

The Influence of the Competence of Auditors and Auditors Independence Could Affect the Integrity of the Financial Statements

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ARTICLE DETAILS	ABSTRACTS
<p>History <i>Received</i> : August <i>Revised Format</i> : Septembr <i>Accepted</i> : October</p> <hr/> <p>Keywords : integrity of financial statements, auditor's competence, auditor's independency.</p>	<p>Integrities the underlying quality of the public trust and are a benchmark(benchmark) for the members in his decision to test all. This research aimed to analyze the effects of the competence of the auditors and the auditor independency on the integrity of the financial statements at the manufacturing company registered at Indonesia Stock Exchange. This research was conducted using the quantitative method on the financial statements of manufacturing company registered at Indonesia Stock Exchange from 2010-2013. The total sample comprised 24 companies which were determined using purposive sampling technique. The testing method of the hypotheses was the multiple regression analysis. The research results revealed that not all the variables were compatible with the hypotheses and all significant effects on the integrity of the financial statement.</p>

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Introduction

Integrity is an element of character that underlies the emergence of professional recognition. Integrity is a quality that underlies public trust and is a benchmark for members in testing all decisions they make. Integrity requires a member to, inter alia, be honest and honest without sacrificing the secrets of recipients of services, services and public trusts should not be overwhelmed by personal gain. Integrity can accept unintentional mistakes and honest disagreements, but can not accept cheating or abolition of principles (Mulyadi, 2002). Integrity if associated with the issue of financial statements is to provide information on financial statements in a transparent manner without any cover or other term full disclosure. Thus, the information must be complete, clear, and can accurately describe the economic events that affect the operating results of the business unit. The disclosed information should be useful and not confuse the users of financial statements in assisting economic decision-making.

According to Mayangsari (2003), the integrity of the financial statements is defined as follows: "The integrity of financial statements is the extent to which the financial statements presented indicate true and honest information" while according to Statement of Financial Accounting Concepts (SFAC) No. 2 quality information that ensures that information is reasonably free from error and bias and honestly presents what it is intended to express. In measuring the integrity of financial statements generated not only rely on the issue of good corporate governance, but including the results of audits of these financial statements (Guna et al., 2010).

Related to the independence of auditors, that there is an influence between the attitude of independence with the integrity of financial statements (Arsiyanti, 2007). Similarly, the competence of the auditor that there is an influence between the competence of an auditor to

audit quality and financial statement integrity (Indah, 2010). However, on the other hand different results are also indicated by Hardiningsih that there is no influence between audit quality and financial statement integrity.

The inconsistency of the research results as described above is the background for conducting this research and attempting to retest and analyze the influence of auditor independence and competence on the integrity of financial statements at manufacturing companies listed in the Indonesia Stock Exchange.

Theory and Concept Review

Agency Theory

The theory of agency (Agency theory) is the basic theory that underlies the company's business practices used so far. The theory is rooted in the synergy of economic theory, decision theory, sociology, and organizational theory. Theory of Agency was first coined by Jensen and Meckling in 1976 and states that agency theory is a disequilibrium of interest between principal and agency.

The agency theory assumes that all individuals act on their own behalf. The shareholders as principal are assumed to be only interested in increased financial results or their investment within the company. Agencies are assumed to receive satisfaction in the form of financial compensation and the conditions that accompany the relationship. This "economic interest" difference may be caused or cause an information gap (asymmetric information) that is when one party has information that is not owned by the other party.

Attribution Theory

Attribution theory is a theory that explains about one's behavior. This theory refers to how one explains the cause of the behavior of another person or self. Heider (1958) says that one's behavior can be due to internal factors (called internal attributions) and can also be caused by external factors (external attributions). Internal factors such as ability, knowledge, and effort, while external factors can be opportunities, and also the environment (Menezes, 2008).

Another factor to consider as well is that an auditor in providing its audit services should prioritize its professionalism attitude and provide the best including not being actively involved in the management of the company in services other than audit and providing audit review of the financial statements whether requested or not. Because this is closely related to the quality of an external audit both personal and representative institutions / audit institutions.

Auditor Competence

The competence of the auditor is the qualification required by the auditor to perform the audit correctly (Rai, 2008 in Sukriah et al., 2009). In conducting an audit, an auditor must have good personal qualities, sufficient knowledge, and specialized expertise in the field. Competence deals with professional expertise possessed by the auditor as a result of formal education, professional examinations as well as participation in training, seminars, symposiums (Suraida, 2005).

Lee and Stone (1995) define competence as sufficient expertise that can explicitly be used to audit objectively. Bedard (1986) in Sri Hartati (2006) defines a skill or competence of a person who possesses extensive procedural knowledge and skills demonstrated in the audit experience.

Auditor Independence

According to Taylor in Susiana and Herawaty, (2007) there are two aspects of independence, namely: (1) Independence of mental attitude (independence of mental attitude), the independence of mental attitude is determined by the minds of public accountants to act and be independent, (2) Independence of appearance (image projected to the public / appearance of independence), the independence of performance is determined by the public impression of the independence of public accountants.

