

CHAPTER 1

INTRODUCTION

A. Background

Along with the times, the economy around the world has experienced a rapid increase. The rapid development of the economy is driven by a large number of people starting to set up businesses and do business. This could be because people want to earn extra money or seek financial independence from the business. On the other hand, technological developments make it easy for business people to distribute services or goods. One of the important things in doing business is finance because through finance, a business person can determine a business. When the finances of a business are bad, it can indicate that the business is in bad condition. A lot of information can be used in accounting for the company, such as by using financial statements. The information obtained from this report allows an entrepreneur to control financial control, as information for decision making, as the future company plans and can increase the credibility of a business or organization.

The facts show that not entirely external and internal parties believe in the results of an organization's audited financial statement reported by the organization itself. This is due to the rampant practice of fraud in an organization or a business. An auditor is needed as a third party to examine and make the financial statements. An organization or a business can audit finances through a public accountant firm (KAP) as a trusted third party in financial services for private and government organizations. This is in accordance with Ilmatyara et al. (2020) who state public is

very high in trusting the Public Accounting Firm (KAP) and auditors as independent parties who have the authority to audit financial statements. The auditor's services will help the organization and company to find problems and preventive actions that must be taken.

A public accountant firm is a place for a professional who gives services and expertise possessed to clients related to accounting under applicable standards, obtains permission from the minister of finance, works independently, and legally and has the right to open a service practice in Indonesia. An auditor who wants to open a public accounting service office (KAP) must take into account the provisions for performing services as regulated in the Constitution of the Republic of Indonesia no. 5 of 2011 (UUD Republik Indonesia, 2011) which contains public accountants and Minister of Finance Regulation No. 154/PMK 01/2017 (Menteri Keuangan Republik Indonesia, 2017). Accountants who open services in Indonesia must include membership in the Indonesian Institute of Certified Public Accountants.

KAP (Public Accounting Firm) as an independent party that has the authority to audit financial statements, is required to make financial reports with credibility under applicable standards. The company's obligation to receive the results of audited financial statements creates high competition for auditors. This profession requires increased performance, so the ability of auditors to create quality services is very important. The existing standards for conducting audits are guidelines for carrying out the duties made by the auditor. Based on Standard Audit (SA) 220 paragraph 10 states about indicators of audit quality at the KAP including, engagement in audits carried out by Public Accounting Firms, (1) the competence

of the auditor, (2) auditor ethics and independence, (3) the use of the time of key union personnel, (4) control on engagement quality, (5) inspection and review from external parties, (6) span of engagement control, (7) organization of KAP management data, and (8) policy on fees. Therefore, the HR (Human Resources) owned by KAP must be of high quality. This is because the JDM auditor received by the organization is influenced by the quality of the auditor. An auditor, in carrying out existing tasks must be based on the values of honesty. This is in accordance with the teachings of Islam, which state individuals to do things honestly because all things that individuals do will be held accountable by Allah. Q.S. Ash-Syua'ra verses 181 to 184 contain:

الْكَيْلَ لَا الْمُخْسِرِينَ (181) | الْفَيْسُطَاسِ الْمُسْتَقِيمِ (182) | لَا النَّاسَ أَمْهَمَ لَا الْأَرْضَ (183) | اتَّقُوا الَّذِي لَكُمْ
الْجِبَّةَ الْأُولَى (184)

“Give full measure, and cause no loss ‘to others’. Weigh with an even balance, and do not defraud people of their property. Nor go about spreading corruption in the land. And fear the One Who created you and ‘all’ earlier peoples.”

The verse explains that every time an audit is carried out, an auditor must carry out the audit that must follow the existing conditions, not added and not reduced in the process. Allah as the creator of mankind always knows what individuals, including auditors, are doing. All things done by the auditor in auditing will be held accountable in the hereafter. Actions that are done dishonestly will get punishment by Allah. An auditor who is dishonest and makes auditing a livelihood, then the auditor does not get a fortune on a false path. On the other hand, JDM auditor quality is very important for clients who need this information. The

information received by the auditor is considered differently by each auditor. This difference in the auditor's views can be regulated and controlled by the existence of standard rules that must be followed and obeyed by each auditor. Judgment quality produced by the auditor is strongly influenced by existing standards, and an auditor should not take sides. This is in accordance with the statement Limen et al. (2017) that the implementation of the audit must be carried out on the part of an impartial, competent, and objective auditor to verify that the audit subject has been carried out following the regulations, practices, and standards that have been set and approved. The quality of judgment and decision-making from the auditor will reflect how well an auditor performs in completing auditor duties.

The opinion made by the auditor on the financial statements will be used by the client as a reference for acting and making decisions. If the opinion and quality of the auditor's audit judgment and decision-making are not in accordance with the conditions prevailing in the company, then the results of the audit and the opinion will mislead the party using the audit. When the auditor performs the task of making audit judgments, the auditor must pay attention to several important factors. An auditor must examine the valid and relevant evidence that has been obtained and collected. This evidence becomes material for the auditor to make decisions on the results of the audit.

