

ANALYSIS OF READINESS FOR ISA (INTERNATIONAL STANDARD AUDITING) BASED IN AUDIT PLANNING (CASE STUDY AT LOCAL PUBLIC ACCOUNTANT “X” IN SURABAYA)

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Abstract: The study is conducted to provide an analysis for readiness in the audit planning based on Indonesian SPAP (Profesional Standard Public Accountant) 2011 (US GAAS version) and SPAP 2013 (ISA version). The urgency of changes for auditing standard SPAP in Indonesia requires the readiness of public accountant firm to adoption of ISA. Therefore, auditor requires to update the capability to perform audit planning as well as to keep competitive the public accountant must facilitate the work of high quality at a reasonable cost. To adopt ISA properly, public accountant firm must prepare to update their ability, to understand better the difference of audit planning before and after adopting ISA and also the analysis of the consequences when public accountant still does not adopt ISA in the audit assignment. In this study, researcher took the study case at Local Public Accountant X in Surabaya, Indonesia, for the audit period ended on December 31, 2013. This research is an applied research with an approach of the qualitative case study, using participant observation and interview with the audit team of local public accountant X, trying to understand whether the public accountant is ready or not in adopting ISA-based audit planning. The study results the considerable efforts should be accomplished for ISA adoption readiness.

Keywords: Auditing, Audit Planning, International Standard Auditing

RESEARCH BACKGROUND

Audit planning is one of the most important steps when auditor accept the audit assignment, because at this step allows the auditor obtain sufficient appropriate an evidence, help to keep the audit costs reasonable, and to avoid misunderstandings with clients. If public accounting firms want to minimize legal liability and maintain a good

reputation in the business community, that sufficient appropriate evidence must be obtained.

Bad audit planning will cause bad reputation for the public accountant firm and the worst is the possibility of partner, staff sued by law. Based on Association of Certified Fraud Examiners (2014) has revealed that 129 cases occurred in Asia Pacific, which 19 of them were from Indonesia. The losses were around \$240.000. If there is misstatement in the financial statements it will give a big effect to all of the stakeholders who use the report. Error or fraud occurred in several big companies can lead to bankruptcy and huge losses for investors and creditors.

Audit planning procedure based on US GAAS should make auditor consider about the entity's business, internal control of the company, set the level of planned control risk and consider about set the materiality levels for audit purposes and check the conditions that may require expansion or revising audit testing. Even the public accountant already set the audit planning and accepting the client, there are still frauds that can be found. Based on Tuanakota (2012) in 2010 and 2012 there are 27 and 20 cases fraud that occur in Indonesia. Based on that data auditor is expected to help disclosing the motivation, opportunity and rationalization beyond the fraud of financial statement.

Since Indonesia become a member of G-20 Indonesia starting to adopt International Standards Auditing (ISA) that emphasize Risk Based Audit (Hermawan, 2011) in audit of financial statements on January 1st, 2013 for emiten, and January 1st, 2014 for non emiten. From risk based audit (RBA) approach used by ISA, auditor in Indonesia will fulfill their need to find the fraud. Using RBA, auditors are required to focus more on providing reasonable assurance related to the fairness of the financial statements (Hermawan, 2011). It can be known from the audit planning that designed from RBA focuses detecting fraud also focus on providing an assessment of the sustainability (going concern) company for at least the next year. At previous Hermawan, 2011 reveals that in the old approach based, auditors only emphasize on transaction or the current cycle and it is considered sufficient to provide an adequate level of confidence on the fairness of financial statements showing as well. Auditor should improve his competences and abilities, especially in fraud detection. In addition, auditor has the responsibility to find and disclose it by making an auditing plan and performing audit to get a reasonable assurance whether financial statement is free from material misstatement, neither caused by error nor by fraud. Since the role of local public accountant in Indonesia is very important, the author wants to analyze the audit planning procedures based on ISA at local public accountant in Surabaya.

2 LITERATURE REVIEW

2.1 Audit, Auditor and Audit purpose

According to Arens (2014), auditing is an accumulation and evaluation of the information to determine that the information has compliance with the criteria. Based on SPAP SA 200 (IAPI, 2013) the purposes of an audit is to enhance the degree of confidence of intended users in the financial statement. SPAP SA 200 Auditor par 13(d), and SPAP (PSA 2 SA Section 110) stated that the auditor is a person who does an examination of the company financial statements are objectively or with another organization with the aim to determine whether the audited financial statements presented fairly in all material respects the result of both the company's financial performance or organization. The type auditor that will be discuss is external auditor or independent auditor.

2.2 Audit Phase based on US GAAS

Before adopting ISA, Indonesia adopting SPAP based on US GAAS. Based on Arens (2014), audit phase consist of four phase. In this study will explain the first phase of the audit

Phase 1

Plan and design an audit approach:

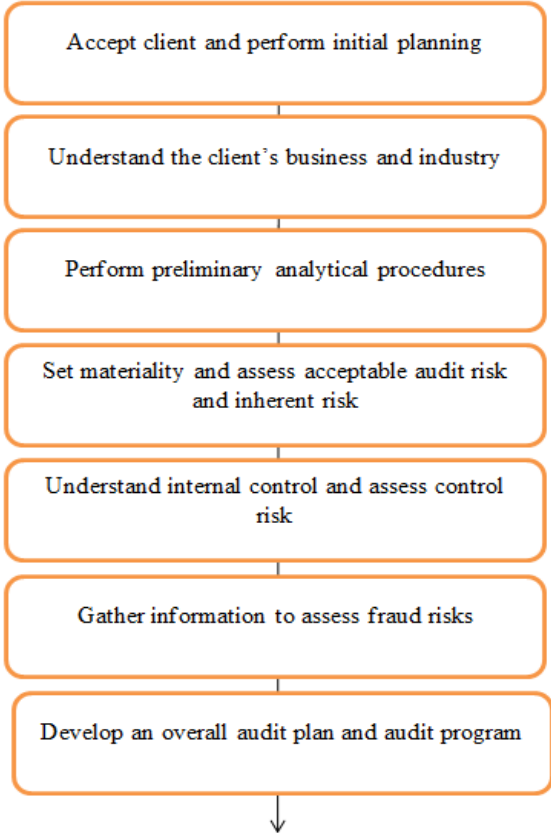


Figure 2.1 Plan and Design an Audit Approach

(Source: Arens, 2014)

