

CHAPTER I

INTRODUCTION

1.1 Background

The rapid growth of business nowadays triggers the high rivalry among corporates. In essence, the development of a business required huge resources, including financial capital to support their activities. In order to obtain an easy approach to the sources of capital, those companies should report the business activities, especially related with company's financial statement and performance (Suyono, Yi, & Riswan, 2013).

A financial report is essential for companies in representing their performance within a period of time. According to ISA 200 issued by International Federation of Accountant (2009), the financial statement is a financial information that is trustworthy as representative of an entity's economic resources in a certain period of time and expected to provide reasonable, reliable and understandable information to the users in behalf of the economic decision making. The users of financial statement differed into internal (company's management itself including employees and directors) and external (government, investor and potential investor, creditor, and taxation authorities, and public).

The responsibility of a company to submit financial report has been determined in Indonesian Government Regulation No. 24 Year 1998 then modified by Indonesian Government Regulation No. 64 Year 1999 regarding Indonesian Government Regulation No. 24 Years 1998. Afterward, it was revised by the decree

of the Minister of Industry and Trade in the Republic of Indonesia Number 121/MPP/Kep/2/2002. Moreover, IDX (2016) stated that an Indonesian company which was listed publicly in the Indonesia Stock Exchange is required a financial statement accordance with Indonesian Accounting Standards or *Standar Akuntansi Keuangan (SAK)* and it should be audited by certified public accountant firm registered in Capital Market and Financial Institution Supervisory Agency (Bapepam LK) or currently known as Indonesian Financial Services Authority (OJK).

Jensen & Meckling, (1976) argued that the importance of the audit is exist based on the agency theory. Agency theory is a concept of the relationship between two-parties known as *principals* and *agents*. *Principals* here is the stakeholder as individual(s) or organization(s) or group(s) who own a company. Meanwhile, *Agents* are people employed to provide particular services and manage the company. Thereby, the concept is an agent who directly deal with the company.

Jensen and Meckling (1976), argued that the condition when information received by *the principals* as interested parties does not describe the real condition of the company, asymmetry information, an agency problem. Therefore, *the principals* should believe that *the agents* probably do not continuously act on behalf of the *principal's* interest.

As mentioned before that the accountant requires to act as independent third-party since it is essential to follow professional ethics. According to Code of Ethics, as Professional Accountants by International Federation of Accountants (IFAC) (2006), it has concerns on the integrity, objectivity, professional competence and

due care, confidentiality and professional behaviour as a professional accountant. Independent relates to the point of "objectivity" which means accountants shall not allow bias, conflict of interest or undue influence of others to override professional or business judgment.

Dopouch et al. (1987) have developed a model to explain audit qualifications for Greek public companies in 2001. The research model assumes that the auditee financial indicators and other indicator, such as the characteristics of the audit company, as independent variables for investigate the effect on audit qualifications. That research use empirical models to assess the extent to which audit qualifications can known based on publicly available data. Bell and Tabor (1991) and Chen and Church (1992) note that auditors can use models Dopouch is to plan specific audit procedures that can be applied to achieve an acceptable level of audit risk. According to Kleinman and Anandarajan (1999) this model can also be used as a tool of quality control in examining and assessing the final stages of an audit engagement and contingency analysis of how changes in certain variables can be increase or decrease the opportunity to get a qualified audit opinion.

Indonesia has issues about auditor independence and corporate financial issues as experienced by Kimia Farma (Persero) Tbk., PT. Telkom Indonesia, PT. Kereta Api Indonesia, Bukopin Bank, PT. Sunprima Nusantara Pembiayaan (SNP Finance), and others. According to Detik.com (2018), Concerning the financial report of Bukopin Bank, there is a suspicious activity.

After being investigated and clarified with some parties, including the CPA Firm Purwanto, Sungkoro and Surja that affiliated with CPA Firm Ernst & Young, there was manipulated data on credit card transactions. Based on Kompas.com, it was triggered by an abnormal amount of the credit card income. This issue has been done by Bukopin Bank in five years lately and it was not detected by the independent auditor. Therefore, Financial Services Authority (OJK) summoned the CPA Firm Purwanto, Sungkoro and Surja that affiliated with CPA Firm Ernst & Young to be investigated (Kompas, 2018).

Another big issue, Garuda Indonesia reported a net profit of US \$ 809,850 throughout 2018. This is equivalent to Rp 11.33 billion. This achievement of Garuda Indonesia's performance surged compared to 2017 which had lost US \$ 216.5 million. This revenue from transactions on agreement of Provision of Connectivity Services in Aviation, between PT Mahata Aero Teknologi and PT Citilink Indonesia, a subsidiary of Garuda (Kontan, 2019).

The ministry of Finance then imposed sanctions on Kasner Sirumapea Public Accountants and Public Accounting Firm Tanubata, Sutanto, Fahmi Bambang & Partners, as auditors of Garuda Indonesia financial statement in 2018. The funds are still receivable but had been reported by Garuda Indonesia Management as revenue. As a result, in 2018 surprisingly the airline earned a net profit of US\$809.85 thousand or equivalent to Rp 11.33 billion (exchange rate of Rp 14,000). (Detik, 2019)

Triseptya (2014) Triseptya describes that audit quality is defined as the probability an auditor can find and report a misappropriation in the client's

accounting system, where the probability of error reporting depends on the independence of the auditor.

In many cases, qualified opinion is given when the auditor in carrying out its duties to find the characteristics of bad auditee, such as the existence of misstatement or the presence of financial ratios and can make auditors doubt the company's going concern. This research to know whether or not the characteristics of the auditee company required a qualified and independent auditor who is a requirement of good audit quality.

