Study of the perception of external auditors on the disclosure of ISR (Islamic Social Responsibility) in Islamic banking in Indonesia

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Abstract
This study aims to determine how the perception of external auditors in disclosing ISR (Islamic Social Responsibility) in Islamic banking in Indonesia. Islamic Social Reporting (ISR) from 2013-2016 was 87.50% which revealed 42 of the 48 ISR index items by Bank Muamalat Indonesia in 2013, 2014 and 2016 and Bank Syariah Mandiri in 2013 and 2016. Meanwhile, the value of minimum ISR disclosure of 52.10% which revealed 25 of the 48 ISR index items by BCA Syariah in 2013 and 2014).

Keywords: **External Auditor, ISR**

Introduction

Islamic Social Reporting (ISR) is a corporate social responsibility reporting framework in accordance with sharia principles. There are three principles that underlie social responsibility in Islam. The first principle is representation (vicegerency) according to the word of God in the Qur'an Al-Baqarah verse 30 and Surah Al-An'am verse 165. "Remember when your Lord said to the angels: "Indeed I want to make a caliph on earth ". They said: "Why do you want to make (the caliph) on earth a person who will do mischief on it and shed blood, even though we always glorify you by praising you and purifying you?" God says: "Indeed I know what you do not know," (Al-Baqarah: 30).

The second principle is responsibility to Allah (divine accountability) and commanding the rightful ones which is explained in the Qur'an Surah Al-Zalzalah verses 7-8: "Whoever does good as heavy as a dzarrah, surely he will see (reply to Allah).) it. And whoever does a crime as big as an dzarrah, surely he will see (reply) it too."

The third principle is preventing munkar (enjoining good and forbidding evil), this principle is contained in the letter At-Taubah verse 71: "And those who believe, men and women, some of them (are) helpers for others. They command (to do) what is ma`ruf, to prevent what is evil."

ISR is actually a collection of social responsibility reporting indexes that have been set by AAOIFI that are in accordance with sharia. ISR was later developed by researchers including Haniffa, 2002, Maali et al, 2006, Ousama and Fatima, 2006, and Othman et al, 2009. The purpose of Islamic Social Reporting (ISR) itself is to increase the transparency of business activities by providing relevant information in meet the spiritual needs of Muslim corporate report users. In addition, the ISR index also emphasizes social justice related to the environment, minority interests and also employees (Merina and Verawaty, 2016). One way to assess the reporting of corporate social responsibility in sharia is to use the Islamic Social Reporting (ISR) index. At least once disclosure of the ISR index in any form has been found to be disclosed in the company's annual report, then the item is considered to have existed, and vice versa. The assessment of these index items will be identified and collected from analysis or findings from the company's annual report. The scores will be added up as a whole. In addition, the score value will also be added up for each category and each company to find out which disclosures are disclosed the most bywhich companies and companies provide the most ISR disclosures (Merina and Verawaty, 2016).

External auditors are often referred to as independent auditors or certified public accountants (abbreviated BAP or certified public accountant-CPA), an external auditor may practice as the sole owner or member of an accounting firm, such auditors are called "external" or "independent" because they are not employed by the audited entity.

whether the financial statements are free from material misstatement. Normally, external auditors review

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information technology control procedures when assessing overall internals. The external auditor has independence from the company being audited and is responsible for the opinion on the audit of the financial statements. In terms of supervision, audit provides the following benefits:

1. *Preventive control*, accounting personnel will work more carefully and accurately if they are aware of being audited;
2. Detective control, a deviation or error that occurs will usually be known and corrected through an audit process;
3. *Reporting control*, any miscalculation, presentation or disclosure that is not corrected in the financial statements will be mentioned in the audit report. Thus, readers of financial statements are protected from erroneous or misleading information.

*Islamic Social Reporting*is a standard for reporting the social performance of sharia-based companies. This index was born on the basis of reporting standards based on AAOIFI which was later developed by each subsequent researcher. In particular, this index is an extension of the social performance reporting standard which includes people's expectations not only about the role of companies in the economy, but also the role of companies from a spiritual perspective. In addition, this index also emphasizes social justice related to the environment, minority rights, and employees. Islamic Social Reporting was first initiated by Ross Haniffa in 2002 in his writing entitled "Social Reporting Disclosure: An Islamic Perspective". ISR was further developed more extensively by Bassam Maali in 2006, Rohana Othman, Azlan Md Thani, and Erlane K Ghani in 2009 in Malaysia and currently ISR is still being developed by further researchers. According to Haniffa, there are many limitations in conventional social reporting, so he put forward a conceptual framework for ISR based on sharia provisions. ISR not only helps decision making for Muslims but also helps companies fulfill their obligations to Allah and society.

