

## The Relationship of Independence Auditors, Materiality and Risk on the Quality Reduction of Type Audit Replacing and Altering Audit Process with Non Assurance Services as Variabel Moderating (Empirical Study in Jakarta Public Accountant Office)

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### Abstract

The aim of this study is to investigate the role of auditor Independence and materiality and risk on audit quality reduction, which is mediated by non audit service. In order to generate the goal of the study, we conduct a survey study at the public accounting firm. We test our 246 usable data from public accountant using Structural Equation Modelling analysis. The results indicate that either auditor ethics or materiality and risk had a negative effect on reduced audit quality Replacing and altering of audit process. Otherwise non audit services mediate the relationship between auditor independence and materiality and risk to audit quality reduction.

**Keywords:** Auditor independence; Materiality and Risk; Non Assurance Services; Audit Quality Reduction; Replacing and Altering of Auditing Process.

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### INTRODUCTION

The results of behavioral research show that auditor independence from external auditors and auditor responsibilities negatively affects under reporting of time [1]. Robin [2] explains that auditor behavior is influenced by internal or external factors. Internal causes tend to refer to aspects of individual behavior, which exist in a person such as personal traits, self-perceptions, abilities, and motivation. While external causes refer more to the environment that influences a person's behavior, such as social conditions, social values, and community views.

In addition to the ethics of auditors, some research results indicate that the auditor's opinion regarding materiality and risk can lead to a reduction in audit quality [3]. This is because the auditor will give a different opinion based on the experience related to the task of the audit regarding materiality and risk.

Another reason that could be the reason for the dysfunction of an auditor is the pressure on the completion of the audit assignment given. Time budget pressure is a condition that shows the auditor is required to make efficiency on the time budget that has been prepared or there are very tight and rigid time and

budget restrictions. This is one type of pressure that really has the potential to reduce auditor control of the work environment [4].

Audit task completion is given by the public accounting firm to its auditors to reduce audit costs through the implementation of available audit processes which are usually not carried out as a whole so that the existence of this time budget forces the auditor to complete the task as soon as possible or in accordance with the time budget. determined, it is possible for the auditor to terminate and replace audit procedures even terminating audit procedures [5].

Thus this study aims to examine whether auditor independence and materiality and risk influence the dysfunctional auditor type of Replacing and Altering of Audit Process. In addition, it tests whether non-assurance services moderate the influence of auditor independence and materiality and risk on the functional auditor. The results showed that auditor ethics and materiality and risk negatively affected audit quality reduction types of Replacing and Altering of Audit Process. In addition, non assurance services moderated the results of the auditor's ethical and materiality and risk negative effects on dysfunctional auditors.

The difference between this research and previous research is that Y variable auditor

dysfunctional type is not the same, also the dimensions contained in the materiality and risk variables as well as audit independence are details:

**Table-1: Research Differences**

Type Variabel	Research 1	Research 2
VARIABEL Y	Variabel Dysfunctional Auditor Type: <i>Under Reporting of time</i>	Variabel Dysfunctional auditor Type <i>replacing and altering original audit procedure</i>
Variabel X1	Variabel Material base ISA with dimension <i>Performance materiality and specific materiality</i>	Variabel Material base with ISA with dimension <i>Fraud risk dan bisnis risk</i>
Variabel X2	Variabel independence auditor with dimension from external personal auditor <i>Independence in perceived ethicks leadership</i>	Variabel Independence Auditor with dimension inner personal auditor <i>Independence in perceived ethicks leadership Independence in performance and independence in act</i>

## LITERATURE REVIEW

### Cognitive Moral Development (CMD)

The theory of moral development is a theory of moral thought that is used as a guide so that it is easy to make wise and good considerations. The point is that morality represents a set of rational considerations and decisions that apply to every behavior, namely the principle of correct behavior and the principle of justice. This basic theory is related to the rules of human behavior that interact with the personal environment. The moral development theory introduced by [6] was developed by [7] who was a psychologist.

Cognitive is defined as intellectual potential consisting of stages of knowledge (comprehension), application (application), analysis (analysis), synthesis (synthesis), evaluation (evaluation). Cognitive means a problem involving the ability to develop rational (reason), more emphasizing how the process or effort to optimize the ability of rational aspects that are owned, in the opinion [8].

