



EFFECT OF PROFESSIONALISM OF AUDITORS AND PROFESSIONAL ETHICS ON CONSIDERATION OF MATERIALITY LEVELS (Empirical Study on Public Accounting Firm East Jakarta)

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Abstract

This study aims to analyze the effect of auditor professionalism and professional ethics on consideration of materiality levels. The study was conducted taken from 30% of the total KAP population in the East Jakarta region, which amounted to 40 KAP registered in IAPI in 2017 with a range of 2-10 auditors. The sampling technique uses purposive sampling, which is to determine the sample with certain considerations which are considered to be able to provide maximum data so that 65 copies of the questionnaire were obtained with the number of 10 KAPs registered in IAPI 2017 and analyzed using multiple linear regression.

The results of the study indicate that auditor professionalism and professional ethics influence the consideration of materiality levels. This is because professionalism relates to education, experience and permission to practice and professional ethics related to the professional code of ethics.

Keywords: Professionalism auditors, professional ethics and materiality

JEL Classification: M41, H25

Introduction

The development of the accounting profession is now growing rapidly, which will need the financial statements are to be believed was inevitable. Accounting generate information that describes the entity's financial performance in a particular period is also the entity's financial condition at a particular date. The financial information resulting from the accounting process is the financial statements. The preparation of financial statements for general purposes and shown to external parties is part of the financial accounting. The diversity of external parties with specific objectives by each party makes the preparation of financial statements using the principles and assumptions in the process of preparing the financial statements. In order to achieve a relevant and reliable quality of the financial statements must be audited by an auditor in order to gain assurance to users that the financial statements have been prepared in accordance criteria, namely the Financial Accounting Standards (IFRSs) applicable in Indonesia. Examples of cases that occurred in one of the public accountants are Burhanuddin, which sanctioned a three-month freeze on non-compliant Auditing-Public Accountants Professional Standards in the implementation of a general audit of the financial statements. Samcon in the fiscal year 2008 was considered a potentially significant effect on the Independent Auditor's Report (www.detik.com). In addition to being a professional who has the attitude of professionalism, each auditor is also expected to uphold professional ethics are already established by the Indonesian Institute of Accountants (IAI) so that all risks can be avoided. Then, the accounting profession into the spotlight for the community. One of these cases is the case of Enron involving public accountants who investigate reports that KAP financial Arthur & Anderson proven cooperation with Enron in the case of manipulation of financial statements losses (www.kompasiana.com).

Materiality at the financial statement level in a measurement of the magnitude of the overall minimum misstatement in a financial statement that is important enough to make the financial statements be presented fairly in accordance with accounting principles generally accepted. Scandal in the country will be visible from actions by Finance Minister Sri Mulyani freezing office permission Hidayat and AP (Public Accountant) Hapsoro, freezing is



due concerned have committed a breach of the Standards on Auditing (SA) Public Accountants Professional Standards (SPAP) in doing an audit of the consolidated financial statements of PT Pupuk Sriwidjaya (Persero) and its subsidiaries (www.economy.okezone.com). In various financial scandals above, can raise the question whether engineering tricks are able to be detected by the auditors who audited the financial statements or the auditor actually been detected but instead participate in securing the evil practices. If an auditor has a professional attitude to the application of ethics can be expected in carrying out his duties wisely. And there who think if in conducting the audit to obtain maximum results in the profession, a certified public accountant is expected to be professionals who are expected to have compliance in the act and have their own code of ethics aware of their responsibility to the public, on the client, and the fellow practitioners in perform the audit process, especially in If an auditor has a professional attitude to the application of ethics can be expected in carrying out his duties wisely. And there who think if in conducting the audit to obtain maximum results in the profession, a certified public accountant is expected to be professionals who are expected to have compliance in the act and have their own code of ethics aware of their responsibility to the public, on the client, and the fellow practitioners in perform the audit process, especially in If an auditor has a professional attitude to the application of ethics can be expected in carrying out his duties wisely. And there who think if in conducting the audit to obtain maximum results in the profession, a certified public accountant is expected to be professionals who are expected to have compliance in the act and have their own code of ethics aware of their responsibility to the public, on the client, and the fellow practitioners in perform the audit process, especially given due consideration to materiality levels.

Literature Review

1. Auditor Professionalism

According to (Badudu and Sutan, (2012: 848) in the Great Dictionary of Indonesian, the profession is a job where the work acquired a living to live, while professionalism is defined to be a profession or have the expertise and skills for education and training.

