

The Influence of Independence, Professionalism, Profession Ethics, Experience and Knowledge Detecting Errors against Considerations of Materiality Level of Public Accountants

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The purpose of this research is to prove empirically the influence of independence, professionalism, profession ethics, experience and knowledge of detecting errors against considerations of materiality level of public accountants in Surabaya. The research population is from Public Accounting Firms (KAP) in Surabaya. The sample in this research is 17 KAP in Surabaya. This research involved 41 external auditors to be sampled. Sampling method used the Non-Probability Sampling technique. Data was analysed using SPSS version 20 with multiple linear analysis, significance level was determined at 5%. The results of this research show that (1) independence, does not affect the consideration of materiality level of public accountants. (2) Professionalism does not affect the consideration of materiality level of public accountants. (3) Profession ethics affect the consideration materiality level of public accountants. (4) Experience does not affect the consideration of materiality of public accountants. (5) Knowledge of detecting errors affects the consideration of materiality level of public accountants.

Key words: *Independence, public accountants, materiality level*

Introduction

Economic decisions are usually based on information available to decision makers. Reliable and relevant information is needed when managers, investors, creditors, and other regulatory

agencies want to make rational decisions about resource allocation. Reliable and relevant information needs create a demand for auditing services. Auditing plays an important role in the process by providing objective reports of information reliability (Hartini et al., 2017), (Abdullin and Demina, 2019).

At the time the auditor considers a decision on what opinion will be stated in the audit report, whether material or not the information affects the type of opinion that will be provided by the auditor. Other factors that also influence auditor choice are accounting firm reputation, auditor fees, and prior history with potential clients, and environmental context, such as political issues and cultural values (Astuti et al., 2019). In case the information exceeds the limits of materiality, the auditor's opinion will be affected. However, if the information is not material, it will be ignored by the auditor and considered never exist (Abdullin and Demina, 2019).

The auditor's consideration of materiality is a matter of professional policy and influenced by the auditor's perception about the reasonable needs from the financial reports. The materiality level of a financial report will not be the same depending on the size of the financial reports (Bhattacharjee and Moreno, 2002).

A public accountant, in conducting an audit of financial reports, does not merely work for client's interest, but also for other parties who are interested in the auditor reports. In order to maintain the trust from the clients and other users of financial reports, public accountants are required to be independent of their clients. The independent attitudes of the auditor are not only exercised in the fact of field work, but also should be addressed to users of financial reports (Handa et al., 2019); (Boynton and Johnson, 2006).

The description about the professionalism of an auditor according to Herawaty and Susanto (2009) is reflected in five things: dedication to profession, social obligation, independences, belief in profession rules and relationships with colleagues. The higher the influence of professionalism level of public accountant, the better the consideration of materiality level, so it can also improve the quality of auditors performances in making decisions about the fairness of financial reports presented by the client (Qomariyah, 2019); (Eilifsen and Messier Jr, 2014).

In addition to being professionals who have an attitude of professionalism, professional ethics is also required in the implementation of the audit. Auditors must adhere to professional ethics so that auditors can uphold the highest ethical standards. The profession code of ethics for public accountants is arranged by the AICPA (American Institute of Certified Public Accountants) and the AICPA ethics code becomes the ideal standard of attitudes and a special regulation of attitudes that must be performed by public accountants. This code of

conduct also can significantly reduce manager's escalation behaviour (Handa et al., 2019). According to Herawaty and Susanto (2009) the higher the public accountant complies with the ethics code, the better the materiality level (Eilifsen and Messier Jr, 2014).

Besides the independence, professionalism, and profession ethics, an auditor must have sufficient experience to be able to make decisions in the audit report. Auditors who have different experiences will differ in view and respond to information obtained during the examination. Similarly in giving audit conclusions to the object examined in the form of giving opinion (Hartini et al., 2017). The more experienced an auditor, the more sensitive auditor to the misrepresentation of the financial reports and further understands the matters related to the errors found (Herawaty and Susanto, 2009). Investigation of the antecedent factors of auditors' awareness of the profession's reputation for independence is suggested (Quick and Warming-Rasmussen, 2009); (Kinanti, 2013).

The auditor should consider well the materiality assessment at the planning stage of the audit because an auditor should be able to determine the amount of materiality of a client's financial report. Therefore it takes an auditor who is more experienced in conducting the audit, especially in giving consideration of materiality level in the process of auditing the financial reports, so that it is expected with the high experience of auditor will be able to consider the materiality level of financial reports better (Herawaty and Susanto, 2009).