2.3 Plan and design an audit approach:

2.3.1 Accept client and perform initial planning

Obtaining and remaining clients is not easy in a competitive profession, most public accountant firms conducting the investigation the company to determine its acceptability. By doing this, an auditor will know the prospective client's standing in the business community.

2.3.2 Understand the client's business and industry

Auditor must also understand the client's external environment, including regulatory requirements, extent of competition since many auditor cases results from auditor's failure to fully understand the nature of transactions in the client's industry.

2.3.3 Perform preliminary analytical procedures

Based on journal of accountancy (Ramos, 2003) stated that one of the reasons auditors fail to detect material misstatements caused by fraud is that they tend to look at current numbers in isolation from the past or other relevant information. For that reason, the auditor should consider the results of analytical procedures in identifying the risks of material misstatement caused by fraud. Such preliminary tests can reveal unusual changes in ratios compared to prior years, or to industry averages, and help the auditor identify areas with increased risk of misstatements that require further attention during the audit.

2.3.4 Set materiality and analytical procedures

Auditing standards require auditors to decide on the combined amount of misstatements in the financial statements. There are 2 materiality considered in this steps which are qualitative misstatement that could affect user decisions to a greater extent than the misstatement dollar amount and quantitative misstatement means that the auditor would accumulate the errors and misstatements and project likely errors and misstatements individually.

2.3.5 Understand internal control and assess control risk

The auditor's focus in both the audit of financial statements and the audit of internal controls is on controls over the reliability of financial reporting plus those controls

over operations and compliance with laws and regulations that could materially affect financial reporting.

2.3.6 Gather information to assess fraud risks

Auditors must maintain a level of professional skepticism as they consider a broad set of information, including fraud risks factors, to identify and responds to fraud risks.

2.3.7 Develop overall audit plan and audit program

Based on Statement on Standard Auditing Practices (SAP 8) stated that Planning should be continuous throughout the engagement and involves: developing an overall plan for the expected scope and conduct of the audit; and developing an audit programme showing the nature, timing and extent of audit procedures.

2.4 Audit Phase based on ISA

After Indonesia become a member of G-20, Indonesia adopting SPAP based on ISA. Audit phase consist of three phase which are risk assessment, risk response and reporting.



Figure 2.2

Audit Process Chart

(Source: Tuanakota, 2012)

Yet, In this study will explain the first phase of the audit which is risk assessment phase

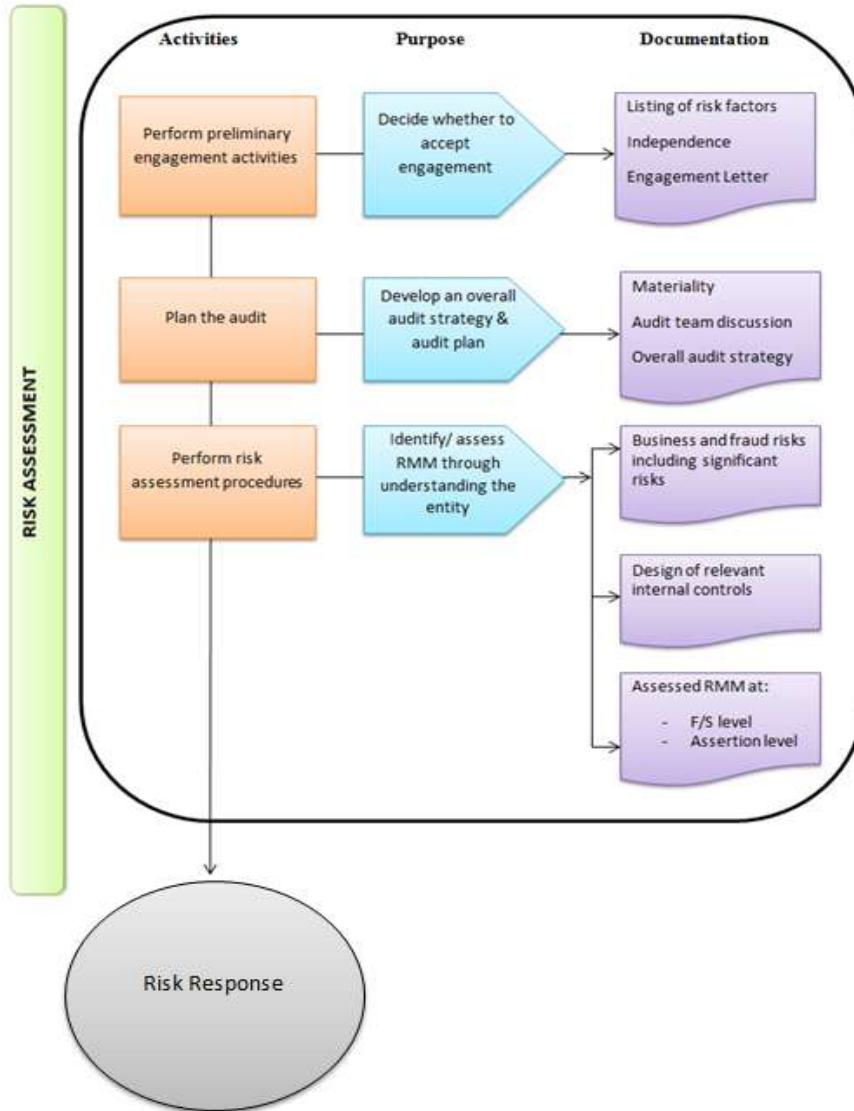


Figure 2.3 Risk Assessment Procedures
(Source: Tuanakota, 2012)