Arens et al. (2012: 156) define professionalism as the responsibility of individuals to behave better than simply complying with laws and regulations existing society. Simply put, professionalism means the auditor shall perform his duties with seriousness and rigor. As a professional, the auditor needs to avoid negligence and dishonesty. Professionalism is also an element of motivation that contributes to a person in order to have a high job performance.

According Lekatompessy (2013) Someone said to professionals follow three criteria, referred to have the expertise to carry out the appropriate tasks in the field, carrying out a task or profession to establish clear standards in the field of professions concerned and the duty to abide by the professional ethics of the profession that has been set. So, there are several criteria to assign an auditor was said to be a professional, an auditor must comply with existing standards and impartially on a client is also responsible for the reports presented.

2. Auditing

According to Ardiyos (2012: 86) auditing is to verify the accounting data to determine the accuracy and confidence in the financial statements presented by management. An objective examination of the financial statements is accompanied by an opinion on the fairness of the presentation of the financial statements.

According to Agoes (2012: 3) auditing is an examination conducted and systematically, by a party independent of the financial statements prepared by management, as well as the copy of records and supporting evidence, with the aim to give an opinion on the fairness opinions on the fairness of the financial statements. According to Messier, Clover and Prawitt (2014: 12) auditing is auditing is a systematic process to obtain and evaluate evidence objectively



about assertions-assertions about events and economic events to determine the level of compatibility between assertions-assertions with the criteria set out and communicate the results to the parties concerned.

It can be concluded that auditing is a process of evaluating examination and collection of evidence and records, books, or supporting evidence to an incident in which the evidence will be decision-making. Auditing has the main goal will receive a fair opinion on whether the financial statements which can be used by those who need to make decisions.

Rules of professional ethics of public accountants in Agoes (2012: 44) assumes that the CPAs is "an accountant who has the permission of the Minister of Finance or other competent authority to carry out the practice of public accounting".

Independent auditor is a service performed by an independent professional that parties outside the company are examined, it should not have a particular interest in the company or have special relationships (family of shareholders, board of directors or board of directors) and not aligned to any party and report what it is, which is practiced individually or as a firm.

3. Professional Ethics

According to Arens et al (2012: 48), ethics can be interpreted broadly as a set of moral principles or values. Each of us has a set of values, even though we may not yet believe it, these rules contain things that can and can not do and should be adhered to by every member of the organization. Ethics in the Greek language is composed of two words: ethos means habitual or customary and ethics means inner feeling or inner tendency to encourage people to behave.

According to Tosman (2014: 214) relating to professional ethics and are often set in the code of professional ethics that aims to:

1. *Provide guidance to the members of the profession.*
2. *Creating a means of social control for the public on the profession concerned.*
3. *Anticipating the external interference of the profession about the relationship of ethics in relation to membership of the profession.*

So professional ethics is essentially the ability to meet the needs of professional services with excellence, accuracy or thoroughness in pursuing the deployment.

4. Consideration of Materiality Level

Mulyadi (2012: 57) states as follows materiality is the value that is seen from the surrounding circumstances, may lead to changes to or influence on the consideration of those who put faith in such information, for their omission or misstatement that.

According to Tuanakota (2013: 89), materiality is the basis for risk assessment and determines the extent of the audit procedures. Determining materiality is an exercise in professional wisdom. Materiality is based on the auditor's opinion regarding the general financial information needs of financial statement users as a group.

So the auditors' materiality is a perception in general financial information needs of users of financial statements if the misstatement in the financial statements exceeds the amount which would generally be reasonable and could influence the economic decisions statement users, then that number (as a whole) can be called material.



In the audit report on the financial statements, the auditor cannot give a guarantee to the client or other users of financial statements, that the audited financial statements are accurate. And has gathered sufficient competent audit evidence as a reasonable basis for an opinion regarding the audited financial statements. That the financial statements as a whole are presented fairly and there are no material misstatements due to error and fraud.

There are two concepts that underlie the confidence given by the auditor:

1. The concept of materiality describes how much misstatement that could be accepted by the auditor so that users of financial statements are not the by the misstatement.
2. The concept of audit risk describes the risk of failure of auditors to change their opinions on the financial statements actually contain material misstatements.

Research Methods

1. Population

According to Sugiyono (2016: 61) population is a generalization region consisting of objects or subjects that have certain qualities and characteristics defined by the researchers to learn and then draw conclusions. Researchers selected as the auditor for auditor's population plunge into the field to perform the audit profession in examinations. The population in this study is limited to the existing public accounting firm in East Jakarta. Where the population of 40 KAP while respondents are auditors working in the firm with a range of 2-10 auditor in any public accounting firm.

