

INTRODUCTION

Auditing is defined in mind and opinion of different authors of accounting given their respective point of view in the Accountancy Profession. Auditing is the accumulation and evaluation of profit, financial position, and work performance, determine and report on the degree of correspondence between the information established criteria. Auditing should be done by a competent component, independent person.¹

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results of interest users.²

The essence of auditing in this research is to give full representation of the auditor's position (faith representation) in reporting financial statement and giving his opinion. The need for audit therefore will be used by management and regulators to ensure that objectivity, integrity, competence and fair fairness are upheld to meet the standard of GAAP (Generally Accepted Accounting Principle), or IFRS (International Financial Reporting Standards). To achieve this, auditors must be

¹ Alvin Arens, Randal J Elder, *Auditing & Assurance*, Edition 12, Pearson Education Sout Asia PT Limited, 2009. Page 4.

² Andrey A. Gramling, Lary E. Riterberg, *Auditing*, Edition 7, South Western, Cengage Learning, 2008. Page 7.

independent in giving opinion, fairly stated to indicate also that auditor has full internal control.

Auditing standard is a framework that provides consistency and control over the development of audit, regulations and management feedback. Standard auditing will coordinate and improve quality financial reporting by listed/unlisted companies, providing a unified guidance for a sustainable financial reporting in accordance with European Union (EU), IFRS and GAAP rules (cuijpers and buijunk,2005), Kantor Akuntan Publik (KAP) Indonesia. Standard auditing is used in research of quality of auditor in the Big Four and Non Big Four and subjected to KAP rules.

Integrity in Auditing relates to auditor independence and confidence on the Public. It will involve creating an economic bond between the auditor and client that investors may perceive as compromising. The level of investor confidence will increase resulting from management independence of the audit committee. Audit fees and audit committee composition will suggest investor's reliability on audited Financial Statements, independent audit committee and protect against perceptions of reporting biased statements. It was under this rule that the Sarbanes-Oxley Act 2002 was established in US House of Representative to regulate and prevent auditors from performing Non-Audit services for their publicly traded audit clients. These restrictions are designed to strengthen investor perceptions of audit quality by reinforcing on them both the auditor's independence fact, and any attempt to put interest of the investment community ahead of those of management and his/her independence in appearance (Boylan, 2004).

Therefore, Influence of Financial Statements and Quality of Auditor as Against Auditor's Opinion is aimed at outlining information based on audited account statement, and compiled, ascertained to by the auditor who is assumed to be competent, fair, trustworthy, independent of opinion and known, respected to be of professional competence and capable of giving an opinion to the committee (shareholders) of board of Directors. The auditor must give assurances about information whether it is correct or not during reviews of annual report and to ascertain that the auditor gives qualified.

Financial Statements form part of the process of financial reporting. A complete set of financial statement normally includes a balance sheet, an income statement, a statement of changes in financial position, and notes, and with explanatory material that are an integral part of the financial statements.

A user of financial statement includes present and potential investors, employess, lenders, suppliers and other trade creditors, governments and their agencies, and the public. They use financial statements in order to satisfy some of some of their different needs for information.

With respect to this study, "The Influence of Financial Statement and Quality of Auditor as Against auditors Opinion was based on report taken from Indonesia Stock Exchange (IDX) between period 2006-2008 under listed companies registered in LQ 45 and between 1 August 2010-31 January 2012. The purpose was to know the influence of profit reporting liquidation and capitalization of stock between LQ 45

and profit Maximization. It's aimed to emphasis auditors independence to give audit opinion and internal control over financial reporting.³

A. Background Problem of the Topic:

Financial report aims to provide information regarding the performance of financial position, as well as cash benefit to the company financial statements users. Information obtained for decision making on financial statements must be relevant and reliable for users of account for investment purpose. Information gathered must be relevant and qualitative for users to apply them effectively in making economic decisions. Again, information on Financial statement can be of special use to evaluate past, present or future, or correct by using their evaluation results in future .whereas, reliable information has quality if it is free from the notion that is misleading, contain material errors, and reliable for presentation for users as a sincere or honest (faithful representation) gesture for user on presentation.

Despite all the useful content of the financial statements for the users of account, yet attention is focused more on information on profits. Often, investor attention is more focused on profit and does not notice the procedure used to generate these profits or the mention of it. Information will help management to improve and make profit. Earnings Management measures the increase (decrease) on reported earnings for a day per unit profit, whereas managers are responsible for profit with or without resulting in an increase(decrease) in long-term

³ Hak Cipta @2012 Ikatan Akuntan Indonesia, International Financial Reporting Standard, No.7.

economic profit as mentioned. Management unit profit is defined by most managers as the management company's actions to manipulate earnings for a specific purpose, such as for minimization of tax payable, bonus, and to avoid the dismissal of manager.