Knowledge of public accountants is obtained from a variety of formal training as well as from specific experience, in the form of seminars, workshops and briefings from senior auditors to juniors. Public accountant knowledge is used as one of the keys to work effectiveness, one of them is about the detection of errors that can develop due to work experience. According to Herawaty and Susanto (2009), "The higher the knowledge of public accountants in detecting errors, the better is the consideration of materiality level" (Eilifsen and Messier Jr, 2014).

Theoretical Framework

According to the Professionals Standard of Public Accountant (SPAP) SA Section 312 of 2011, materiality is the amount of accounting information that in the event of disappearance or misstatement, viewed by its surrounding circumstances, may be able to change or influence the consideration of the person who lays confidence in the information. The auditor's consideration of materiality is a professional judgment and influenced by the auditor's perception of the needs of people with adequate knowledge and who will place confidence in the financial reports. When considering the auditor's responsibility to get sufficient confidence that the financial reports are free to misstate materially, there is no important difference between error and fraud (Knapp and Knapp, 2001).

Independence is often divided into two types by the auditor, namely independence in fact (independence in mental attitude) and independence in appearance. Independence in fact is defined as an auditor's action with integrity and objectivity, while independence in appearance is interpreted as the other party's view of the auditor associated with the audit (Narsa and Supriyadi, 2019). According to PSA No. 25 SA Section 220 in paragraph 2, general standard requires the auditor to be independent, it means that it is not easily influenced, since the auditor performs his work for the public interest (differentiated in the case of auditors practicing as internal auditors). Thus, the auditor is not justified in favour of anyone's interest, because no matter how perfect the auditor's technical expertise is, it loses impartiality, which is very important to maintain freedom of opinion.

According to Herawaty and Susanto (2009), a professional public accountant must fulfill his or her responsibilities to the society, the client, including his professional colleagues to behave properly. Public confidence in the quality of professional audit services increases if the profession sets standards of work and behaviour that can implement effective business practices and strive for high professionalism (Eilifsen and Messier Jr, 2014).

Profession ethics is a behaviour standard for a professional designed for practical and idealistic purposes. While professional ethics code can be partially designed to encourage ideal behaviour, it must be realistic and enforceable. Any person who provides the services of his knowledge and expertise to the other should have a sense of responsibility to the parties affected by his services (Nasution and Östermark, 2019). Without ethics, the accounting profession is not exist because the accountant function is as a provider of information for the decision-making process in business by business people (Noviyani, 2002). Professional ethics is a characteristic of a profession that distinguishes a profession with another profession, which serves to regulate the behaviour of its members (Narsa and Supriyadi. 2019).

The auditor's experience is the experience in auditing financial reports both in terms of length of time, the number of assignments and types of companies that have been handled. Audit experience is the ability of the auditor or auditor's accountant to learn from past events related to the intricacies of audit or examination. Experienced auditors are more likely to find items that are not common (atypical) compare with inexperienced auditors (Pflugrath et al., 2007).

Knowledge of detecting errors is the auditor's effort to have knowledge in explaining the lack of financial reports presented by the company through the identification and disclosure of errors and fraud in the accounts of the company's financial reports. A public accountant who has a lot of knowledge gained from experience during the auditor will be more expert in detecting and disclosing errors that occur in the accounts of the company's financial reports (Qomariyah, 2019), (Astuti et al., 2019).

Hypothesis Development

The influence of independence toward Consideration of Materiality Level

Auditor independence is an important factor for auditors in reporting misstatements that will affect materiality considerations. With independence, the auditor will be neutral towards the entity and will be objective. Public can trust the audit function because the auditor is impartial and acknowledges the obligation to be fair. Based on the description, the research hypothesis is proposed as follows (Eilifsen and Messier Jr, 2014):

H1: Independence has an effect on the consideration of materiality level.

The Influence of Professionalism toward Consideration of Materiality Level

As a professional, in the third general standard of auditing stated that in auditing and reporting, an auditor shall use his/her professional proficiency closely and thoroughly. To be able to perform the task in a professional manner, auditor should make a planning before performing the process of financial report auditing. The planning also involves determining the level of materiality. Therefore, it can be concluded that the professionalism of an external auditor will affect the consideration of materiality level. Based on the description, the research hypothesis is proposed as follows (Boynton and Johnson, 2006):

H2: Professionalism has an effect on the consideration of materiality level.

The Influence of Profession Ethics toward Consideration of Materiality Level

Based on the results of research by Herawaty and Susanto (2009) profession ethics positively affect the consideration of materiality level (Eilifsen and Messier Jr, 2014). The higher the public accountant complies with the ethics code, the better the materiality level will be determined in reasonable amount and in accordance with the applicable rules. Based on the description, the research hypothesis is proposed as follows (Bhattacharjee and Moreno, 2002):

H3: Profession ethics has an effect on the consideration of materiality level.