2.4.1 Perform Preliminary engagement activities

One of the most important that made by public accountant is deciding whether public accountant firm wants to continuing audit assignment or rejecting the audit assignment. The objectives of auditor is identify and assess the risks of material misstatement, whether due to fraud or error at financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control.

In ISQC 1 and SPAP SA 220 require public accountant to developing, implementing, and documenting procedures of quality control when accepting or continuing the clients.

2.4.2 Plan the audit

Plan the audit purpose is to develop an overall audit strategy, make audit plan will be efficient and effective and audit risk can be accepted until acceptably low level to develop an overall audit strategy and audit plan. SPAP SA 320 paragraph 8 stated that the auditor's responsibility in relation the concept of materiality to which auditor must also refer as this provides guidance on how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected statements. Audit planning has a several steps which are:

1. Determining materiality

Materiality is a based to do the risk assessment and broad determinants of audit. It can be divided as 3 which are overall materiality that based on the auditor's perception of the financial information needs of users of financial statement, then specific materiality is materiality at the level of certain types of transaction account balance, and last is performance materiality is materiality that used by auditor to reduce the risk until appropriately low level.

2. Discussion of audit team

Based on SPAP SA 315 requires discussion among the engagement team members and team leaders to communicated with team members who are not involved in the discussion. This discussion should be conducted to rule out the team members' opinions about the honesty and integrity of management and Those Charged with Governance (TCWG). TCWG is the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.

3. Overall audit strategy

Overall audit strategy is document the key decisions that are considered important in planning the audit and communicates important to members of the team well. SPAP

SA 320 paragraph 14 stated that auditor shall include in the audit documentation number / amount which follows the factors considered in determining of overall materiality.

2.4.3 Perform risk assessment procedures

Risk identification is the foundation of an audit it based on integral part of, the procedures implemented auditor to understand the entity and its environment. SPAP SA 240.10 stated that the aimed of auditor is to identify and assess the risks of material misstatement in the financial statements due to fraud or error at the financial statement level and the assertion level through abiding about the entity and its environment, including its internal control, which will provide the basis for designing and implementing responses to the risks of material misstatement assessed.

3 RESEARCH METHOD

This research is an applied research with an approach of the qualitative case study to get better understanding in audit planning procedures in the fieldwork. Yin (2011), case study is a description of the method or of participant-observation as a data collection technique. The purpose of this explanatory research is to give explanation and to provide understanding of audit planning procedures based on ISA at Local Public Accountant X in Surabaya.

Mostly the research methods are done with the interview with the partner and staff audit with the semi structure method. Moreover, there are document analysis that must be conducted to see the results of the interview and documents. Moreover, there are working paper used was audited from 31st December 2012 until 31st December 2013. Analysis of working paper is done to know the consequences after implementing ISA. And last, participant observation was conducted to compare the planning in the theory while adopting US GAAS and ISA to the reality when it is implemented

4 RESULT AND DISCUSSION

Local Public Accountant X is a firm engaging in accounting service like general audit, tax consultant, compilation of financial statement. It located in the partner's house in Surabaya, Indonesia (Mr.B as a partner). The management is handled by Mr. B himself who has already had an experience in accounting public business for more than 15 years.

4.1 Audit planning procedures based on US GAAS

The researcher observes Local Public Accountant X that auditing Company A. This company can represent other companies since it is the biggest company handled by the Local Public Accountant X, the client was audited in 2011, and the researcher becomes a participant observation as the staff audit of the company. As a partner, Mr. B

has a standard to accept the client regarding to the audit. It depends on the audit planning and the strategies adopted by the company.

4.1.1 Accept client and perform initial planning

Company A is the continuing client of Local Public Accountant X since 2011. Around September 2014, Chief of Accounting Company A gave a letter of assignment to audit the firm then he came to the office and brought all documents in soft copy and hard copy of the financial statement to conduct the general audit. Mr. B checked the financial statement at a glance and did some interview about the completeness of data, then Mr. B informed the management responsibilities to the Chief of Accounting of Company A.

4.1.2 Understand the clients business and industry

After get the brief picture about the client`s company. Mr. B will make an appointment to check the completeness of the data in the soft copy, the internal control and the documents evidences. After conducting the survey, Mr. B got the pictures of the risk, fees and working period to conduct the audit and discussed the terms of engagement. Next, Mr. B chose the audit staff to engage the audit: 4 audit staff, 1 supervisor and 1 person in charge as the Chief of Audit. From the interview, Mr. B accepted the client because the internal control is considerably fine; there was a segregation of duties based on COSO and all of the documents have already been backed up in the soft copy and hard copy.

As a background of the auditee, Company A has been established since 1983,that engages in trading of marine products like shrimps, frog legs and anchovy, certified by EU (European Union).Their products are exported to United States, Canada, Europe, United Kingdom, Japan and also other Asian countries, including Hong Kong, Taiwan and Singapore.

