	Sig.
	B		
(Constant)	2,457	31,682	0,000
LK * KA	0,248	2,214	0,027
KM * KA	0,003	1,059	0,290
Sig. F	0,043		
Adjusted R Square	0,219		

Table 3: Model 3 (Moderated Regression Analysis)

Source: Primary Data, 2018

Table 3. Indicates that H5 and H6 are accepted. Client credibility is able to moderate the influence of professionalism and auditor experience on materiality considerations. Client credibility can strengthen the influence of auditor professionalism on consideration of its materiality level, as well as auditor experience.

An auditor's professionalism can change, and things that can change it are circumstances. When the auditor has trust in the client, an emotional bond begins to occur because it is not the first audit year, this can have an impact on the auditor's decision to determine the range of materiality values to be used. This is what reinforces the statement that the client's credibility will strengthen the influence of professionalism on the consideration of materiality levels. The results show that the relationship shown is a positive relationship which means that an auditor with professionalism is quite high and has trust in the client, then the audit method is not so tight or easier in determining the level of materiality. This also means that the auditor is persuasive and more accommodating to the wishes of the client.

Another factor that supports an auditor's experience in considering the client's materiality level is professional ethics. The more experience an auditor has will develop the auditor's knowledge about the detection of errors. If the knowledge has developed, the consideration of the materiality level made by the auditor will be better. In addition, based on professional ethics based on the accountant's code of ethics, it will strengthen the relationship between the auditor's experience with consideration of materiality levels.

## 6. Conclusion and Recommendation

Based on (1) hypothesis and (2) test results, six important things can be concluded. The direct effect of the variable professionalism and auditor experience on the consideration of materiality levels is positive. The higher the professionalism of the auditor, the more appropriate consideration of the materiality level of the financial statements by the auditor. Auditors who have more experience will be more clear and precise in determining the level of materiality consideration of an audited financial statement.

In addition, there are two other factors that influence the direct influence and make the auditor give consideration to different materiality levels, namely professional ethics and client credibility. When faced with the direct influence of professionalism on the consideration of the level of materiality, professional ethics is not able to moderate the direct influence of both. However, professional ethics strengthens the influence of the auditor's experience on materiality considerations. In this study it was found that the existence of client credibility factors can influence the auditor in considering the materiality level to be determined at the initial stage of the examination. Professional and experienced auditors in determining the consideration of materiality levels can be strengthened by the client's credibility.

Professionalism in any profession or occupation is very important and will affect the environmental conditions surrounding the work. Professionals relate to public or public trust in the quality of work provided in this case for the quality of audit reports issued by an auditor. It is important for an auditor to convince the auditee and eat audited financial statements to trust the results or the quality of the audit report they issued. The quality of the audit report to be issued is very dependent on the materiality level criteria that the auditor determined in the early stages of planning the audit

period. The consideration of the auditor's materiality level is influenced by the perceptions of auditor professionalism, and also the amount of experience the auditor has. In addition to these two things, the way the auditor behaves based on the ethical code set by the IAI and how the credibility of the audited client also influences the consideration of the auditor's materiality level.

Professional ethics established by the IAI will strengthen the influence of experience on consideration of materiality levels. Auditors who carry out audit activities based on appropriate professional ethics, will be more appropriate in detecting mistakes by overriding their relationships with clients. The auditor's experience in detecting misstatements in financial statements is reinforced by professional ethics in considering the materiality level of the financial statements presented by clients.

## 7. References

- i. Faizal, Hardiyah, M. Rizal Yahya. 2012. Pengaruh Kompetensi, Independensi dan Profesionalisme Terhadap Kualitas Audit Dengan Kecerdasan Emosional Sebagai Variabel Moderasi (Survei pada Kantor Akuntan Publik di Indonesia). *Jurnal Akuntansi Pascasarjana Universitas Syiah Kuala Banda Aceh*.
- ii. Goodwin, J. 1999. The Effect of source Integrity and Consistency of Evidence on Auditors' Judgment. *Auditing: A Journal of Practice & Theory* 18 (Fall): 1-6
- iii. Haynes, C. M., J. G. Jenkins and S. R. Nutt. 1998. The Relationship between Client Advocacy and Audit Experience: An Exploratory Analysis. *Auditing: A Journal of Practice & Theory*. Vol.17 (2) Fall: 88 – 104.
- iv. Hovland, C., dan Weiss, W. 1952. The influence of source credibility in communication effectiveness. *Public Opinion Quarterly*, 15, pp. 635 – 650.
- v. Ifada dan Ja'far, M. 2005. Pengaruh Sikap Profesionalisme Internal Auditor terhadap Peranan Internal Auditor dalam Pengungkapan Temuan Audit. *Jurnal Bisnis, Manajemen, dan Ekonomi*, 7(3), hlm. 13.
- vi. Jenkins, J. Gregory and C. M. Haynes. 2003. The Persuasiveness of Client Preferences: An Investigation of the Impact of Preference Timing and Client Credibility. *Auditing: A Journal of Practice & Theory*, 22 (1), pp. 143 – 154.
- vii. Martadi dan Sri. 2006. Persepsi Akuntan, Mahasiswa Akuntansi dan Karyawan Bagian Akuntansi Dipandang dari Segi Gender terhadap Etika Bisnis dan Etika Profesi (Studi di Wilayah Surakarta). *Proceeding Simposium Nasional Akuntansi* 9.
- viii. Murray, Dennis. 1990. The Performance Effect of Participative Budgeting: an Integration of Intervening and Moderating Variables. *Behaviour Research in Accounting*, 3(2), pp. 104 – 121.
- ix. Murtanto dan Marini. 2003. Persepsi Akuntan Pria dan Akuntan Wanita serta Mahasiswa dan Mahasiswi terhadap Etika Bisnis dan Etika Profesi. *Proceeding Simposium Nasional Akuntansi (SNA) VI*.
- x. Peecher, M.E. 1996. The Influence of Auditors' justification processes on their Decisions: A Cognitive Model and Experimental Evidence. *Journal of Accounting Research* 34 (Spring): 125-140.
- xi. Utami Galih dan Nugraha Adhi Mahendra. 2014. Pengaruh Profesionalisme Auditor, etika Profesi dan Pengalaman Auditor Terhadap Pertimbangan Tingkat Materialitas dengan Kredibilitas klien Sebagai Pemoderasi. *Jurnal Nominal* 3 (1), hlm. 75 – 83.