2. Samples

According Sumanto (2014: 200) sample is the process of selecting a number of individuals (object of study) for a study such a way that individuals (object of study) are representative of a larger group in which the object is selected. In this study, samples were taken from 30% of the total population of the Firm in East Jakarta, amounting to 40 enrolled in the Certified Firm in 2017 with a range of 2-10 auditors.

This study uses a quantitative method. The exact method is also suitable for use in this study. This is because this study using the figures as an indicator of research variables, so this research using quantitative methods as

This study used a sample selection determine purposive sampling technique samples with a certain consideration which is deemed to provide data to the maximum in order to get 65 copies of a questionnaire with 10 KAP number registered in 2017. More than 65 certified copies of the questionnaire were examined completeness and obtained 35 copies of questionnaires eligible to be sampled in this study.

3. Quality Test Data

Validity Test

Test the validity according to Duwi (2013: 25) is the statute or the precision of an item queries or questions in the questionnaire to measure what you want measuring. Testing the validity of each of the questions used item analysis, which correlates the score of each item with a total score which is the sum of each item in the table shown in the total score, which is the total score of each item.

Testing the validity of this study using Spearman correlation methods and processed using SPSS 22.0 software. The test is performed on each variable separately.



Test Reliability

Test Reliability according to Duwi (2013: 33) aims to determine the consistency of the tool remains consistent if the measurement is repeated. In PSCP program testing techniques used, the Cronbach alpha. Cronbach alpha technique is suitable for use on the score-shaped scale, eg Likert scale or value-shaped stretch. The reliability of less than 0.6 is unfavorable, whereas 0.7 is acceptable and above 0.8 is good. An instrument can be said to be reliable (reliably) if it has a value of more than 0.60 Cronbach Alpha. In this study, the method used is the method of consistency between the questions (inter-item consistency).

Research Result and Discussion

1. Data Quality Test Results

Validity Test

Testing the validity of research instruments is performed by calculating a correlation or r-count number of values each respondent to answer each of the questions, then compared with r-table. R-table value of 0.3338, obtained from the Degree of freedom (df) = n-2, where n is the number of respondents as many as 35 respondents, so that the value (df) = 35-2 = 33, 5% significance level, the importance of the r-table 0, 3338. Each of the questions considered valid if the correlation numbers obtained from the calculation is greater than or equal to r-table. Based on the test results showed that all statements as valid, because the correlation coefficient r-count > r-table.

Table 1. Variable Validity Auditor Professionalism

Question	Value R-account	value r-table	Criteria
PA1	0,583**	0,3338	Valid
PA2	0,809**	0,3338	Valid
PA3	0,771**	0,3338	Valid
PA4	0,761**	0,3338	Valid
PA5	0,709**	0,3338	Valid
PA6	0,661**	0,3338	Valid
PA7	0,840**	0,3338	Valid
PA8	0,729**	0,3338	Valid
PA9	0,590**	0,3338	Valid

Sources: Primary data are processed SPSS 22 (2017)

Variable auditor professionalism consists of 9 points of the statement, from the 9th point statement is valid (r-count > r-table). The table below shows the results of testing the validity of Professional Ethics variable with 35 samples of respondents.

Table 2. Variable Validity Test Professional Ethics

Question	Value R-account	value r-table	Criteria
EP1	0,730**	0,3338	Valid
EP2	0,773**	0,3338	Valid
EP3	0,563**	0,3338	Valid
EP4	0,876**	0,3338	Valid
EP5	0,802**	0,3338	Valid
EP6	0,592**	0,3338	Valid
EP7	0,782**	0,3338	Valid



Question	Value R-account	value r-table	Criteria
EP8	0,476**	0,3338	Valid
EP9	0,658**	0,3338	Valid
EP10	0,673**	0,3338	Valid
EP11	0,637**	0,3338	Valid
EP12	0,625**	0,3338	Valid
EP13	0,775**	0,3338	Valid
EP14	0,519**	0,3338	Valid
EP15	0,821**	0,3338	Valid
EP16	0,661**	0,3338	Valid
EP17	0,658**	0,3338	Valid
EP18	0,588**	0,3338	Valid
EP19	0,796**	0,3338	Valid
EP20	0,750**	0,3338	Valid
EP21	0,625**	0,3338	Valid
EP22	0,531**	0,3338	Valid
EP23	0,531**	0,3338	Valid
EP24	0,718**	0,3338	Valid

Sources: Primary data are processed SPSS 22 (2017)

Variable professional ethics consists of 24-point statement, from the 24 point declaration is valid (r-count > r-table). The table below shows the results of testing the validity of the considerations Materiality level with 35 samples of respondents.