### Independence of the Auditor

Boyton [9] explains that a profession must have high moral commitment. These commitments are usually set out in the form of specific rules that are a guide for everyone who carries out the profession in question. This rule is a guideline in carrying out the profession commonly referred to as a code of ethics that must be fulfilled and adhered to by every profession.

The purpose of the code of ethics is for professionals to provide the best services to their clients. The existence of a code of conduct will protect the unprofessional actions. The aim of the accounting profession is to fulfill its responsibilities with the highest standards of professionalism, achieve the highest level of performance, with an orientation to the public interest.

Accountants as accounting professionals are responsible for the quality of services produced. There

is a belief that all services obtained from accountants are given the highest performance standards [10].

### Overall Materiality and Audit Based Risk

Arens [11] argues that materiality is the amount of value omitted or misstatement of accounting information. The value of ISA-based overall materiality can influence the consideration of someone who believes in the information. While audit based risk is audit risk which will be wrong in setting the going concern of the company, it is likely that the auditor gives a inappropriate audit opinion on financial statements that contain material misstatements.

### Non Assurance Service (Non Audit Service)

Services without guarantees are services provided by public accountants or independent auditors which do not provide opinions, negative beliefs, summary findings, or other forms of testing confidence. The profession of a public accountant or independent auditor also provides various other types of services which are generally not or not a guarantee service. Types of non-guarantee services are part of: accounting services, tax services, and management consulting services.

### Replacing and Altering Of Audit Process

The behavior of a dysfunctional audit that occurs in an audit practice is the auditor's action by replacing and stopping the specified audit process that is used to carry out certain audit tasks. In the auditing literature, this behavior is referred to as Replacing and Altering of Audit Process (RAAP) behavior. RAAP behavior occurs when the auditor does not carry out and replace predetermined audit procedures to complete the audit assignments charged by public accounting firms examined by Otley and Pierce [12]. RAAP's behavior is primarily motivated by the auditor's desire to complete the audit assignments according to the auditor's personal version by violating the initial commitment of the examiner's team to get a better personal performance evaluation stated by [13].

URT's behavior also has an impact on KAP's assessment of the auditor's personal performance. When the auditor acts in the RAAP manner, the assessment made by the public accounting firm for the auditor's performance becomes inappropriate. This research is proven by [14] indicating that the auditors who were respondents believed that the completion of the task by stopping and changing existing procedures (although with RAAP) was an important factor for the continuation of their careers in public accounting firms. In addition, finding auditors conducting RAAP believes that this action results in a better assessment of their personal performance, supervisor recognition of their competencies, and increased work comfort, in the opinion [14].

The findings from previous studies indicate that RAAP behavior is an action that auditors often carry out in audit practice. The findings from the most recent studies show RAAP behavior is a widely occurring auditor action in practice, according to [15]. Although RAAP's behavior is an act that is not in accordance with professional ethics, it seems that this behavior continues in the practice of auditing [16].

## **HYPOTHESIS**

### **Effect of Auditor Ethics on Replacing and Altering of Audit Process (RAAP)**

Arens [11] argues that a public accountant who practices must be independent in reality and appearance when carrying out an audit or other attestation services. Auditor independence is referred to as the audit profession foundation because it is the basis for public trust in attestation functions. The results of research related to independence in action indicate a negative influence on audit quality reduction. This means that the better the moral of the auditor, the higher the independence. Thus the possibility of a reduction in audit quality in the type of replacing and altering of audit processes becomes smaller [13].

Empirical testing of dysfunctional audit behavior has been carried out by Kelley and Margheim [17], Malone and Rober [18] and Pierce and Sweeney [15] which examine the model of replacing and altering of audit process behavior. The results show that during the implementation of the audit program, dysfunctional behavior can reduce audit quality. This is because it is influenced by high fees and turnover intention. While the provision of non-assurance services by alliance with other parties has no effect because it does not sacrifice independence such as those carried out by big fourth with Compaq Computer Corp., Digital Equipment Corp., IBM, Microsoft Corp., Sun Microsystems, and Xerox Corp [19]. The results of the DeZoor [20], DeZoor [21], Thorne and Hardwick [22] study show that auditor independence influences the reduction of audit quality.

Based on the above studies, hypotheses are formulated:

H1: Auditor ethics has a negative effect on audit quality reduction in the type of replacing and altering of audit processes,

H2: Auditor ethics has a negative effect on the reduction of audit quality in the type of replacing and altering of audit process, with non assurance services moderation.