The Influence of Experience toward Consideration of Materiality Level

Experienced auditors have a better understanding. They are also better to give plausible explanations for errors in financial reports and can classify them based on audit objectives and the structure of the underlying accounting system. An auditor's consideration in the face of a similar situation repeatedly, either directly or indirectly, will influence the consideration

he chose. Recurring information will create new considerations and ultimately lead to new decisions. Based on the description, the research hypothesis is proposed as follows:

H4: Experience has an effect on the consideration of materiality level.

The Influence of Knowledge Detecting Errors toward Consideration of Materiality Level

Public accountant's knowledge about detecting errors will develop due to work experience (Quick and Warming-Rasmussen, 2009). According to Herawaty and Susanto (2009) the higher the knowledge of public accountant in detecting errors, the better the consideration of materiality level (Eilifsen and Messier Jr, 2014). Based on the description, the research hypothesis is proposed as follows:

H5: Knowledge in detecting errors has an effect on the consideration of materiality level.

Research Method

This research is explanatory research through survey, the data collected by using questionnaire with Likert scale measurement. The collected data were processed using SPSS version 20. The tests were: the validity test, the reliability test, the classical assumption test and the hypothesis test by using multiple linear regression analysis (Knapp and Knapp, 2001).

The research population were auditors working in Public Accounting Firms (KAP) in Surabaya. The sample selection method used in this research was Non-probability sampling. Non-probability sampling is a sampling that does not provide the same opportunity for each element or member of population to be selected as a sample". The type of sampling technique used was the sampling quota - a technique to determine the sample of a population that has certain characteristics to the desired amount.

Operational Definition

Each question in this research was measured with a score of 1 to 5, i.e. strongly disagree (1), disagree (2), hesitate (3), agree (4), and strongly agree (5).

Independence

According to PSA No. 25 SA Section 220 of 2011 in paragraph 2 of the general standard requires that the auditor be independent, it means that it is not easily influenced, as the auditor performs his work for public interest (differentiated in the case of auditors practicing

as internal auditors). To measure the auditor's independency using 3 indicators, namely Independence in the audit program; Independence in verification; and Independence in reporting (Noviyani, 2002).

Professionalism

Professionalism is the attitude of someone in running a profession⁵. To measure auditor professionalism using five dimensions of professionalism, namely dedication to the profession; Social obligations; Independence; Confidence in the rules of the profession; and Relationship with colleagues (Nasution and Östermark, 2019).

Profession Ethics

Profession ethics is a behaviour standard for a professional designed for practical and idealistic purposes. Profession ethics is measured using seven questions of profession ethics principles, namely Responsibility; Public interest; Integrity; Objectivity; Competence and professional caution; Confidentiality; and Professional Behaviour.

Experience

Experience is a learning and accretion process of potential behaviour development both from formal or non-formal education or can be interpreted as a process that brings someone to a pattern of higher behaviour. To measure the experience of the external auditor using three indicators namely Length of work; Number of inspection duties; and many types of companies.

Knowledge in Detecting Errors

Herawaty and Susanto (2009) stated that accountants with professional knowledge and expertise can increase knowledge about the causes and consequences of errors in an accounting cycle (Eilifsen and Messier Jr, 2014). To measure the experience of an external auditor using five indicators, namely: Ability to detect errors in data collection or processing; Ability to estimate unreasonable accounting; Ability to detect errors in the application of accounting principles relating to quantities; Ability to detect errors in the application of accounting principles related to classification; and Ability to detect errors in the application of accounting principles related to the manner of presentation or disclosure (Rahmina and Agoes, 2014).

Consideration of Materiality Level

Consideration of materiality level is the consideration done by an auditor on the financial reports to determine how many of misstatement that occurred in a financial report with the aim to provide opinions on the presentation of financial reports. To measure considerations of materiality level using four indicators: Degree of difficulty in determining materiality during audit planning; Materiality considerations are determined by objectivity and subjectivity; The basis for determining the degree of materiality at the level of financial reports and account balances; and Factors that determine the accuracy of materiality (Pflugrath et al., 2007).

Discussion

Table 1: Regression Result

Model	Coefficient	t	Sig.
Constants	13.461	2.365	.024
Independence	-.259	-1.389	.174
Professionalism	-.039	-.380	.706
Profession Ethics	.530	2.349	.025
Experience	-.427	-1.305	.200
Knowledge in Detecting Errors	.713	2.076	.045
R	= 0.685		
R Square (R ²)	= 0.469		
F	= 6.176		
Sig. F	= 0.000		

Independence Affects the Consideration of Materiality Level

The results of this research reject the first hypothesis by finding empirical evidence that independence has no effect on the consideration of materiality level of public accountants. This is in contrast to Kinanti's (2013) study which stated that independence affects the consideration of materiality level of public accountants (Rahmina and Agoes, 2014). However, in accordance with the results of Fang's (2018) study which stated that independence has no effect on the consideration of materiality level of external auditors.