In the attachment to the Decision of the Chairman of Bapepam Number Kep-20 / PM / 2002, there is a Regulation number VIII.A.2 which contains the independence of accountants providing audit services in the capital market. These regulations limit the auditee and auditor relationships over a period of time, ie the issuer must replace the accounting firm every five years and every three years for the auditor. In addition, the provision of certain non-audit services, such as a tax consultant, management consultant, in addition to providing audit services to a client is not allowed because it can interfere with the independence of auditors.

Integrity of Financial Statements and Accounting Conservatism

Integrity of Financial Statements

The integrity of the financial statements involves the reliability of accounting information generated by honesty in the presentation, reliability and neutrality.

This is in line with the definition in SFAC no. 2, namely the quality of information that ensures that information is reasonably free of errors and biases and honestly presents what is intended to be stated. Meanwhile, according to Mulyadi (2004) defines integrity as follows: "Integrity is a moral principle that is impartial, honest, someone with high integrity view the fact as it is and express the fact as it is." On the other hand the definition of integrity is a reflection of honesty which is The cornerstone of behavior that must be owned to ensure decision-making that is free from conflict of interest and puts the interests of the company above personal interest.

Accounting Conservatism

Conservatism is a principle of financial reporting that is intended to recognize and measure assets and profits done with caution because of uncertain economic and business activities (Wibowo, 2002).

Conservatism is an attempt to ensure that the risk or degree of uncertainty in an enterprise is considered adequate. In conservatism, if there are two or more alternatives and have the same ability to meet the objectivity of the financial statements, then the chosen is the alternative that has at least benefited the impact of profit and financial position.

Conservatism practices can occur because accounting standards applicable in Indonesia allow a company to choose one of the accounting methods of a set of allowed methods under the same circumstances. For example, SFAS No. 14 regarding inventories, SFAS No. 17 concerning accounting for depreciation, PSAK No. 19 regarding intangible assets and PSAK No. 17. 20 on research and development costs. As a result of the flexibility in the selection of accounting methods is to the figures in the financial statements, both balance sheet and profit and loss statements, operational cash flows and equity.

Theoretical Basis and the Development of Hypotheses

Competence and Integrity of Financial Statements

The influence of the Auditor's Knowledge on the Integrity of the Financial Statements

Rai, 2008 in Sukriah et al. (2009) states that the auditor's competence is the qualification required by the auditor to perform the audit correctly. According to Meinhard et al. In Harhinto (2004) a highly educated auditor will have a broader view of things. Auditors will increasingly have a lot of knowledge about the field they do, so they can know the problems in more depth. In addition, with extensive knowledge, auditors will be easier in following the increasingly complex development.

Knowledge will affect audit skills which in turn will determine audit quality. Measurable indicators of knowledge are levels of education or special skills that have a bearing on the profession as an auditor. Consistent with Harhinto's opinion, the hypothesis in this study is as follows:

H1: The auditor's knowledge positively affects the integrity of the financial statements

Independence and Integrity of Financial Statements

Influence the Long Relationship with the Client on the Integrity of the Financial Statements

The length of an auditor's relationship with the client will provide a gap for the provision of certain non-audit services, such as a tax consultant, management consultant, in addition to providing audit services to a client is not allowed because it can interfere with the independence of the auditor which also affects the integrity of financial statements.

Based on the attachment to the Decision of the Chairman of Bapepam Number Kep-20 / PM / 2002, there is a Regulation number VIII.A.2 which contains the independence of accountants providing audit services in the capital market. These regulations limit the auditee and auditor relationships over a period of time, is the issuer must replace the accounting firm every five years and every three years for the auditor.

Goldman.danBarlev in Harhinto (2004) argues that attempts to influence auditors perform actions that violate professional standards are likely to succeed because in conflict conditions there is an unbalanced power between auditors and clients. The Client can easily replace Public Accounting Firm (KAP) auditor if the auditor is unwilling to fulfill his or her wish. While the auditor needs a fee to meet his needs. The hypothesis proposed in this research are:

H2a: The length of the relationship has a negative effect on the integrity of the financial statements

The Influence of the Study by Auditors' Associates on the Integrity of Financial Statements

Peer review as a monitoring mechanism prepared by the auditor can improve the quality of accounting and audit services. Peer review is felt to provide good benefits to clients, Public Accounting Firm reviewed and auditors involved in the peer review team. Benefits derived from peer review include reducing the risk of litigation, providing positive experiences, enhancing employee morale, providing competitive edge and more convincing clients for the quality of services provided.

Bremser (1983) in Harhinto (2004) states that the study of the auditor's counterparts can improve the implementation of quality control performed by the accounting firm to maintain its performance. Based on the explanation, then the hypothesis is proposed:

H2b: A review of the auditor's counterparts positively affects the integrity of the financial statements

Material and Research Methods

Research Sites and Research Design

This research is a study in the form of literature study and is descriptive analysis and hypothesis testing. In addition, the design of this study is descriptive with quantitative approach (cross section) that aims to determine the influence of auditor competence and auditor independence to the integrity of corporate financial statements, then concluded whether there is a difference positive influence on the integrity of financial statement information. This research is also test hypothesis and from descriptive research result will find out the cause or reason of influence of auditor competence and auditor independence to integrity of company financial statement.