### **Effect of Materiality and Audit Risk on Under reporting of Audit Time**

Boyton [9] argues that in setting a materiality level the auditor does not have a standardized standard, therefore the auditor is required to use professional judgment (auditor judgment). An auditor must apply his knowledge, experience and professional skepticism. In addition, the auditor must also have an impartial mental attitude in carrying out the tests, evaluating the results of the examination, and preparing the audit report.

An auditor who has high independence will be able to produce a consideration of objective and reliable materiality levels. Besides professional judgment and independence, work experience also affects the consideration of materiality levels. The longer the auditor is in charge and the more audit reports financial tasks have ever been carried out, the consideration of a good auditor's materiality level will negatively affect audit quality reduction [23]. In practice, it is often difficult to predict which accounts are most likely to experience misstatements and whether the misstatements that occur are more misstatements or less misstatements [24, 25].

Based on the above studies, hypotheses are formulated:

H3: Materiality and Risk have a negative effect on the reduction of audit quality types replacing and altering of audit process,

H4: Materiality and Risk negatively affect the reduction of audit quality types replacing and altering of audit process, with non assurance services as moderating variables.

## **Research Method**

### **Population and Sample**

Participants are auditors who work in the Public Accounting Firm in DKI Jakarta that have been registered in the KAP & AP Directory according to the Indonesian Institute of Certified Public Accountants (IAPI). Of the 246 Public Accountant Offices sent 1,000 and those returned were 659 questionnaires. As many as 341 questionnaires did not return and did not have complete data because some auditors at the Public Accounting Office were on duty out of town.

### **Measure**

Auditor Ethics is measured through Independence in Performance, namely how auditor independence in capital participation, independent in the relationship of cooperation and independence in emotional relationships. Independence in act is

measured through independence in the audit program, independence in testing and independence in determining evidence.

Replacing and Altering of Audit Process (RAAP) occurs when the auditor does not carry out and replace the predetermined audit procedures to complete the audit assignments charged by the public accounting firm. The measurement indicator used is termination of audit procedures, does not expand the scope of testing when a post is detected or dubious account, reduces audit work from the audit program.

**Data Analysis**

**Table-2: Cronbach's alpha**

	Cronbach Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
Dysfunctional auditor	0.717	0.710	4
Auditor independence	0.771	0.774	10
Overall materiality And risk based audit	0.900	0.901	10

**Hypothesis Tests**

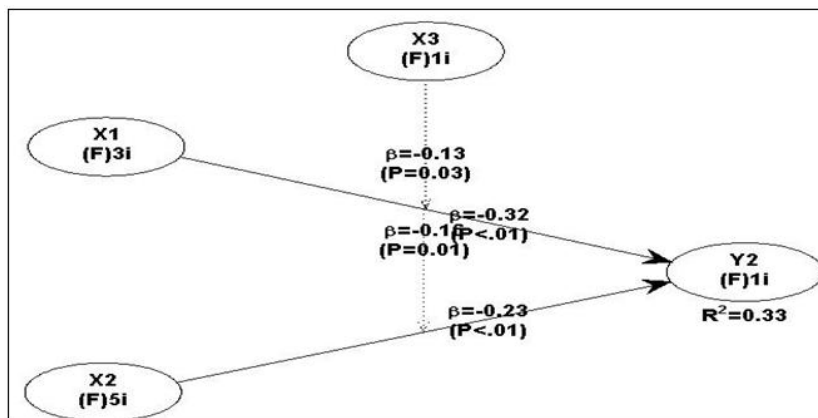
Structural model analysis is used to test the hypothesis. Figure 1 shows the structural models, hypotheses H1 ( $\beta = -0.30, p < 0.01$ ), H2 ( $\beta = -0.21, p$

To test the hypothesis, this research uses parallel structural equation model Partial Least Squares (PLS). PLS is used because it can give the coefficient of p values for mediating variables and can be used for sample size relative and multi-collinearity between independent variables. Hypothesis testing is done by estimating the measurement model and the structural model.

**RESULT**

The result of data processing in Table-1 shows that loading composite reliability and cronbach alpha are above 0.70 (in Table-2). This proves that the instrument used to measure it is measured.

$< 0.01$ ), H3 ( $\beta = -0.17, p < 0.01$ ), H4 ( $\beta = -0.15, p < 0.01$ ), all of the relationships indicate negative and significant relationships.