4.1.3 Assess Client Business Risk

In general, the business risks in Company A in the inventory since the company is exports marine food, they said tax account is the riskier account because around 2010, Company A almost got sued related the tax case related to Mr. Gayus Tambunan. But Mr. B and the staff did not want to tell about the detail of the cases.

4.1.4 Perform preliminary analytical procedures

Mr. B did not make a vertical and benchmarking analysis to know about the risk, but for the horizontal analysis was made by each staff audit based letter of divisions tasks, but they do not write that analysis in working paper. If there`s material number or different number in some account, the staff audit will ask directly to the Chief of Accounting and he will check it.

4.1.5 Set materiality and assess acceptable audit risk and inherent risk

Inherent risk of the company is the tax and the inventory account, because the company exports marine cool storage. Moreover, the auditee needed to be audited for tax examination, so the partner made the strategy based on the client's needed.

Working paper of quantitative judgement is not made by Mr. B. He only conduct the qualitative audit that is not written in the working paper. Yet, as long as an auditee can prove the difference in number and ask the management team to change the account number, so it is not affect to the audit opinion.

4.1.6 Understand internal control and assess control risk

Since the organizational structure is based on COSO, and there is a separation of duties at Company A. Mr.B checked the documents/evidences which have been acknowledged and authorized by each divisions related. And to keep the inventory safe, Company A installed CCTVs and hired security guards. Still, the evidences, documents and records are backed-up.

4.1.7 Gather information to assess fraud

Company A used to have a problem in taxation and it was brought to the tax court Jakarta. According to *Kantor Berita Politik Rmol* the judges said Gayus Tambunan defendant guilty of corruption when dealing with tax objection Company A while still working at the Directorate General of Taxes.

According to the judge, Gayus has proposed a tax objection received all Company A. The proposal was then approved start of Humala Napitupulu as reviewers, Maruli Manurung as Head Section Reduction and objections, and Bambang Ismiarso as Director Objections and Appeals.

As a result of the receipt of the tax objection petition, according to the judge, Company A as the corporation receives a profit of about Rp.570 million. Gayus repeatedly claimed there is no corruption, and violations of procedures when receiving tax objection Company A.

4.1.8 Develop overall audit plan and audit program

Based on Arens (2014), there are several types of tests to determine whether financial statements are fairly stated. Mr. B uses some kind of test:

Test of control.

Test of control is checking the evidences, documents and reports done by staff audit. The staff audit only needs to check the evidences, like statement of a bank account. The staff audit does the review and has the right to confirm if there is difference in number.

Substantive test

Mr. B did not use all of the substantive test for Company A. Mr. B only used substantive test of detail balances and substantive test of transaction. The staff audit checked it to the general ledger, to make sure the number of the review was same with the general ledger after that, the staff audit checked the number of general ledger using a balance sheet and an income statement. The staff audit also sent the letter to the client, supplier of Company A to check the number of account. If there were any differences, the staff audit would recheck and resolve it.

When conducting the audit, the auditor must have standards that must be followed to be a quality measure that must be obeyed by public accountants. Standard that must be followed by public accountant is SPAP. Since become a member of G-20, Indonesia must change the SPAP that based on US GAAS to ISA. As a partner of Local Public Accountant X, Mr. B is aware about this, and he is doing some preparation in Local Public Accountant X and the staff by:

- Literature

Mr. B spent the petty cash of the Local Public Accountant X to buy a literature. One of the literature that must be read by the auditor staffs is Tuanakota, 2013 with the tittle *Audit Berbasis ISA*. Besides that book, Mr. B always supported his employees to access the internet and read about ISA's implementation when there was a time off. Unfortunately, even Mr. B supported his employees, but they never read the book or accessed the internet to know about ISA. When there was a time off, the employee used the time effectively to take a rest not for reading the book.

- Socialization from Quality Review's Team

As a partner, Mr. B never took a training through seminar to know better about ISA since he did not have so much time and he spent his time to go to the client to give tax advice, moreover the price for the seminar is not affordable the price range about Rp.500.000-10.000.000 it depends who held the seminar. Because of that, Mr. B just ask the employee to read the book or access the internet to know about ISA.

- **Dissemination**

After gain the information about ISA from quality review`s team, he will spread the information to the employees (auditors) to get the information. The dissemination that conducting is not formal. Mr. B just retell about the information to the supervisor informally, and then the supervisor tell to the others auditor about the ISA, and have a discussion with the supervisor, if there`s a questions about the information it will be asked to Mr. B, sometimes Mr. B does not have time to explained that, so when the employees have a questions regarding ISA, he will ask the employees to accessed the internet or read the literature.

Audit Planning After Adopting ISA

According to Tuanakota 2013, there are some steps to adopting ISA:

5.2.1 Perform Preliminary Engagement Activities

Company A is the continuing client since 2011. When Chief of Accounting Company A came to Mr. B, he brought several documents of the financial statement in soft copy and hard copy for general audit. Mr. B will reviewed the financial statement to check at a glance about the risk and checked the financial statement data to know if the company`s financial statement was based on acceptable accounting standards. The background check has already been done by Mr. B in the previous audit so Mr. B did not check the background. He informed the client about the important changes that happened in that year and asked some questions ask about the completeness of the data, internal control, management responsibilities. After finished doing the interview, Mr. B will discussed about the audit fee. The audit fee is not documented, but it is included the staff hired, working period to conduct the audit, and the completeness of data. After the client agreed, Mr. B started the audit.