Population and Sample

This study uses the population of public companies listed in the Indonesian Capital Market (formerly JSE). The sample in this study are companies listed on the Indonesia Stock Exchange from 2010 to 2013 chosen by using purposive sampling method of 24 companies so that the sample to be tested as much as 96 firm years. With this method the sample is selected on the basis of the suitability of the characteristics of the sample with the specified sample selection criteria.

Data Collection

The data used in this study is secondary data in the form of company financial statement data. The data obtained from the official website of Indonesia Stock Exchange is <http://www.idx.co.id> and Indonesian Capital Market Directory 2010, 2011, 2012 and 2013. While data of legal entity public accountant office and length of relationship KAP with clients obtained from <http://www.iapi.co.id>., considering the limitations of researchers from the location of the existence of different researchers with the object to be studied.

Data Analysis

Data analysis method used in this research is multiple regression analysis. Testing the hypothesis that will be pursued is to use descriptive statistical analysis techniques. Descriptive analysis is used to find out the mean, minimum, maximum and standard deviation of the variables studied. In addition, the classical assumption test (normality, multicollinearity and heterocedasticity).

Research Result

Multicollinearity Test

The result of multicollinearity test using SPSS shows that each independent variable is diagnosed has no correlation exceeds tolerance value > 10 . The highest correlation occurs in H2a (auditor's knowledge) and H2b (the length of the relationship) equal to 119 %

Heterocedasticity Test

From the scatterplot graph, the points appear scattered above and below zero on the Y axis, so it can be concluded that there is no problem of heterocedasticity on the model.

Normality Test

The probability of the plot of normality, the distribution of spreading points coincides around the diagonal and follows a straight-line diagonal, so that it can be concluded that the residual is normally distributed. Similarly in the graphic image histogram. In the picture below the

histogram graph shows that the normally distributed residuals that are symmetrical do not deviate to the right or to the left.

Autocorrelation Test

Based on the results of the Run-test Asymp value. Sig. (2-tailed) > 0.05 is 0.151 so it can be concluded that there are no symptoms or problems of autocorrelation.

Goodness of Fit Model

Furthermore, the value of goodness of fit model that is variation up and down variable financial statement integrity can be seen through coefficient of determination (R²).

The value of coefficient of determination (R²) in the table above shows the number of 0.333 or 33.3%, meaning that 33.3% variation ups and downs variable financial statement integrity as measured by the conservatism index can be explained by knowledge variables (H1), long relationship with client (H2a), the study by associate auditor (H2b). While the rest of 66.7% is explained by other variables outside the model.

Hypothesis Testing

From the result of H1 test, the significance value of 0.170 indicates that the auditor's competence (knowledge) has no effect on conservatism (integrity of financial statement). **H1 is rejected.** The results of this study do not support research conducted by Sukriah et al (2009), Harhinto (2004), Meinhard et al (1987) and Bonner (1990) who said that an auditor who has knowledge specifications through higher education will have the understanding and analysis more deeply to carry out the audit properly and correctly. This result is contrary to the attribution theory view that the skills possessed owned by an auditor through his or her knowledge and degree will provide better assurance of audit results.

A significance value of 0,000 indicates that the length of the relationship with clients has a significant effect on conservatism (integrity of financial statements). **H2a rejected.** The results of this study support the results of research conducted by Arsiyanti (2007) and Mayangsari (2004) indicating that there is a positive relationship between auditor independence and financial statement integrity which means that the higher level of independence (working period less than 5 years), the higher also Integrity of financial statements.

The results of this study do not support the research of Hardiningsih (2010), Susiana and Herawaty (2007) showing the result that independence (length of relationship with client) has no effect on financial statement integrity and contrary to the agency theory but the results of this study are in line with the theory that a person's behavior is caused by internal factors in the form of mental and external factors in the form of an environment that requires an auditor to perform certain actions to maintain independence (Menezes, 2008).

The significance value of 0.010 indicates that the analysis of the auditor's counterparts significantly affects conservatism (integrity of financial statements). **H2b proved.** The findings of this study support the results of research conducted by Bremster (1993) and Hartinto (2004) which states that with the peer review of the auditor's counterpart, it will be able to improve the quality control of financial statements as a reflection of the quality of work produced by the auditor.

The results of this study support the agency theory which explains that the function as an auditor as a third party to eliminate things that could be the trigger of asymmetric information and conflict of interest that arise between the principal and the agency to the financial statements.

Conclusions and Implications

Conclusions

From the findings, there are still many factors that can explain the variance of conservatism (integrity of financial statements) so that need to be developed in the next research review.

The sample in this study did not classify or grouping companies on a large scale, medium and small scale and only limited to manufacturing companies so that the number of samples is very limited.

Implications

The auditor is expected to contribute in providing an overview and formulate the implementation of regulatory and standardization policies that must be met to become a person auditor so as to better understand the characteristics and operations of a particular company that can ultimately have a positive impact on audit quality. It is necessary to develop another proxy of the variables studied by further detailing the duties or activities and functions of the auditor by relating them to experience, firm size and organizational culture.

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