**Fig-1: Result Research Model**  
Source: Results processed by Warp PLS 5

To test the relationship between variables (hypothesis testing), the P-Value value is used from the

PLS Warp output. Table-3 shows the results of the influence between constructs (variables).

**Table-3: Hypothesis Testing of the RKA Model for Replicating & Altering Original Audit Procedure**

CONSTRUC	Path	P Value	Effect Size	Keterangan
Independence Auditor -> DA Type <i>Replicing &amp; Altering Original Audit Procedure</i>	-0.321	<0.001	0.16	Signifikan***
Overall Materialitas dan Risiko based audit -> DA types <i>Replicing &amp; Altering Original Audit Procedure</i>	-0.233	<0.001	0.101	Signifikan***
Moderasi non Assurance services on Independence Auditor -> DA Types <i>Replicing &amp; Altering Original Audit Procedure</i>	0.126	0.034	0.022	Signifikan**
Moderasi non Assurance service on Materiality and Risiko -> DA types <i>Replicing &amp; Altering Original Audit Procedure</i>	0.156	0.012	0,05	Signifikan**

Ket: \*\*\* Signifikan on level 1%, \*\* Signifikan on level 5%, \* Signifikan on level 10%

Source: Data process

The path parameter coefficient obtained from the influence of auditor ethics on replacing and altering of audit process, is -0,321 with a significance level  $\alpha = 0.01$  (1%) which states that there is a negative and significant influence between the effect of auditor independence on audit quality reduction type of replacing and altering of audit process. The value of -0.233 on the path coefficient means that the better the ethics of auditors, the reduction in audit quality type of replacing and altering of audit process, will decrease, and this supports the hypothesis 1 research, where there is a negative and significant influence on the ethics of the auditor on replacing and altering RKA of audit process.

The path parameter coefficients obtained from the influence of materiality and risk on the reduction of audit quality in the type of replacing and altering of audit process are equal to -0.206 with significance level  $\alpha = 0.01$  (1%) which states that there are negative influences and significant between the influence of materiality and risk on the reduction of audit quality type replacing and altering of audit process, the value of -0.206 on the path coefficient shows that the better the materiality and risk, the reduction in audit quality of replacing and altering of audit process, will decrease, and this supports research hypothesis 2, where there is a negative and significant influence between materiality and risk on the reduction of audit quality type of replacing and altering of audit process.

The path parameter coefficient obtained from the effect of non assurance services that moderates the negative influence of auditor ethics on the reduction of audit quality in the type of replacing and altering of audit process, is -0.126 with a significance level  $\alpha = 0.01$  (1%) which states that non services assurance moderates the negative influence of auditor ethics on the reduction of audit quality types of replacing and altering of audit processes. The results of this test support the research hypothesis 3, where non assurance services moderate the negative influence of auditor ethics on the reduction of audit quality types of replacing and altering of audit processes.

The path parameter coefficient obtained from the effect of non assurance services that moderates the effect of negative materiality and risk on the reduction of audit quality types replacing and altering of audit process, is -0.156 with a significance level of  $\alpha = 0.05$  (5%) which states that non assurance services moderate the negative influence of materiality and risks to audit quality reduction types of replacing and altering of audit processes. The results of these tests support the research hypothesis 4, where non assurance services moderate the negative effects of materiality and risk on the reduction of audit quality in the type of replacing and altering of audit processes.

## CONCLUSIONS

Based on the discussion and testing that has been carried out using the previous chapter's path analysis model, it can be concluded that auditor independence has a negative effect on Audit Quality Reduction replacing and altering of audit processes, if moderated non-assurance services strengthen the Independent negative influence on replacing and altering of audit process, In addition, it was concluded that materiality and risk had a negative and significant effect on RKA types replacing and altering of audit process, and non assurance services moderate the negative effects of materiality and risk on RKA types of replacing and altering of audit processes,

Thus non-assurance services are considered pure moderation, namely by providing non-assurance services while still negatively influencing replacing and altering of audit processes. Auditor's independence and materiality and risk provisions have a negative effect on replacing and altering of audit processes also have a negative effect even though the auditor accepts non-assurance services.

## Limitations and Future Research

The limitations of this study are, first, the number of samples used in small studies, so that the findings of this study cannot be generalized. Second, this study only uses 2 independent variables, so there are still many other factors that may have a significant but undetectable influence. Further research is better to add other independent variables that influence the practice of reducing audit quality, such as hood quality, risk of client rejection, audit fee determination strategy, sustainable report accounting.

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