\ Table 3. Consideration of Materiality level Validity

Question	Value R-account	value r-table	Criteria
PTM1	0,569**	0,3338	Valid
PTM2	0,744**	0,3338	Valid
PTM3	0,604**	0,3338	Valid
PTM4	0,734**	0,3338	Valid
PTM5	0,778**	0,3338	Valid
PTM6	0,797**	0,3338	Valid
PTM7	0,795**	0,3338	Valid
PTM8	0,759**	0,3338	Valid
PTM9	0,625**	0,3338	Valid
PTM10	0,719**	0,3338	Valid
PTM11	0,722**	0,3338	Valid
PTM12	0,586**	0,3338	Valid

Sources: Primary data are processed SPSS 22 (2017)



Variable detection of fraud made up 12 point statement, compared to 12 point statement is valid (r-count > r-table).

Test Reliability

Reliability test can only be done after an instrument has confirmed its validity. Reliability testing in this study to show the level of internal consistency reliability of the techniques used is to measure the coefficient of Cronbach's Alpha with SPSS 22. The alpha value varies from 0-1, a question can be considered reliable if the alpha value greater than 0.60.

Table 4. Results of Test Reliability

variables	Cronbach's Alpha	N of Items	Status
Auditor professionalism	0,872	9	Reliable
Professional ethics	0,940	24	Reliable
Consideration of materiality level	0,902	12	Reliable

Sources: Primary data are processed SPSS 22 (2017)

Table 4 shows the Cronbach's alpha values of all items question is more than 0.6, which means all questions relating to the professionalism of auditors, professional ethics and consideration of materiality levels are reliable.

The test results of multiple correlation coefficient (R), indicates that the variable professionalism and professional ethics of auditors against the materiality level considerations have a strong relationship. The results in the table above also show that the coefficient of determination (R Square) of 0.719 and the coefficient of determination adjusted (Adjusted R Square) are 0.701. This means that 70.1% of the variation of consideration materiality levels can be explained by variations in the independent (auditor professionalism and professional ethics). While the remaining 29.9% (100% -70.1%) is explained by other variables not included in the study.

Based on the sources above concluded that the factor which is owned by an auditor both the professionalism of auditors and ethics of the profession as a whole has a purpose and a significant influence the ability to detect their consideration materiality levels, but in this study, the factors listed above is not the only factor. Other factors that influence and are not included in this research.

Multiple linear regression analysis is used to determine the effect of the independent variable on the dependent variable, while the results of multiple regression analysis are as follows:

Table 5. Multiple Linear Regression Test Results

Model		Coefficients		
		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	22.791	8.537	
	PROFESSIONALISM	0.995	0.180	0.589
	PROFESSIONAL ETHICS	0.296	0.081	0.388

Sources: Primary data are processed SPSS 22 (2017)



Based on Table 5, the results have been obtained from the regression coefficients of the above, it can be made a regression equation as follows: $Y = 22\,791 + 0.995 X_1 + 0.296 X_2$

From the regression equation can be explained as follows:

1. *Constant amounted to 22 791 showing positive signs, it can be interpreted that if the auditor professionalism (X_1), and the ethics of the profession (X_2), assumed to be constant or is 0, then the fraud detection (Y) will amount to 22 791.*
2. *The regression coefficient professionalism of auditors (X_1), amounting to 0.995 indicates a positive sign, it means every increase of 1 unit of the professionalism of auditors will increase fraud detection by 0.995 and other factors affecting held constant.*
3. *The regression coefficient professional ethics (X_2), amounting to 0,296 showing a positive sign, it means every increase of 1 unit of professional ethics it will raise the detection of fraud amounting to 0,296 and other factors affecting held constant.*

Test Results Statistics

Based on the results of statistical tests, stating that the F-test, F-count value obtained at $40,883 > F$ -table with a significance level of $2.490.000 < 0.05$. Due to the significance level of less than 0.05, then the auditor professionalism and professional ethics and significant influence on the consideration of the level of materiality together.