As a public accountant, there is an ethic that must be followed: the regulation states that the public accountant must be rotated when conducting the audit of the same company for 3 years. Company A has been the client of Local Public Accountant X since 2011. Besides that, to prevent conflict of interest, Local Public Accountant X does not accept other assignment, such as being a tax consultant in PT. A Yet, in this steps Mr. B did not make a working paper or document it even though the budget was made by Mr. B. In addition, engagement letter was made by Mr. B.

In this step Mr. B has already performed preliminary engagement activities based on ISA, but Mr. B does not documented this step very well he did not make a document about his interview with the client or make a memo about the internal control and the important changes in the company in this year. Furthermore, Mr. B does not make a

working paper about the management responsibilities. According to ISA 320 paragraph 12 states that the obligation of auditors to document the strategy and audit plan and any significant changes during the audit of the audit strategy or audit plan, and the reason for such changes.

5.2.2 Audit Plan

In the planning steps, the materiality level is set and areas where material misstatement might occur are identified. Materiality must always be assessed where an audit opinion is given. Once the audit strategy has been established, then the auditor is able to develop the more detailed audit plan to address the matters identified in the overall audit strategy. The auditor should then reduce the audit risk to an acceptably low level. Audit risk is the risk that the auditor will arrive at the wrong opinion.

The planning stage of the audit is an extremely vital area. Going in to an audit 'blind' is danger and does not conform to the ISAs relating to planning: namely ISA 315. The core principle involved in the audit planning is to ensure the audit is carried out efficiently and that sufficient attention is devoted to important audit areas. Here, the first steps in the audit plan:

1. Determining materiality

There are materiality according to ISA overall materiality, spesific materiality, and performance materiality. As a local public accountant, determining materiality is very important because it is a determinant of the extent of the audit procedures. Determining materiality is based on the professional judgment about the needs of overall financial statement's information.

Mr. B set the specific materiality but he did not count the overall materiality and performance materiality because it depended on each professional judgment of the auditor. If there was a difference in amount, Mr. B would ask the auditee. It should be accountable and reasonable even though it is a material. So, Mr. B can accept it and does not need to recalculate it.

According to SPAP SA 320 paragraph10 stated that in formulating the overall audit strategy, the auditor shall determine materiality figures in the financial statements as a whole. If in certain situations on the entity, there is one or more types of transactions, account balances, or disclosure which amounts lower than the materiality of the financial statements as a whole can influence the economic decisions of financial statement users, the auditor shall determine materiality levels to be applied to the type of transactions, account balances or disclosures that. Based on the regulation, Mr. B should counted and made the quantitative materiality not just about the qualitative materiality.

Overall materiality that known as materiality for overall financial statement can be counted using a method called “Blended Methods Combining The Above and Finding an Average”. Presumably, the blending or averaging process provides an indirect way of considering qualitative factors. The illustration taken is based on Collings, 2011. The illustration below is the simple working paper to determine the materiality because this illustration only considers the quantitative factors.

Specific materiality that known as materiality for transaction, account number, or disclosures. Is set by the professional judgment of the staff audit and Mr. B, like PT. A is the company that send a cool storage and have a problem with tax officer Gayus Tambunan. Therefore inventory and tax account are the riskier account.

Performance materiality was not made by Mr. B because he did not make a vertical and benchmarking analysis. Horizontal analysis was made by Mr. B because the staff audit had to compare with the previous audit. However, the horizontal analysis was not well documented.

1. Discussion of audit team

Mr. B divided the tasks and roles to the team members, also considered their experiences. All of the team already had an experience auditing PT. A from 2011. The senior audit who had more experiences in the auditing was chosen to become a Chief of Auditing and Supervisor to help the staff audit conducting the audit in the fieldwork. Local Public Accountant X needs an expert in taxation due to risky account. So Mr. B chose 1 staff audit who knew well about taxation to conduct the audit of tax account in Company A. All of the staff auditors minimally had a Diploma of Accounting and in fact, some of them were Bachelors of Accounting. In addition, the staffs worked at Local Public Accountant X minimally 6 years. So, Mr. B believed in the skills of the staffs and the quality control can be enhanced.

Meeting in Local Public Accountant X was not a formal meeting that the staffs must take the time for brainstorming. As a result, they did not engage all of the discussions in ISA. They did a discussion one-by-one with the supervisor. All of the information known by Mr. B in the preliminary engagement activities, like checking the risk and the brief financial statement will be informed to the supervisor. After that, supervisor informed the staff audit informally.

Discussion between engagement teams and team leader to take the time for brainstorming with the staff are important, so the partner can also find out the problems in the company not only to hear the problem from the supervisor and immediately give orders and advice to staff so it can reduce miscommunication among staffs, partners and supervisor. Moreover, all of the discussion must be documented.

2. Overall audit strategy

Overall audit strategy requires the important key decisions in audit planning to be documented. And then, communicate it among members of the team. In fact, most all of the steps were accomplished but were not well documented.

Since performing preliminary engagement, Mr.B made the budget, but he did not document it. After calculating the fee and the client agreed, he informed the personnel staff to collect the money after audit tasks were done. Mr. B did not document the result of the interview, still he informed those things to the supervisor, and the supervisor could inform to the staff audit. If there is a question from staff audit it will be ask to the supervisor, or ask to Mr.B.

Mr. B, who checked the financial statement of the auditee at a glance, determined the materiality at first. After he informed the supervisor and told the audit staff, the audit staff checked into details. If staff audit found another findings, they will tell to the supervisor and have discussion with the supervisor, if Mr. B had time he also join to the discussion, but if he did not have time he just ask the supervisor to tell him about the findings. Usually the discussion that conducted is informal, so the staff and the supervisor just do a brainstorm. After that, Mr. B determined the materiality based on qualitative judgment which was not documented, but he did not engage the quantitative judgment.