Audit is a process to reduce the information contained inconsistencies between managers and shareholders by using outsiders to give effect to the finance. Audit report is expected to limit the practice of earnings management and help maintain and increase public confidence in the financial report. However, the effectiveness and auditor's ability to detect earnings management depends on the quality of mentioned auditor that is usually associated with the big four and non-big. Auditor considered having a higher quality than non-auditor big .In this study, quality of auditor is assessed and based on the groupings of big four and non big four, because one of the Public Accounting Firm (KAP) big five namely Arthur Anderson has stated to have collapsed.

However the quality of auditors who are usually classified into four big and non-big four is not always a measure of the potential manipulation of the financial statement. Therefore, there may be other factors that influence the auditor associated with the occurrence of earnings management in a company that is independent auditor. Independency here means the execution of the tests, evaluation of test results, and the provision of audit opinion in the independent auditor's report must be free from the influence of the interests of the client, the use of financial statements, and also of their own.

As the independent auditor, its audit of the financial statements of a company shall provide an opinion based on his audit evidence obtained during audit task. His opinion represents the benchmark used in decision making for all interested parties.

LQ 45 index is one of the seven types of indexes that exist on the Indonesia Stock Exchange (BEI), which describes a group of stocks that meet the selection criteria of liquidity and market capitalization as defined by the BEI. LQ 45 stocks in the group are classified as either stock option. To back up evidence on the background problem of this study, case study of certain firms were put into consideration as prelude (example) to the basis of the topic.

1) Lippo Bank:

Bank Lippo Indonesia was accused of leaking accounts of client, M. Ghalib by the Indonesia Corruption Watch (IWC) of taking bribes and reported such to the military police. A legal suit against bank Lippo was issued for leaking his accounts.

This problem led to lack of integrity, competence, and independent of opinion of the auditor. Audit report on this issue was influenced by bribes, grafts and litigation by court and against the background of competence, integrity, and objectivity of accounting ethics.

2) Enron Accounting Scandal:

Problem arising from background basis of the topic here is that managers of Enron used laypeople to treat financial books. Careless accounting rules and

computations lead to the failure of the business, giving reason for energy trading which is invalid for business model. There was also case of extremely high-volatility business which ought not to be publicly treated.

Dependence among finance, auditing and legal providers and corporate clients lead to irredeemable agency conflicts. Smooth Earnings where there was no economic cost involved in dissolving companies, where their profit trend fluctuate, perhaps these expectations would be valid. Use of questionable accounting where significant cost to the company, threats does provide a powerful motivation for companies.

Customers –facing attention to the needs. Investment and support of new and existing products suffer pay-off. Lastly, arose the problem of energy as a failed business model complex, but deals with opportunities to reorganize the system where the market is deregulated.

3) Kimia Farma:

A nationally trusted pharmaceutical company and well known for its high-quality pharmaceutical products for more than 100 years Kimia Farma intends to enter the regional and global market. In addition to increased market pressure from local and international players and lack of clear brand architecture and management for its upstream-downstream business, products and services, Kimia Farma was also in the process of changing its business paradigm. The company identified the need to professionally manage the on-going brand dynamics and revitalize its brand identity in effort to signal and

project the company's intention to be the leading and trusted pharmaceutical brand regionally and globally. Kimia Farma consulted Makki Makki Branding Consultant for this major brand undertaking to revitalize the brand and create the new identity including format a clear, easy to understand brand architecture system to support the new brand vision, goals and objectives.

Based on the above background problem above, it is complied for the study with the title "THE INFLUENCE OF FINANCIAL STATEMENT AND QUALITY OF AUDITOR AS AGAINST AUDITOR'S OPINION IN PUBLIC COMPANIES FOR AUDIT PERIOD YEAR 1 AUGUST 2010-31 JANUARY 2012 (STUDY OF LISTED COMPANIES UNDER LQ 45 OF BURSA EFEK INDONESIA (BEI)).

Additional factors to background problem will include its limiting factors such as cost, time, integrity, competence, objectivity, and quality.

1. Auditing limitations are factors that will militate against the extent an auditor will perform under normal circumstances given a public company listed under IDX (PT.RAYA SAHAM REGISTRASI). Such limitations are found in Cost of Audit, Time and Background inherent in the audit.
 - a) COST-limitations studies the influence auditors of public listed companies have to reduce cost effect of internal and external control and to examine the company's books records, and underlying source of documents so that they can render an opinion attesting to the fairness of the companies published financial statement.

- b) TIME-limiting factor also includes implementing rules of listed Company ACT under the IDX, management evaluation system to ascertain transparency in audit report and independence of the auditor. Diversity in work place, planning, benchmarking to ensure quality and best of financial reporting is attained.

Time limiting factors will involve management function and benefits of flex management, partnership with cooperation's, education and training. Time lost in preparing audit check list, obtaining evidence of internal controls, implementing Bylaws, making policies and procedural manuals for accounting systems, updating accounting system and control procedures.