1. The test results influence the professionalism of the auditor's consideration of materiality levels, the value of the variable t for the professionalism of auditors for 7084 with a significance level of 0.000. T value subsequently consulted with t table value based on $df = n-1$ (35-1) and the level of guilt $\alpha = 5\%$. Based on the t table when $df = 34$ and $\alpha = 5\%$, the obtained t table of 1.6951. It concluded that t is greater than t table ie $7084 > 1.6951$ with a much smaller probability of 0.05. Auditor concluded that professionalism and significant effect on the level of materiality considerations.
2. The test results influence the professional ethics of the consideration of materiality levels, showed the value of the variable t for the professional ethics of 5,225 with a significance level of 0.000. T value subsequently consulted with t table value based on $df = n-1$ (35-1) and the level of guilt $\alpha = 5\%$. Based on the t table when $df = 34$ and $\alpha = 5\%$, the obtained t table. It concluded that t is greater than t table ie $5,225 > 1.6951$ with a much smaller probability of 0.05. It was concluded that the professional ethics and significant effect on the level of materiality considerations.
3. The result of the coefficient of determination, r^2 adjusted value of 0.436. This means that only affects variable consideration materiality level of 43.6%. Furthermore, from multiple linear regression equation can be seen toward relationships that the ethics of the profession to the level considerations materials, with assuming other variables constant, namely: $y = 6,899 + 0,414 (X_2)$. The analysis showed a positive association of professional ethics which led to an increase of 0.514 against the materiality level considerations.

Discussion

Professionalism auditor affects the level of materiality considerations. This is due to the professionalism associated with education, experience and licensed to practice. So is the case with an auditor, education is important to convince users of financial statements to be a professional audit in this case related to the consideration of the level



of materiality to the financial statements. If the service users do not have confidence in the auditor in considering the materiality level, the ability of professionals to provide effective education and experience will be reduced.

The regression results stating that the auditor professionalism and significant influence and positively to the consideration of materiality levels this proves that the higher the professionalism provided by the auditor the auditor increasing the success rate in materiality.

Professional ethics considerations affect the materiality level public accountant means any public accountants are also expected to adhere to professional ethics set forth by the Indonesian Institute of Certified Public Accountants so that the auditor does not show partiality to anyone, be objective and honest. Without ethics, the accounting profession will not be there because of the accounting function is a provider of information for business decision-making process by the business. By upholding the ethics of the profession is not expected to occur among public accounting fraud, so as to give an opinion that actually audited in accordance with the financial statements presented by the company.

The regression results stating that professional ethics and significant influence and positively to the consideration of materiality levels, this proves that the higher ethics of the profession it will be the consideration of the level of materiality.

Conclusions and Recommendations

1. Conclusion

Based on the results of data analysis and discussion can be concluded as follows:

- a. Based on the results of multiple regression test variables either partially auditor professionalism has significant influence and positive impact on the consideration of materiality level. This can be explained by t-count of 7084 with a probability level of 0.000 ($p = 0.000 < 0.05$) and test results that show the determination coefficient r^2 value of 0.591. This means it only affects variable auditor professionalism considerations materiality level of 59.1% only.

These test results stating that the auditor professionalism variables directly affect materiality level considerations. These results prove that each auditor is also expected to have a professional attitude in the audited financial statements; the auditor can produce a reliable audit for the client not to provide misleading information to the public and users of financial statements.

- b. Based on the results of multiple regression test variable partial professional ethics has significant influence and positive against materiality level considerations. This can be explained by the value of t count equal to 5,225 with the probability level of 0.000 ($p = 0.000 < 0.05$) and the coefficient of determination test results that show the value of adjusted r^2 of 0.436. This means it only affects variable professional ethics considerations materiality rate of 43.6%.

These test results stating that variable partial effect professional ethics against materiality level considerations. These results prove that each auditor is also expected to hold firm professional ethics so that the auditor does not show partiality to anyone, be objective and honest.

- c. Auditor professionalism and professional ethics jointly have the simultaneous effect, it can be explained that the test results can be F-count obtained for 40,883 > F-table significance level of 2.49 with significant considerations materiality level indicated by sig 0.000 < 0.05.

2. Recommendations

Advice can be given for further research which is to increase the number of samples and variables. This study has several limitations, including the sample in this study, only includes auditors working in KAP East Jakarta,



internal and external factors in this study are very limited, this study did not use the interview method. Thus, it will give some suggestions for future research:

- a. For their next study is expected to add another variable that is expected to affect the level of materiality considerations.
- b. In a subsequent study of research time to the respondent, public accounting should not be done during January-July, because in this period is a busy time for public accountants to audit so that the rate of return data from public accounting during that period was minimal.
- c. For their next study is expected to expand the research object.
- d. Subsequent research can use the method of a direct interview with the respondent.

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