

CHAPTER 1

INTRODUCTION

1.1. Research Background

Since the colonialism era, Indonesia has introduced an activity that is called corruption. Indonesia Corruption Watch data shows that in 2018 there are 454 corruption cases with state loss around 5.6 billion Indonesian Rupiah. Indonesia also considered has low score in Corruption Perception Index. Indonesia has 38 out of 100 points in 2018 which indicates corruption is a common thing in Indonesia. Therefore the perception of people towards government is decreasing since the arrest of state or local government officials is increasing every year.

Based from KPK's website, and it shows the *hand-catch operation* that shows an increase in past four years in terms of government officials that caught because of corruption. The data shows fourfold increase in the amount of the mayors in region/city that conduct corruption. In 2018, there are 30 mayors that have been arrested by KPK. Through 2014 until 2017 there are 38 mayors/ vice mayors/regents that have been taken down by KPK because of corruption and bribery case. The number of arrests in 2018 has a number that is almost the same as the number of arrests in 2014 to 2017. This unbelievable amount of arrests in 2018 shows that Indonesia has not clean yet from corruption cases. The rise of corruption cases by state governments in Indonesia has reduced public trust in the state/local government bureaucracy to run good government and clean government. It can be understand that the supervision from APIP as the government controller is still has a weak power here. The weak control from APIP affects the high amount of corruption among government officials.

Government Internal Oversight Apparatus (APIP) is a Government Institution that has the main tasks and functions of supervising government activities from internal part (Djalil, Indriani, & Dariyansah, 2016) . APIP consists of Financial and Development Supervisory Agency (BPKP) itself and it has a direct responsibility to the President. However, the corruption events in Indonesia

are the sign of the weak internal control within the government itself including APIP.

BPKP in accordance with Articles 2 and 3 of the Republic of Indonesia's Presidential Regulation (PERPRES) Number 192 of 2014 has the task of carrying out governmental problems in regional/state financial supervision and national development. The duty of BPKP is to conducting review, audit, evaluating, monitoring, and other supervision activities on the planning, implementation and accountability of state/regional and national financial supervision. In addition, BPKP supervise the financial activity within government must be careful for this kind of unethical act in the form of corruption and fraud. Therefore, a highly committed auditor especially in APIP area for the government must maintain professionalism to produce better audit quality.

The results of the Indonesian Supreme Audit Institution (BPK RI) audit of the Central Government's Financial Statements still found many weaknesses related to internal control systems and non-compliance with regulations (Widyananda, 2008). The weakening supervision by APIP towards government's financial preparation shows that there are indications of the decrease of audit quality. In general, BPKP which included as one of APIP has main internal control for the government in order to check whether they have complied with accounting standards or not (Widyananda, 2008).

Audit quality is an instrument to assess, affirm or check the activity that has relation with the quality and an independent and programmed testing to decide if the quality of the activity identified with the organization's outcome as per the arranged standards and whether the guidelines have been applied successfully and suitable to accomplish the objectives produced by the organization (Kusumawati, 2018). The satisfactory estimation of audit quality is on the conduct of the auditor or accountant in audit review.

The decrease of audit quality usually affected by some situational factors which usually appear in auditors themselves. The factors that affect audit quality are those have influence the competencies and ability of auditors in founding and reporting misstatements in financial statements. The audit quality is not only

constructed from the firm or audit team, but also from each individuals. Samelson (2006) stated that attributes that affect audit quality are the auditor's own expertise, the attentiveness to auditee scheduling needs, due professional care, the way of conduct in fieldwork, and the auditor's professional skepticism. In addition, there is one attributes that can affect audit quality which is the work-life balance of each auditor's.

Work-life balance defined as the manner in which people divide their spare time between their jobs and with another activities. For example like family time, personal events, and community event. Greenhaus and Powell (2006) stated that work-life balance is a type of an activity that conducted besides of work. It may be in form of leisure activities, family time, or any other activities that both male and female enjoy after or before going to work.

Work-life balance can be considered as the sign satisfaction of auditors and good performance at work and at home with a minimum of role conflict. The conflict here is defined as the reason on why people have stress on their work. S. C. Clark (2001) believes that when a person has a little problem either in work or other activity, that person can achieve the best performance in work. The best performance in work comes from the motivation from outside work environment.

Another definition from Kalliath and Brough (2008) that reviewed different conceptualizations of work-life balance. They proposing a new definition of work-life balance as: work-life balance is the individual consciousness that between work and non-work activities are in synergy and promote growth in accordance with an individual's current life priorities. The work-life balance is defined as the two synergic component in life, they believes that all activities in human life can be improved, and the relationship between work and non-work activities is in constructive manner Kalliath and Brough (2008). Whereas quality of work is increased therefore the quality of life also will increase. Vice versa when the quality of life is increase, the motivation to do better in work also increase.

