

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of Final Report**

In today's business world, business people compete to expand their business with the aim of gaining high profits. The profit generated by a company with moving graphs shows that the company's bankruptcy rate is minimal. With the company getting profits, more and more investors will invest in the company because it will ensure that they get sustainable dividends if they invest in the long term. For this reason, before deciding to invest in a company, investors need information about the company's finances. One of the communication media of the company's financial activities in a certain period is financial statements. Whiteet. al. (2002) described that external parties such as investors and creditors will use financial reports to support making an appropriate economic decision. Hidayat (2018) explained that the financial report is information about the financial condition that shows the performance of a company. Sekhar (2020) described the company information that is presented in the financial statements are cash activities, financial position, financial performance, changes in the capital. Because a financial report is a medium for distributing information, the manufacturing process must follow accounting standards and be prepared using basic accounting principles. The financial accounting standard explained reliable and quality are one of the criteria that must be met in the presentation of financial statements, which means that it is presented following the real situation

(IAI, 2004). To present a quality financial statement, the company requires good internal control.

According to Trenerry (1999), internal control is an assessment and investigation system that consists of several groups in various management levels of that are autonomous and interrelated from one division to another so that they are aligned with financial and non-financial activities and to ensure that a business activity runs. Hery (2014) explained internal control is a set of systems that regulates policies and to protect company assets from all forms of manipulation, proves the availability of accurate and unmanaged company accounting information, and ensures that all employees comply with all company management policies in following the provisions laws/regulations. Trenerry (1999) stated that, "there are five basic components in an effective and structured internal control system, namely: 1) control environment, 2) inherent risk, 3) information and communication, 4) control activities and 5) monitoring" (p. 8). Each division will manage each component to the highest level, namely monitoring will be managed by the internal auditor in overseeing the company's activities.

However, in some cases, not all companies have a good internal control system, so they require the role of an external auditor from certain financial services offices such as public accounting office, accounting service office, financial services office, to provide statements and solutions to the company when they encounter problems. The constraint in question is the ineffectiveness

of the internal control system, such as the absence of a financial recording system that is following financial accounting standards. One of the requirements needed is to submit a financial report that is in accordance with the accounting standards applicable in Indonesia (IAI). Leitch (2008) explained internal external audit control will increase along with the expanding scope of computerized companies.

The process of analyzing and evaluating financial statements is known as the audit process. One of educator explained an audit is the science to prove all accounts, financial statements, which are carried out independently, without the interference of an accountant or related parties from the same company, business, or organization (Vinod, 2019). According to Nzechukwu (2016), the audit helps organizations find and analyze problems, risks, good implementation, and probability in serving customers better. To produce accurate financial statement information, the needs of data or audit evidence is important to analyze the financial statements made by the company whether they have met financial accounting standards or not. The Indonesian Institute of Accountants (IAI) states in its Third Field Work Standards that the process of examination, observation, investigation, and verification as an adequate basis for expressing an opinion on audited financial statements is competent audit evidence. Harrer (2008) explained external auditors want to obtain sufficient competent evidence regarding the design and effectiveness of management operations for all significant financial assertions related to all accounts and the appropriate disclosures in the financial statements.

The responsible of audit process is auditors. Auditors took steps to investigate the appropriateness of financial statements presented by a company during a certain period. This shows that the need of auditor's role in presenting a quality audited financial statement in a company is important. The company need them to provide accurate information for the stakeholders, so that they can take the right decision for the future period. To provide rational opinion while analyzing the financial statement of a company the auditor's must have good skills. Rai (2008) described auditors must have special skills such as statistical skills and can use Microsoft programs in writing and presenting financial statements. (IAI) Carrying out the audit process can be carried out individually or in groups who must have technical expertise, complete training as an editor, and have undergone formal education, professional education and experience. From this, it can be seen that the need for professional accounting services such as auditor's is increasingly needed. Effective, efficient, and accurate service levels are the fundamental reasons companies use the services of auditor's to provide independent assessments of the resulting financial reports. Based on this background, the author takes the title "The Importance of Auditor's Role in Presenting a Quality Audited Financial Statement in a Company".

## **1.2 Objective of Final Report**

This final report is to inform the importance of an auditor's role in presenting a quality audited financial statement.

### **1.3 Significances of Final Report**

This final report has two significances. First, it is expected that this final report can help readers understand accounting, especially auditors' role in presenting quality audited financial statements. Second, this final report is expected to be a reference for future final report writers, especially D3 English Program of University of Merdeka Malang students.