After documenting all of the steps, it is important to communicate the audit plan with TCWG about the scope and the schedule time of audit. In this case, Mr. B did it though he did not document it well. To make it easier Mr. B could use a memo to document the budget, and all the interviews with a memo. However, he was able to make a narration so that the audit staff understands or to use a proper audit checklist completion to the situation in that assignment above.

5.2.3 Perform risk assessment procedures

1. Business and fraud risks including significant risks

Business risks that might occur in Company A are the problem with supplier. It is too difficult to find a supplier for frog legs, anchovy, and shrimps. So Company A cooperates with fishermen as their suppliers. Sometimes it is very difficult to find frogs in the summer, but it is easy during rainy season. To overcome this problem, the purchasing staffs of PT. A search the suppliers from other areas near Surabaya to supply their raw material. They are from Tuban, and East Nusa Tenggara. After they find suppliers and buy good quality of shrimps in a large number, PT. A will export it overseas. There is a time when the clients do not pay it.

Fraud risks mostly occur in purchasing staff. Purchasing staffs have authority to pick the suppliers. Some suppliers build a good relationship with the purchasing staff to win the tender. On other way, the purchasing staffs also cooperate with the suppliers by

buying their commodities. Here, the purchasing staff usually get bonus from the suppliers.

Moreover, the significant risk occurred in this company is the payment of companies tax. This company has a risk account in the tax. And the company always tries to decrease the income to reduce the payment of tax. In this step Mr. B did not document the risk that happened in the company.

2. Design or implementation of relevant internal control

In this steps, Mr. B will ask the Chief of Accounting PT. A about the structure organization, standard operational procedures, and evidences. Based on the interview with the Mr. B, it is known that organizational structure has been based on COSO. There is a separation of duties between custody, authorization and recording. The evidences checked by Mr. B are acknowledge and authorized by each divisions related. Besides that, to keep the inventory from the theft, the company hired security guards and install CCTVs. Moreover, the evidences, documents and records have been backed-up.

Test of control is engaged by checking the evidences, documents, and report by staff audit. The staff audit only check the evidences, like the statements of the bank account and when the staff audit will do the review. And if there is a difference in number, it will be asked.

Unfortunately, all of the risks were not documented by Mr. B. All of the steps in implementing internal control was good, but it should have been documented in a narrative description, or a memo or a flow chart, or the combination between flow chart and narrative description.

5.2.4 Assess RMM at F/S level and assertion level

To make it effective and efficient, Mr. B did not use this step. However, Mr. B reviewed the risk assessment procedures and summarized the risk of material misstatement in the financial statement. In this level the risk of material misstatement is pervasive, and the material misstatement in the assertion is for transaction, account number and the presentation of financial statements

Summary Analysis	
US GAAS	What Local Public Acc X must do to adopt ISA
<p style="text-align: center;"><u>Accept client and perform initial planning</u></p> <p>Mr. B checked the letter of assignment and documents like financial statement in (soft copy and hard copy) that brought by the Chief of Accountant Company A, and did the interview about the completeness of data, and informed the management responsibilities.</p>	<p>In this step Mr. B has already performed preliminary engagement activities based on ISA, but Mr. B does not documented this step very well he did not make a document about his interview with the client or make a memo about the internal control and the important changes in the company in this year. Furthermore, Mr. B does not make a working paper about the management responsibilities. According to ISA 320 paragraph 12 states that the obligation of auditors to document the strategy and audit plan and any significant changes during the audit of the audit strategy or audit plan, and the reason for such changes.</p>
<p style="text-align: center;"><u>Understand the clients business and industry</u></p> <p>Mr. B made an appointment to check the completeness of the data, the internal control and the documents evidences. Then he tell the audit fees and working period to conduct the audit and discussed the terms of engagement.</p> <p>Next, Mr. B chose the audit staff to engage the audit: 4 audit staff, 1 supervisor and 1 person in charge as the Chief of Audit.</p>	<p style="text-align: center;">1. Determining materiality</p> <p>Mr. B set the specific materiality but he did not count the overall materiality and performance materiality because it depended on each professional judgement of the auditor. If there was a difference in amount, Mr. B would ask the auditee. It should be accountable and reasonable even though it is a material. So, Mr. B can accept it and does not need to recalculate it</p> <p style="text-align: center;">2. Discussion of audit team</p> <p>Meeting in Local Public Accountant X was not a formal meeting that the staffs must take the time for brainstorming. As a result, they did not engage all of the discussions in ISA. They did a discussion one-by-one with the supervisor. All of the information known by Mr. B in the preliminary engagement activities, like checking the</p>

	<p>risk and the brief financial statement will be informed to the supervisor. After that, supervisor informed the staff audit informally</p> <p>3. Overall Audit strategy</p> <p>Mr. B did not document all the steps like the result of the interview, still he informed those things to the supervisor, and the supervisor could inform to the staff audit. Most all of the steps were accomplished but were not well documented.</p>
<p><u>Assess Client Business Risk</u></p> <p>The business risks in Company A in the inventory since the company is exports marine food, they said tax account is the riskier account because around 2010, Company A almost got sued related the tax case related to Mr. Gayus Tambunan.</p>	<p>1. Determine and assess the inherent risk</p> <p>Business risks that might occur in Company A are the problem with supplier. It is too difficult to find a supplier for frog legs, anchovy, and shrimps. So Company A cooperates with fishermen as their suppliers. After they find suppliers and buy good quality of shrimps in a large number, PT. A will export it overseas. There is a time when the clients do not pay it.</p> <p>Fraud risks mostly occur in purchasing staff that have authority to pick the suppliers. Some suppliers build a good relationship with the purchasing staff to win the tender and get bonus from the suppliers.</p> <p>Moreover, the significant risk occur in this company is the payment of tax (Companies tax) try to decrease the income to reduce the payment of tax.</p> <p>In this step Mr. B did not document the risk that happened in the company.</p> <p>2. Determine and assess control risk</p>