The purpose of ISR disclosure is as a form of accountability to Allah SWT and society. In addition, it can increase the transparency of business activities by presenting relevant information by taking into account the spiritual needs of Muslim investors or sharia compliance in decision making.

Forms of Accountability and Transparency in ISR

Forms of Accountability	Transparency Shape
1. Providing halal and good products 2. Fulfilling the rights of Allah and society 3. Pursuing reasonable profit according to Islamic principles 4. Achieving business goals 5. Become employee andgood society 6. Ensuring ecologically sustainable business activities 7. Make profession asworship	1. Provide information about all halal and haram activities carried out 2. Provide relevant information regarding financing and investment policies 3. Provide relevant information regarding employee policies 4. Provide relevant information regarding relations with the community 5. Provide relevant information regarding the use of resources and environmental protection

Research Method

The disclosure of Islamic Social Reporting (ISR) in this study refers to the ISR index which is measured using the content analysis method. The step using the content analysis method is to assign a score for each item on the ISR index, namely a value of 1 for each item disclosed and a value of 0 for each item that is not disclosed. The following are the results of the overall ISR index measurement at Islamic Commercial Banks in Indonesia in 2013-2016.

Results and Discussion

Table 1.1

Results of Disclosure of Islamic Social Reporting (ISR) at Islamic Commercial Banks in Indonesia in 2013-2016

No.	Sharia Commercial Bank	2013	2014	2015	2016
1.	Bank Muamalat Indonesia	0.875	0.875	0.854	0875
2.	Mandiri Syariah Bank	0.875	0.854	0.854	0.875
3.	Bank Mega Syariah	0.625	0.729	0.729	0.833
4.	BRI Syariah	0.667	0.542	0.542	0.833
5.	Bukopin Islamic Bank	0.604	0.625	0.667	0.750
6.	BNI Syariah	0.792	0.771	0.792	0.833
7.	Sharia BJB	0.667	0.667	0.708	0.667
8.	BCA Syariah	0.521	0.521	0.563	0.604
9.	Victoria Sharia Bank	0.542	0.583	0.646	0.625
10.	Maybank Syariah Indonesia	0.583	0.604	0.583	0.563
11.	Panin Syariah Bank	0.563	0.625	0.688	0.813

Source: Data processed by the author (Amalia Rosfina), 2018.

Based on table 1.1 above, the maximum value of Islamic Social Reporting (ISR) disclosure from 2013-2016 is 87.50% which reveals 42 of the 48 ISR index items by Bank Muamalat Indonesia in 2013, 2014, and 2016 as well as Islamic Banks. Mandiri in 2013 and 2016. Meanwhile, the minimum value for ISR disclosure was 52.10% which revealed 25 of the 48 ISR index items by BCA Syariah in 2013 and 2014. Thus, there are no Islamic commercial banks in Indonesia that have disclosed the ISR index. overall.

The external auditor has independence from the company being audited and is responsible for the opinion on the audit of the financial statements, including the disclosure of Islamic Social Reporting (ISR). Discussion of Research Results The Effect of External Auditor Independence on the Quality of Audit Implementation The role of external auditors is not small, and requires external auditors to be professional in carrying out their duties. One of the components that support the creation of external auditor professionalism is the attitude of independence. An external auditor is certainly not easy to be independent.

The results of the analysis of the external auditor in the Disclosure Results of Islamic Social Reporting (ISR) at Islamic Commercial Banks in Indonesia in 2013- 2016 are positive in the sense that the external auditor sees an increase in ISR every year, this shows that there is awareness from the banking sector in maximizing profits which is then in channeling this is in accordance with the ISR principle itself, namely the first principle, namely vicegerency according to the word of God in the Qur'an Al- Baqarah verse 30 and Surah Al-An'am verse 165. "Remember when your Lord said to the angels : "Indeed I want to make a caliph on earth". They said: "Why do you want to make (the caliph) on earth a person who will do mischief on it and shed blood, The second principle is responsibility to Allah (divine accountability) and commanding the rightful ones which is explained in the Qur'an Surah Al-Zalzalah verses 7-8: "Whoever does good as heavy as a dzarrah, surely he will see (reply to Allah).) it. And whoever does a crime as big as dzarrah, surely he will see (reply) it too." The third principle is preventing munkar (enjoining good and forbidding evil), this principle is contained in the letter At-Taubah verse 71: "And those who believers, men and women, some of them (are) a helper for others. They command (to do) what is ma`ruf, to prevent what is evil."