Independence has no influence on the consideration of materiality level of public accountants implying that both with strong independence, as well as the weaker, have a degree of uniformity in terms of determining the level of materiality in the same case. Despite the weak independence caused by a special relationship between the auditor and the client, or the length of the auditor auditing the same client, it appears that materiality is considered a very important element in determining the audit opinion, thus causing the auditor to be careful

when considering the level of materiality of an account. Thus, it can be concluded, the auditors in this research have generally acted as it should, especially in considering the limits of materiality, whether the auditor has a special relationship with the client or not.

Professionalism Effects on the Consideration of Materiality Level

The results of this research reject the second hypothesis by finding empirical evidence that professionalism does not affect the consideration of materiality level of public accountants. This is in contrast to the research of Herawaty and Susanto (2009) which stated that professionalism affects the consideration of materiality level of public accountants where the higher the professionalism the better in consideration of materiality level of public accountants (Eilifsen and Messier Jr, 2014). However, in accordance with the results of Abdullin and Demina, (2019) study which stated that professionalism does not affect the consideration of materiality level in the examination of financial reports (Tunajek, 2006).

No effect of professionalism on the consideration of materiality level, implying that neither auditors with high professionalism, nor a low one, have a considerably different level of materiality consideration. Once again, the materiality of an account is considered crucial in the determination of opinion, so the auditors do not dare to play with the level of materiality. Therefore, an auditor who feels himself not use all his knowledge, ability, and experience, or is not very proud of his profession as an auditor (reflecting a low level of professionalism), will remain focused and serious in determining a reasonable level of materiality, as focused and as serious as the high professionalism auditor.

Profession Ethics Effects on the Consideration of Materiality Level

The results of this research support the third hypothesis by finding empirical evidence that profession ethics positively affects the consideration of materiality level of public accountants. The higher the public accountant complies with ethics code, the better the consideration of materiality produced in the audit planning process. This is in line with the research Herawaty and Susanto (2009) which provides empirical evidence that the ethics of the profession affect the consideration of the level of materiality of public accountants in the process of auditing financial statements. The higher the obedience to the professional code of ethics the better also the consideration of the level of materiality in conducting financial statement audit (Eilifsen and Messier Jr, 2014). However, these results contradict the research of Utami and Nugroho (2014) which state that professional ethics does not affect the consideration of the level of materiality (Utami and Nugroho, 2014).

IAPI ethics code, ethics rules of the Public Accountant Compartment, the Profession Standards of Public Accounting (SPAP), and the Auditing Quality Control Standards are a

good reference for the quality of auditing. Professional ethics codes are designed to encourage ideal behaviour, so it must be realistic and enforceable. One of the ethics codes to be obeyed is that materiality should be levelled with serious consideration based on the auditor's knowledge and experience. Thus, auditors who adhere to profession ethics must behave according to the ethics codes. Otherwise, auditors who are not aware of the ethics codes, tend to ignore making a serious consideration in determining the level of materiality.

Experience Effects on the Consideration of Materiality Level

The results of this research reject the fourth hypothesis by finding empirical evidence that experience has no effect on the consideration of materiality level of public accountants. Experience has no influence on the consideration of materiality level of public accountants implying that long-standing auditors, as well as new ones, do not have much differences in terms of considerations of materiality level. The new auditor, but with a high learning intensity, and easy access to information, causes his consideration on the level of materiality to be as good and reasonable as the experienced auditors.

Knowledge in Detecting Errors: Effects on the Consideration of Materiality Level

The results of this research support the fifth hypothesis by finding empirical evidence that knowledge in detecting errors affects the consideration of materiality level of public accountants. This research is in line with the study by Herawaty and Susanto (2009) which stated that knowledge in detecting errors affects the consideration of materiality level, so the higher the knowledge of public accountant in detecting errors, the better consideration of materiality level produced. Public accountant knowledge is used as one of the keys to work effectiveness. In the audit, knowledge of the various patterns associated with accuracy in implementing the auditing process correctly, including in terms of determine the consideration of materiality level (Tunajek, 2006); (Eilifsen and Messier Jr, 2014).

Conclusion

Based on the results of research and discussion, it can be concluded that professional ethics and knowledge in detecting errors affect the consideration of materiality level of public accountants, while independence, professionalism and experience do not affect the consideration of materiality level of public accountants.

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