	<p>Mr. B will ask the Chief of Accounting PT. A about the structure organization, standard operational procedures, and evidences. There is a separation of duties between custody, authorization and recording. The evidences checked by Mr. B are acknowledge and authorized by each divisions related. Besides that, to keep the inventory from the theft, the company hired security guards and install CCTVs. Moreover, the evidences, documents and records have been backed-up.</p> <p>Test of control is engaged by checking the evidences, documents, and report by staff audit. The staff audit only check the evidences, like the statements of the bank account and when the staff audit will do the review. And if there is a difference in number, it will be asked.</p> <p>3. Document the findings and all of the changes to the original audit plan</p> <p>To make it effective and efficient, Mr. B did not use this step. However, Mr. B reviewed the risk assessment procedures and summarized the risk of material misstatement in the financial statement. In this level the risk of material misstatement is pervasive, and the material misstatement in the assertion is for transaction, account number and the presentation of financial statements</p>
<p><u>Perform preliminary analytical procedures</u> Mr. B did not make a vertical and benchmarking analysis, but for the horizontal analysis was made by</p>	<p>N/A</p>

<p>each staff audit based letter of divisions tasks. And they do not write that analysis in working paper. If there is material number or different number in some account, the staff audit will ask directly to the Chief of Accounting.</p>	
<p><u>Set materiality and assess acceptable audit risk and inherent risk</u></p> <p>The inherent risk of the company is not documented by the staff audit. Moreover, working paper of quantitative judgement is not made. He only conducted the qualitative audit that is not written in the working paper.</p>	N/A
<p><u>Understand internal control and assess control risk</u></p> <p>Mr. B checked the documents/evidences which have been acknowledged and authorized by each division related. And to keep the inventory safe, Company A installed CCTVs and hired security guards. Still, the evidences, documents and records are backed-up.</p>	N/A
<p><u>Gather information to assess fraud</u></p> <p>Company A used to have a problem in taxation and it was brought to the tax court Jakarta. According to <i>Kantor Berita Politik Rmol</i> the judges said Gayus Tambunan defendant guilty of corruption when dealing with tax objection Company A while still working at the Directorate General of Taxes.</p> <p>As a result of the receipt of the tax objection petition, according to the judge, Company A receives a profit of</p>	N/A

<p>about Rp.570 million. Gayus repeatedly claimed there is no corruption, and violations of procedures when receiving tax objection Company A.</p>	
<p><u>Develop overall audit plan and audit program</u> Test of control is to check the evidences, documents and reports done by staff audit. The staff audits check the evidences, like statement of a bank account. The staff audit does the review and has the right to confirm if there is difference in number.</p> <p>For the substantive, Mr. B only used substantive test of detail balances and substantive test of transaction. The staff audit checked it to the general ledger, to make sure the number of the review was same with the general ledger after that, the staff audit checked the number of general ledger using a balance sheet and an income statement. The staff audit also sent the letter to the client, supplier of Company A to check the number of account. If there were any differences, the staff audit would recheck and resolve it.</p>	<p>N/A</p>

5.3 Socialization and consequences from IAPI

Socialization to adopt ISA has already been conducted by IAPI by seminar. Unfortunately, local public accountant X never attend the PPL because the price is not affordable, usually the price range about 1 million above but they never get the sanction from IAPI.

At the end of November 2014, team quality review's team came to the local public accountant X. Therefore, the researcher could observe and interview 2 staffs of the team. Quality review's team is based on Jakarta, there were only 3 staffs team review from Indonesia to review all the public accountants in Indonesia. Because of the lack of human resources from IAPI, they only took 3 samples from 21 from 45 local public accountants firm in Surabaya that do not have a main office in Jakarta. So far, according to one of the team review, they said that local public accountants in Indonesia do not obediently adopt ISA because there is no public interest inside the financial statement. However, second tier public accountant and The Big Four have adopted ISA.

The quality review's team came to check the working paper, personnel, *pedoman audit* and all of the regulations that must be followed. If the working paper was not complete, the review team gave a counseling first.

Since the quality team review lack of human resource, IAPI does not rely just on it, sometimes IAPI receive the letter from other institutions, such as bank and other companies if public accountants break the rules.

Adopting ISA is very important. To face Asean Economic Community (AEC) 2015, all auditors must conduct the audit based on ISA, and it can accomodate the auditors to give more assurance where the planning stages focus more on the risk.

According to *Sanksi dan Keberatan* (Sanction and Objection) verse 52 if there is a fraud in the ethic code, SPAP, SPPAP or other legislations, the sanctions are like following:

- a. Receiving warning letters
- b. Unable to gain the service as a member administration
- c. Being suspended as the member of organization
- d. the Certification of Public Accountant will be terminated
- e. Being discharged as a member of association.