The code of ethics that is set and must be obeyed by external auditors not only contains the requirement for external auditors to be independent, but also explains that an independent attitude will direct the external auditor in carrying out their duties. The audit by a professional external auditor who is able to act independently will be of high quality because it is in accordance with established procedures, procedures, and rules. The results of the research that the author conducted are also in line with the theory above where adequate independence makes the quality of the external auditor's implementation in the very adequate category. Based on the purpose of this study, the authors draw a research hypothesis which says that the independence of external auditors has a significant influence on the quality of audit implementation.

Independence is one of the ethical components in addition to integrity and objectivity that must be maintained by an auditor. Independence means a mental attitude that is free from significant conflicts of interest that threaten objectivity where the threat to objectivity must be managed at the individual level and at the organizational level (Moeller, 2005:169). An independent auditor is one who can work freely without any conflict and pressure from anywhere, and is objective. Audit quality is determined by two things, namely expertise and independence (Christiawan, 2003:35). Kusharyanti (2003:25) describes audit quality as the probability that the auditor will find and report violations of the client's accounting system. The probability of finding a violation depends on the technical ability of the auditor and the possibility of reporting a violation depends on the independence of the auditor. The main responsibility of the auditor is to provide an opinion on the company's financial statements (Sawyer's, 2005:7). The objective of the auditor is to determine the fairness of the presentation of the company's financial position and results of operations for the period. They must also convince themselves that the financial statements are prepared in accordance with Generally Accepted Accounting Principles. and applied consistently with the previous year, and that assets have been properly secured. External auditors have a narrow focus (Messier, 2005:7). External auditors do not pay much attention to fraud or waste that does not have a significant or immaterial impact on the financial statements. The quality of the external auditor's services in the audit implementation process is largely determined by the external auditor's ability to apply audit norms in carrying out their duties. This statement is supported by the results of the quality assurance program assessment. According to Mayangsari (2003:6) it is stated that independence is the attitude expected of an auditor not to have a personal interest in carrying out his duties, which is contrary to the principles of integrity and objectivity. Every accountant must maintain integrity and objectivity in his professional duties and every auditor must be independent of any conflicting interests or improper influence. An objective attitude will allow auditors to carry out audits in a way, so that they will be truly sure of their work and the results of their work (Tugiman, 2006:25). The above definition implies that independence is a person's attitude to act honestly, impartially, and report findings only based on available evidence. Auditors must have undergone adequate technical education and training in accounting practices and auditing techniques (Mulyadi, 2002:25). Auditors must undergo sufficient technical training covering both technical aspects as well as general education. Auditors must constantly keep abreast of developments in the business and profession. Auditors must study, understand, and apply new provisions in accounting principles and auditing standards set by professional organizations. The Accountant Code of Ethics (1994) quoted from Mayangsari (2003:6) states that independence is the attitude expected of an auditor not to have a personal interest in carrying out his duties, which is contrary to principles of integrity and objectivity.

Discussion

Based on table 1.1 above, the maximum value of Islamic Social Reporting (ISR) disclosure from 2013-2016 is 87.50% which reveals 42 of the 48 ISR index items by Bank Muamalat Indonesia in 2013, 2014, and 2016 as well as Islamic Banks. Mandiri in 2013 and 2016. Meanwhile, the minimum value for ISR disclosure was 52.10% which revealed 25 of the 48 ISR index items by BCA Syariah in 2013 and 2014. Thus, there are no Islamic commercial banks in Indonesia that have disclosed the ISR index. overall. The results of the external auditor's analysis in the Disclosure Results of Islamic Social Reporting (ISR) at Islamic Commercial Banks in Indonesia in 2013-2016 are positive in the sense that the external auditor sees an increase in ISR every year, this shows that there is awareness from the banking sector in maximizing profits which is then in channeling this is in accordance with the ISR Principles

Conclusion

Suggestion At the end of this paper, the author intends to propose some suggestions based on the research that has been done, the research results that have been obtained, and the conclusions that have been described previously. The suggestions that the author can propose are as follows:

1. For academics So that other academics are willing to learn more about auditor independence, especially the independence of external auditors, and should be able to consider adding other factors that can affect

audit quality.

2. For the Company In order to continue to evaluate and improve the function of the external auditor and the quality of the audit implementation implemented in the company. One of them is that external auditors are expected to increase their independence, because independence factors can affect audit quality. Auditors who get assignments from their clients are made to be completely independent, do not get pressure from clients, do not feel shy so that in carrying out their audit tasks they are

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