The reason behind that explaining factors on why person wants to achieve a healthy work-life balance is found in one theory : Maslow's hierarchy of needs

theory. Based on the Maslow's Hierarchy of Needs Theory, the key principal in human behavior is always influenced from human's unsatisfied needs. There will be an effort from every human when they have found their needs in certain time to fulfill their closest demands. As a result of produce complete satisfaction with life; a good and healthy work-life balance is essential. In logical manner, work will add stress in each individuals, when the stress is surrounding each individual, it can cause a decreasing performance because human also need a rest or break time over the work. Rest is categorized as psychological needs and it will be the first thing to seek after the work is done. Therefore work-life balance is very important for all humans to create good performance in their life.

In Berk (2018) study, the relationship between work-life balance with accounting ethics is significant, which indicates that accounting profession especially in audit field will be affected by the *work-to-life* and *life-to-work* condition. Work-life growth also increases the ethical behavior. The study shows that when the work-life balance of an auditor is fulfilled, it will result the increase of ethical behavior level in the auditor itself. Therefore when the work-life balance of each individual is maintained adequate or high, the level of ethical manner in auditor's decision making will also high and will create a good or high audit quality.

Work-life balance is a familiar terminology when it related to a work environment. Several researches has discussed how work-life balance will affect auditor's audit quality. In Smith, Smith, and Brower (2016), a healthy work-life balance has a positive effect on accountants' job satisfaction, job performance, and also in ethical decision-making. Although in Smith et al. (2016) the object of the research is current and future accountants, we can emphasize that work-life balance will affect positively to accountants. Work-life balance also needed in Big four accounting firms because the accounting professionals generally perceive similar levels of organizational support for alternative work arrangements (Buchheit, Dalton, Harp, & Hollingsworth, 2016). Therefore work-life balance will always be the key role to making the quality of accountants life happier or increase.

In other hand, firm and country-level governance mechanisms affect audit quality in the sample of MENA countries (Sarhan, Ntim, & Al-Najjar, 2019). In the research, work-life doesn't affect audit quality because the variable is used is governance mechanisms. In addition, (Carey & Simnett, 2006) study provides evidence on the underlying rationale for an audit partner rotation policy: there is a reduction in audit quality associated with long tenure but not the imbalance of work-life.

Based on phenomenon that rise in Indonesia lately and brief examples of why those thing can happen, researcher wants to develop understanding and seek a relation between work-life balance with audit quality.

1.2. Research Purpose

The objectives to be achieved in this research are:

- a. To obtain empirical evidence on the influence of work-life balance affect the audit quality of BPKP East Java Representative Office auditors.

1.3. Research Contribution

The results of this study are expected to provide the following benefits:

- A. For policy holders,

This study is expected to serve information that oversee the factors which affect the audit quality of BPKP East Java Representative Office as well as the factor of the quality of audit that conducted by BPKP's auditors. Therefore it can be utilized as the effort to improve the quality of audit in BPKP, which become the audit assessor of local government financial reports.

- B. For Finance and Development Supervisory Agency (BPKP),

This study is expected to become an input to support the implementation of regulations especially the role of Financial and Development Supervisory Agency (BPKP) in supervise the regional finances and create good governance in financial reporting.

C. For academics,

This study aims to contribute in the development of public sector accounting literature in Indonesia especially the management control system that conducted by Financial and Development Supervisory Agency (BPKP). The results of this study are also expected to be able to contribute to subsequent research.

1.4. Systematic Writing

Chapter I: Introduction

This chapter provides the background of the research and provides an overview of problems in auditor competence and audit quality regarding the quality of financial report in government. The problem formulation, purpose, beneficial of study, and research systematics are also described in this chapter

Chapter II: Literature Review

This chapter explains the theoretical concept that is used as the basis of the research. The theories used are financial management, financial management supervisor, financial report quality, audit quality and competence. Not only explain the brief explanatory of Finance and Development Supervisory Agency as one of the research object but also the prior researches, analysis model, conceptual framework and hypothesis development.

Chapter III: Research Method

Chapter III describes the research method which is using the quantitative method by using work-life balance as independent variable and also audit quality as dependent variable. This research uses primary data by questionnaire consist of questions by likert scale measurement. The secondary data is collected in form of literature review by using statistical technique and hypothesis testing.

Chapter IV: Results and Discussion

This chapter provides and explains the research results which is started by the brief explanations about BPKP, respondent statistical description, model analysis, hypothesis testing, and also discuss the results of the data that has been processed so as to produce a desired discussion to be concluded in research.

Chapter V: Conclusion

This chapter contains the conclusion that the answer to the problem formulation or hypothesis concluded by researcher from the overall results of the research that has been done and providing suggestions recommended by the researcher relating the findings and regarding the further research.