A prior research that has done this kind of research is Surya Parapat (2017), entitled “Analisis Penentu Opini Audit Qualified Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2013-2015” that examined the influence of Certified Public Accountant Firm Reputation, Auditee Characteristic, Audit Tenure among manufacturing companies listed on Indonesia Stock Exchange (IDX). This research is a follow-up research from prior research. In this research, the researcher made a renewal regarding this research using a new variable.

The researcher decided to use a new variable Company Size exchange with “*Auditee Characteristic*” variable that previously used. Therefore, the title of this research is **“The Analysis of Determinants of Qualified Audit Opinion on Manufacturing Companies Listed in Indonesia Stock Exchange Period 2016-2018”** with the research objects of Manufacturing companies listed in the Indonesian Stock Exchange from 2016-2018.

1.2 Problem Identification

Depending on the research background, there are some problems that can be identified:

- a. Factor influencing Qualified Opinion
- b. A long cooperative relationship between a public accounting firm and the auditee is likely to influence auditor independence.
- c. The selection of high quality auditors can increase the credibility of financial statements
- d. A qualified audit opinion provides a positive response to the auditee's financial condition.

1.3 Research Limitation

Based on the identified issues, determining the factor that influence the determinants of Qualified Opinion is limited to Indonesia Public Listed Company 2016-2018.

1.4 Research Question

Based on the following problem statement, the research questions are:

1. Does Certified Public Accountant Firms Reputation negatively influence Qualified Opinion?
2. Does the Size of Company negatively influence Qualified Opinion?
3. Does Audit Tenure negatively influence Qualified Opinion?
4. Does Certified Public Accountant Firms Reputation, Size of Company, Audit Tenure, simultaneously influence Qualified Opinion?

1.5 Objective of The Research

Based on the Research Question, the objectives of the research are as follows:

1. To analyse the positive influence of Certified Public Accountant Firm reputation on Qualified Opinion for Manufacturing companies listed in the Indonesian Stock Exchange from 2016-2018.
2. To analyse the negative influence of The Size of Company on Qualified opinion for Manufacturing companies listed in the Indonesian Stock Exchange from 2016-2018.
3. To analyse the negative influence of Audit Tenure on Qualified Opinion for Manufacturing companies listed in the Indonesian Stock Exchange from 2016-2018.
4. To analyse the simultaneously influence of Certified Public Accountant Firms Reputation, Size of Company, Audit Tenure, Qualified Opinion?

1.6 Benefits of Research

The researcher hopes that the result of this study benefits to:

1. Companies.

Companies may gain an advantage of this research as a reference or consideration in choosing Public Accountant Firms as partners.

2. Auditor

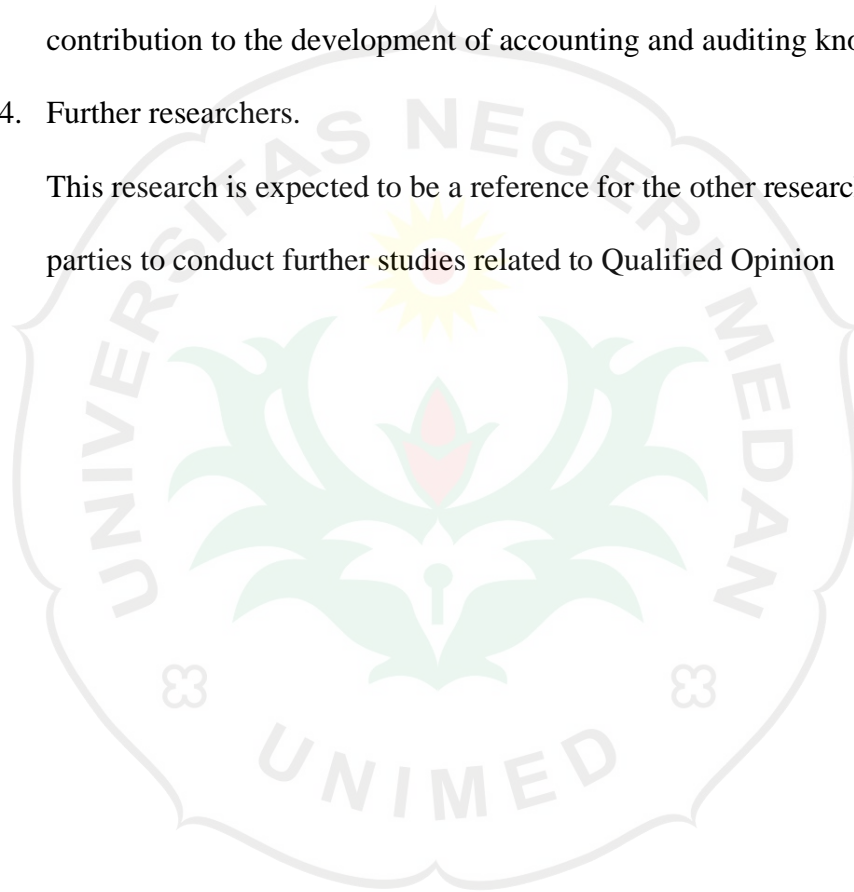
Public accountants may gain an advantage of this research as a reference or consideration in assigning Qualified Opinion.

3. Academicians

The finding of the study is expected to provide a further significant contribution to the development of accounting and auditing knowledge.

4. Further researchers.

This research is expected to be a reference for the other researchers or parties to conduct further studies related to Qualified Opinion



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