There are several cases where accounting problem from large companies has become a lesson in the accounting world today because the auditor violated the code of ethics, error, and manipulation of audit judgment and decision results in those company. One of the company's cases is the WorldCom case. The WorldCom

company was involved in a financial statement mechanism case not long after the discovery of one of the biggest cases in the world of accounting, namely Enron. WorldCom is known to have manipulated and violated the ethics and regulations contained in the audit. WorldCom's manipulation of financial statements was done by increasing revenues and resulting in an increase in the audited company's shares to be very high compared to usual. This is very detrimental to shareholders and the public. In addition to the WorldCom case, there is another accounting case regarding the audit results that occurred in Indonesia, namely the Garuda Indonesia case in 2018. In this case, there was an omission or error in the financial audit reporting of PT Garuda Indonesia, which was carried out by the public accountant firm (KAP) Tanubrata and Kasner Sirumapea, which resulted in the imposition of sanctions on the accounting office. Situations of error, negligence, manipulation, violation of the code of ethics, and failures in the quality of audit results and audit judgment and decision making, such as the WorldCom and PT Garuda Indonesia cases, can be caused by ego depletion that occurs in the auditor thereby reducing the auditor's ability to detect errors and reduce the ability control of auditor to carry out audits under existing ethics and regulations.

Many things can affect audit judgment and decision-making (JDM) quality, including auditor psychology or the state of the auditor. One of the psychological things that can hinder auditors is ego depletion. An auditor who experiences ego depletion in carrying out audit assignments will generally affect the quality of judgment making quality made by the auditor. According to Muraven et al. (1998) states that ego depletion can be defined as a state in which an individual exerts the

former self-control, thereby reducing resources for later self-control. When an auditor experiences ego depletion, it can result from deviations of ethics and error and can make the audit result not in accordance with the existing reality (Baumeister et al., 1998). Poor quality judgment-making auditors will affect the state of a company and may have an impact on clients in making wrong decisions. It is one example of the result of ego depletion experienced by auditors. The auditor has a high probability of being exposed to ego depletion. This is due to the auditor not having sufficient self-control resources to maintain focus, vigilance, and other self-control not to fall into deviations. There are many factors that can cause ego depletion in auditors, such as sleep quality and workload.

Energy is needed by auditors in carrying out their duties. Energy can also maintain the focus of the existing staff for audit work. The energy obtained by individuals can be obtained from sleep. Sleep quality can have both negative and positive opportunities for auditors. The better the sleep quality of employees, the more energy employee get, and that energy can be used by employees to complete the tasks given as well as an auditor. It can be said that sleep quality has a positive opportunity for auditor performance. Sleep quality can have a negative impact when an employee's sleep quality is poor. Fatigue resulting from poor sleep quality affects the results of employee performance.

The workload, in general is the demand for tasks in the work given to workers, and the work must be completed within a predetermined period of time (Hurley, 2017). The existence of time pressure caused by the workload has a significant effect on audit judgment. It indicates that when the auditor gets great

pressure on his work, a low-quality of audit judgment may be made by the auditor. Many public accounting firms provide a time limit for the audit by the auditor due to the large work targets that must be completed and given to clients. When individuals think the target of the work employee is too high, then the employee can be exposed to stress from a workload that is too heavy. Work standard can cause the workload on employees, the number of clients, and increased working hours.

Auditors in auditing are very closely related to work standards to obtain credible results in audit results. Every audit must comply with accounting standards applicable in Indonesia, such as IFRS-PSAK, SAS, ETAP, SAK EMKM, and SAP. Auditors who cannot understand and carry out the duties in accordance with applicable standards will place a heavy burden on the auditors to complete these tasks. Workload will interfere with the results of the audit. This is in accordance with the statement Fadhillah and Halmawati (2021) auditors who have a high workload will have an effect inefficiency and ineffective of auditors in doing the job. Auditors did not have enough time to do the job based on the available procedures auditors follow, which resulted in the audit quality decreasing. Many factors affect the performance and audit results. These factors can be external and internal. Internal auditor factors (individual characteristics) and external factors (the environment). This study is focused on examining locus of control as individual characteristics. Chadegani et al. (2015) state that Auditors' characteristics have a significant influence on determining the quality of the auditor's job by affecting the decision-making and behavioral intention. Many things can affect individual characteristics, including locus of control. Locus of control as an individual

characteristic of the auditor is generally known as the individual's level of confidence auditor's ability to control the surrounding environment that influences success and failure. Locus of control in individuals can determine individual behavior. When an auditor does a given job with high motivation and great effort, the auditor is motivated to carry out the audit in accordance with existing procedures and make the auditor's performance maximized. Individual characteristics will help the auditor so that the individual can control the factors that affect the auditor's performance.