6.1 Findings

1. Insufficient working paper

In Local Public Accountant X there are no sufficient working paper, most of the working paper are not made by Mr. B to save the time and make the audit fee more affordable. Local Public Accountant X is a small public accountant firm that have a strict competition among other local public accountant and the price is the most important thing that made the client wants to conducting the audit at Local Public Accountant X

2. Not following the audit steps based on US GAAS

Before adopting ISA, SPAP still based on US GAAS, not all of the audit steps based on US GAAS are followed by Mr. B like does not perform preliminary analytical procedures. Perform preliminary analytical procedures must made a horizontal, vertical and benchmarking analysis to know about the risk. This is one of the crucial steps that must be made to know about the risks of the company. Yet, in this steps Mr. B does not made a vertical and benchmarking analysis to save the time. Besides that, Mr. B does not conducting all of the substantive test. The substantive test that done by Mr. B just substantive test of detail balances, substantive test of transaction

3. Never attend the seminar

Training must be followed by partner of public accountant one of the training that must be followed is seminar that usually held by IAPI and IAI. The goal of seminar is to be able to maintain, improve and develop their professional competence. Yet, public accountant X never attend the seminar since the price is not affordable

4. Not adopting ISA

Since become a member of G-20, Indonesia adopting ISA. According to *Standard Profesional Akuntan Publik* (SPAP), Indonesia has already adopted ISA in an audit of financial statements beginning on January 1st, 2013 for public listed companies, and January 1st, 2014 for non public listed ones. All of the client of Local Public Accountant X are not public listed companies, Yet, Local Public Accountant X still does not adopting ISA because Mr. B thinks that there is no public interest in the financial statement that used.

5. Lack of human resources for Quality Review`s team from IAPI

Quality Review must be done 3 years according to IFAC. So in 3 years, they will done quality review again, with the same public accountant. Yet, in IAPI the quality review`s team lack of human resources. The member of the quality review just 3 person

from all of Indonesia. The fastest way to conducting the quality review is around 8 years for the same local public accountant.

6. Sanction from IAPI to the public accountant that violate the rules are not strict

As a partner of Local public accountant X, Mr. B never attend the PPL, or seminar that held by IAPI or IAI, yet he never got the sanction or warning letter. Moreover, Public Accountant X still did not adopting ISA even the SPAP already changes, but he never being suspended as the member of organization from IAPI as stated in *Sanksi dan Keberatan Pasal 52*.

1.4 Limitation and hope on the next similar research

There are some limitation of this research, the researchers use only one client at Local Public Accountant X in Surabaya. Moreover, the scope limitation in the financial statement is audited for period ended 31st December 2013. Last but not least, the researchers only conduct the analysis of audit planning based on US GAAS and ISA. Based on the research limitations, the researchers hope that there will be another similar research can be conducted not merely for analysis of the audit based on ISA, but can be in extended matters such as related to more complicated evidences, risk response and reporting in more detail.

**ANALYSIS OF READINESS FOR ISA (INTERNATIONAL
STANDARD AUDITING) BASED IN AUDIT PLANNING
(CASE STUDY AT LOCAL PUBLIC ACCOUNTANT
“X” IN SURABAYA)**

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Abstract

The study is conducted to provide an analysis for readiness in the audit planning based on Indonesian SPAP (Profesional Standard Public Accountant) 2011 (US GAAS version) and SPAP 2013 (ISA version). The urgency of changes for auditing standard SPAP in Indonesia requires the readiness of public accountant firm to adoption of ISA. Therefore, auditor requires to update the capability to perform audit planning as well as to keep competitive the public accountant must facilitate the work of high quality at a reasonable cost. To adopt ISA properly, public accountant firm must prepare to update their ability, to understand better the difference of audit planning before and after adopting ISA and also the analysis of the consequences when public accountant still does not adopt ISA in the audit assignment. In this study, researcher took the study case at Local Public Accountant X in Surabaya, Indonesia, for the audit period ended on December 31, 2013. This research is an applied research with an approach of the qualitative case study, using participant observation and interview with the audit team of Local Public Accountant X, trying to understand whether the public accountant is ready or not in adopting ISA-based audit planning. The study results the considerable efforts should be accomplished for ISA adoption readiness.

Keywords: Auditing, Audit Planning, International Standard Auditing

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**MARKET INTEGRATION IN ASEAN:
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FOREWORD

It is with deep satisfaction that I write this Foreword to the Proceedings of *THE 13TH INTERNATIONAL ANNUAL SYMPOSIUM ON MANAGEMENT (INSYMA)* held at University of Social Sciences and Humanities, Vietnam National University - Ho Chi Minh City, Vietnam, March 18 -20, 2016. The 13th Insyima aims to provide a forum for discussion among leading academics, researchers, students, and practitioners from all over the world, experts in economic and social sciences.

The theme for INSYMA 2016 is **“MARKET INTEGRATION IN ASEAN: SUSTAINABLE GROWTH AND CROSS CULTURAL ISSUES”**. This theme represent emerging and highly challenging and opportunities area of research and practice.

There has been tremendous number of researchers investigating the impact of market integration and cultural impacts on economy on several communities. Mainly they found a positive impact on the economic growth as a result on significant increasing of trading for products and services in its country member. Nevertheless, market disstabilization is still main disadvantage of the regional integration. Regional community needed to developed the new model of market integration system that could minimize the disadvantages.

Hundreds of scientific papers are sent to the conference committees in Indonesia and in Vietnam, and the results of a rigorous selection of 160 selected. This paper is derived from a variety of authors, both within and outside Indonesia and Vietnam, academics and practitioners. All the articles are then presented at the symposium and documented in this proceedings.

We thank all authors, participants, sponsors and co-hosts for their contributions and we hope that these proceedings can contribute to the development of science and business practices. Hopefully you can enjoy and gain valuable lessons from this article collection.

Ho Chi Minh, Vietnam, 18th-20th March 2016

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