- c) Background Limiting factors-The effect contingency factors that will influence the efficacy of the quality of signal. Background factor limitation will influence an audit quality, materiality setting risk assessment and analytical review of internal control.
- d) Other limiting factors envisaged in this study for public companies of IDX will include auditors Integrity, compliance, competence, cost effect; performance and objectivity are key limiting factors that will hinder auditor's potential to effectively give qualified opinion of financial statement. Lack of transparency, honesty and misrepresentation of financial statement, lack of code of conduct on entity, encourages conflict of interest in public listed company of IDX

B. Identification of Problems

In this study, problem noticed by auditors of a public company listed in IDX as at period 1 August 2008 to 31 January 2009 is limited to the ability of the auditor in presenting financial statement, and profit declaration as satisfied by the auditor. Most notably, several factors have been identified as eminent problem areas envisaged by industries under IDX to effectively present audit report are:

1. Quality of financial report reflective of true position of management in Stock Exchange (IDX)
2. Difference in auditing fee and audit committee composition will influence investor's reliability on audited financial statement, independent audit committee and protect against perceptions of reporting biased statements. (Sarbanes-Oxley Act 2002).
3. Competence, integrity and Objectivity influencing auditor's ability to give qualified opinion of financial statements.
4. Bylaws-capital contribution of the company through individual state and government, called paid-in capital or capital contribution. This will affect retained earnings.
5. Method of planning to ascertain procedures and system in monitoring internal control and reducing line managers.
6. Selling and Administration Expense: Budgets of the company to ascertain effective control of responsibility for achieving the budget.

C. Problem Limitations:

This case study is limited to cost, time and background factors as it affects the day-to-day ruling of the listed companies of IDX between period 1 August 2010 to 31 January 2012.

In this study, problem limitations are:

1. Limited to the ability of the listed companies of IDX to raise funds and get subvention from Government and other investors?
2. Limited to the quality of auditors under KAP Indonesia and reporting of the Big Four and Non-Big Four?
3. Limited to research Test and Result analysis to reveal the extent of auditor competence, managers training?
4. Limited to conflict of Interest in minimizing auditor's confidence in giving assured opinion on financial report?

D. Problem Formulation:

This study aims at addressing the level at which public listed companies in IDX operates and handles complex problems as it affects them. IDX registered companies will aim to:

1. To know whether profits made from activities are significant, qualitative of financial statement and to the test of auditor's ability as transparent not biased.
2. To know whether book value as at year end does represent true audit opinion.

3. To know whether cash flow do influence the material fact of the auditor's opinion.
4. To ascertain whether accounting earnings, book value and retained profits affect overall financial statement are duly represented by auditors and without influence.
5. To know if execution of the tests evaluation of the test results, and provision audit opinion and audit report must be free of influence of the interest of the client.

E. Research objectives:

1. To determine and analyses the role and influence of accounting earnings, book values, and total cash flow particularly annual financial statement of IDX listed companies registered under IDX between 1 August 2010 to 31 January 2012.
2. To determine and analyze the quality of auditor whether he has competence, objective, integrity to present financial statement that is fair, trustworthy, not biased, non influenced but independent of management to give qualitative audit opinion.
3. Based on IFRS (International Financial Reporting Standards) and PSAK (Prinsip Standar Akuntansi) for companies listed under IDX Indonesia for reporting financial statement.

4. To determine true value of financial statement and the quality of auditor's to give audit opinion.
5. To determine characteristic of financial quality and the quality of auditor.

F. Research Benefits:

- 1) For writers:

Writer's will gain a deeper understanding of the theory and practices applied in the field of auditing, in particular, the quality of auditors, and quality of financial reporting to give an opinion.

- 2) For management:

The result of this study will be a reference to the management about KAP which should be selected in other that financial statement are more reliable and has a good quality.

- 3) To the investors and creditors:

It will provide an insight into the role of external auditors in providing adequate assurance about the quality of auditors and quality of financial reporting.

- 4) The Auditor External:

Provide an understanding of the auditor that will affect the quality of the firm's financial statement reporting and understand more about the quality of the report in accordance with the code of ethics and auditing standards applicable in Indonesia.

G. Systematic Writing Used is as follows:**Chapter 1: INTRODUCTION:**

This chapter will discuss the background of the problem, identification and restriction of the problem, formulation of the problem, research objectives, and benefits of the research.

Chapter 2: THEORETICAL

This chapter contains the theories that will be the theoretical foundation related to the problem to be studied, frame of mind, the formulation of hypotheses and written resources to support the writing of this thesis.

Chapter 3: METHODS OF RESEARCH:

This chapter will discuss about the place and Time of the study, type and source of data, population and sample, data collection methods, data analysis methods, and operational definitions of variables.

Chapter 4: OVERVIEW OF RESEARCH SIDES:

This chapter will discuss the research sides and specific matters relating to the title of the study.

Chapter 5: RESULTS AND DISCUSSION

This chapter will discuss the results obtained from the company that becomes object of research. This chapter also contains the analysis and discussion of the problem of the research results.

Chapter 6: CONCLUSION AND RECOMMENDATIONS

This chapter will discuss about conclusion of the study, and suggestions proposed for the research.