Previous research conducted by Y. Mursita et al. (2019) showed that ego depletion was not caused by poor sleep quality. That research contradicted previous research by Baumeister et al. (2018) and Hurley (2017), who states that individuals who have relatively low sleep quality will cause ego depletion. The individual's shorter sleep the previous night makes the individual less able to persist in demanding cognitive tasks related to self-control and indicates that the person is ego-depleted. The research also finds that auditor judgment and decision making is influenced by the level of ego depletion. The higher the ego depletion experienced, the lower the audit quality. Research by (Y. Mursita et al., 2019) also states that when there is an increase in workload during the busy season, it may cause stressors and ego depletion. This is following the statement of (Qing Kovarik, 2022) states that a high workload compression according to the results, reduces audit quality by causing longer audit report lag, more discretionary accruals, and a higher cost of capital. From this explanation, the title of this research is " The Effect of Ego Depletion and Locus of Control on Audit Judgment and Decision Making". This

research is the development of previous research Y. Mursita et al. (2019) with the title “ Ego Depletion and Its Effect on Auditor’s Judgment and Decision-Making Quality”. This study differs from previous research because this research added several variables such as interpersonal conflict variables change to be workload and industry-specific experiences being Locus of control as moderating variables. This study uses two theories, namely, attribution theory and the strength model of self-control. In addition, the sampling technique used is purposive sampling technique with several criteria, namely auditor work experience of at least 1 year, and external auditors who work in the Yogyakarta, Surakarta, and Semarang areas. The Yogyakarta, Surakarta and Semarang areas were chosen because in these areas there are many medium and small KAPs where these KAPs have a large profit orientation so that they have many clients which is one indicator of workload and ego depletion.

Ego depletion in this study is used as an intervening variable. This is because many factors can affect ego depletion in auditors and have an impact on the results of audits conducted by auditors. Factors that can reduce self-control resources and cause ego depletion are workload and sleep quality. Ego depletion can be affected by the workload, according to the statement Hurley (2017) Phenomena that can increase workload, pressure, and stress on an individual can cause ego depletion. There are few studies on workload in ego depletion, and in previous studies, research on workload in ego depletion used experimental instruments. Based on this background, researchers are interested in examining the workload on ego depletion using real-time data or primary data using survey instruments. Sleep quality is

another factor that can affect ego depletion. This is in accordance with research conducted by Baumeister et al. (2018), which states that ego depletion occurs cause individuals lack of sleep. Poor sleep can cause decreasing in the self-control resources and leadership for the condition of ego depletion, but the findings are contradictive with research conducted by Y. Mursita et al. (2019) discovered that ego depletion did not influence auditors' sleep quality. The results of the research. Sleep quality in ego depletion, which is still inconsistent, has caused researchers to be interested in researching sleep quality in ego depletion. The moderating variable is used in this study because the researcher found that many things can affect the Audit Judgment Decision Making (JDM) quality in auditors, one of which is locus of control. Hariani (2019) found that audit quality is positively influenced by locus of control or when the auditor's locus of control increases, the auditor's audit quality increases. Research conducted by Ilmatgara et al. (2020) found that locus of control has a positive effect on the performance of the auditor. However, the results of this study are inconsistent with previous research conducted by Rastina et al. (2018) who found that locus of control did not affect audit quality.

B. Formulation of The Problem

Based on the background mentioned above, the formulation of the problems in this study are as follows:

1. Does sleep quality significant negatively affect ego depletion?
2. Does workload significant positively affect ego depletion?
3. Does sleep quality significant positively affect JDM quality auditors?
4. Does the workload significant negatively affect the JDM quality auditor?

5. Does ego depletion significant negatively affect JDM quality auditors?
6. Can ego depletion can intervene in the relationship of sleep quality on JDM quality auditors?
7. Can ego depletion intervene in the relationship of workload on JDM Quality Auditor?
8. Can auditor locus of control moderate relationship of ego depletion on JDM Auditor Quality?

C. Research Purposes

Based on the formulation contained above, the objectives of the research are as follows:

1. To discover and acquire empirical evidence on whether sleep quality significant negatively affects ego depletion.
2. To discover and acquire empirical evidence on whether workload significant positively affects ego depletion.
3. To discover and acquire empirical evidence on whether sleep quality significant positively affects JDM quality auditor.
4. To discover and acquire empirical evidence on whether workload significant negatively affects the JDM quality auditor.
5. To discover and acquire empirical evidence on whether ego depletion significant negatively affects JDM quality auditor.
6. To discover and acquire empirical evidence on whether ego depletion can intervene the relationship of sleep quality on audit JDM quality auditors.

7. To discover and acquire empirical evidence on whether ego depletion can intervene the relationship of workload on audit JDM quality Auditor.
8. To discover and acquire empirical evidence on whether Auditor Locus of Control can Moderate the relationship of ego depletion on JDM auditor quality.

D. Benefits of Research

There are several benefits from the preparation of this research as follows:

1. Benefits in the theoretical field

The results of the research are expected to be able to deepen and contribute to the development of knowledge, especially in Ego Depletion. In addition, the results of this study can be used as a reference for future related research studies.

2. Benefits in practice

1. For auditors and other workers who may experience Ego Depletion in carrying out the assigned tasks, this research is expected to assist the Auditor and those involved in overcoming the conditions caused by Ego Depletion.
2. For the public accounting firms (KAP) located in Yogyakarta and Central Java, it is hoped that the results of this study can be used as an evaluation material and provide suggestions for KAP as the object of research to make a treatment for the depletion of the ego of auditors, in

the hope of minimizing the possibility of errors, deviation, and decline in audit quality.