

THE EFFECT OF PERFORMANCE INCENTIVE ON AUDIT JUDGEMENT BY USING THE EFFORT AS THE INTERVENING VARIABLE AND THE TASK COMPLEXITY AS THE MODERATING VARIABLE

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Abstract: *The relation to the financial report, the audit judgment made by the auditor affects the opinion which is made on the fairness of the financial reports. Auditors, in making judgment, are influenced by many factors, both technical and non technical. The purpose of the research is to examine how the effect of the performance incentive on audit judgment by using the effort as an intervening variable and the task's complexity as a moderating variable. From the analysis result and the discussion, it is concluded that the effort variable becomes the mediatory of the performance incentive on the audit judgment. The study examines the effect of mediation/ intervening and moderator on the audit judgment. For the effect of the mediating/ intervening variables, analysis of the covariance was conducted to test the direct effect and interaction of the performance incentives, with effort (effort), and the complexity of the task to the audit judgment. The task complexity is the moderator variable between the effect of the effect on the audit judgment. Noticing that the interaction coefficient has the positive sign, the task complexity nature moderation is the strengthening moderation. It is suggested to other researchers who will select the participant in the experimental group to differentiate the size of the public accountant office, period of work, and the difference of the education level.*

Keywords: *financial report, audit judgment, effect of the performance, task complexity, effort.*

1. PRELIMINARY

Professional standard of the Public Accountant (SPAP), in section 341 states that an audit judgment on the ability of the unity of effort in maintaining its viability should be based on the presence or absence of self-doubt in the ability of the auditor itself to a unity effort continued survival in a period of one year from the date of the financial report of audited (Jamilah, Fanani and Chandrarin, 2007). The relation to the financial report, the audit judgment made by the auditor affects the opinion which is made on the fairness of the financial reports. Auditors, in making judgment, are influenced by many factors, both technical and non technical. The aspect of individual behavior, as one of many factors, influences the making process of the audit judgment. The topic of current audit judgment takes the attention or accounting practitioners from academia. However, the increasing attention level

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is not balanced by an increase in research in the field of accounting behavior (Meyer, 2001).

Audit judgment quality made by the auditor is influenced by several factors. Libby and Lipe (1992) indicate that in order to improve the quality of audit judgment, it needs the performance incentives in an organization's performance. The use of the performance incentives can help in improve the effort and achieve the higher levels of performance (Libby and Lipe, 1992). Handoko (2002: 176) defines performance as a stimulant performance incentive which is offered to carry out the work in accordance or over out the standards in the set. Performance incentive for some circles is a tribute in the form of material and non-material given by the authorities so that the auditors work with high motivation and achievement in reaching the goals of the public accounting firm, in other words the provision of the performance incentive is beyond the salary in recognition of work performance and contribution. The research conducted by Bonner and Sprinkle (2002) shows that the performance incentive is a environment variables that can affect an individual effort, assessment and audit judgment. Another result of research conducted by Bonner and Sprinkle (2002) show that the performance incentive effect on the quality of the auditor performance quality depends on the types of performance incentives given.

Based on the description above, the writer is interested to re-examine the performance incentive effect on the audit judgment by using the effort as intervening and the task complexity as a moderating. This study is intended as a further research conducted by Libby and Lipe (1992), Zuraidah and Takiah (2007), Tan, Ng and Mak (2002), Bonner and Sprinkle (2002) in the framework of (a) the effect of performance incentives to effort and audit judgment, (b) the effort on audit judgment with the complexity of the task as a moderating.

The purpose of the research is to examine how the effect of the performance incentive on audit judgment by using the effort as an intervening variable and the task's complexity as a moderating variable.

2. BASIC THEORY

2.1. Audit Judgment

Audit judgment is a consideration that affects the documentation of evidence and the opinion decisions made by the auditor. In making this audit judgment, the auditors have the consciousness that responsibility is a factor that is quite important because their assessment will be reviewed and questioned. Audit judgment refers to the cognitive aspects in the decision-making process and reflects the changes of the evaluation, opinions, and attitudes. The quality of the audit judgment indicates how well the performance of an auditor in performing his

task. The audit judgment is required in four stages in the process of auditing of the financial report, namely the acceptance of the engagement, the audit planning, the execution of the audit testing and the reporting of the audit testing (Mulyadi, 2002). An example of the audit judgment is when an auditor receives an audit engagement, he must conduct an audit judgment on several things, namely the integrity management, the tremendous risk, the independence, the ability to use the professional skills with accuracy and it is ended by the decision making in order to accept or to not accept an audit engagement.

2.2. The Performance Incentive

According to Bonner and Sprinkle (2002), the financial incentives led to the increased efforts. Based on this, the theory about the relationship mediator of the incentive efforts needs further attention. Furthermore, the increased efforts are considered as the cause of the improvement of the dimension of the task performance in order to get reward. The improvements of the efforts which is directed at the current effort is classified as the changes in the direction of the effort, the duration of effort, and the intensity of effort, while the effort is directed to the learning which is considered as the development strategy (Bettman, Johnson, & Payne, 1990; Kahneman, 1973; Kanfer, 1990; Locke & Latham, 1990). Furthermore, Bonner and Sprinkle (2002) reveals that the financial incentives may also motivate people to strive to gain the skills needed to perform a task, so that the future performance and rewards will be higher than if they were not trying (i.e. learning). Based on this, the performance incentive is thought being able to enhance the effort which is aimed at the development of the strategy, if the automatic mechanism is not sufficient to achieve the level of the performance and reward desired (Locke & Latham, 1990). Understanding the cognitive mechanism is important to determine how to maximize the effectiveness of financial incentives (Bonner, 1999). One of the factors that influence the making of the audit judgment is the presence of the performance incentive given to the auditor (Libby and Lippe). While for the size of the performance incentive, its highness or lowness level cannot be measured in absolute terms, but it is based on the cost of living and the income level of the auditor.

2.3. The Complexity of the Task

The complexity of the task can be defined as a function of the task itself (Wood, 1986). The complexity of the task is a task that is not structured, confusing and difficult (Sanusi and Iskandar, 2007). Some of the audit assignment is considered as a task with a high complexity and difficult, while others perceive it as an easy task (Jiambalvo and Pratt, 1982). The complexity of the task in this study is defined as a complex task, consisting of the many, varied and intertwined parts for each other. In performing its complex function, the auditor as a member of the audit team needs skill, ability and a high degree of patience.

2.4. Hypothesis

The hypothesis of this study are as follows: 1) The effect of the performance incentives on audit judgment with the effort as an intervening variable, 2) The effect of the effort on audit judgment with the complexity of the task as a moderating variable.

3. RESULTS ANALYSIS

3.1. Method of Analysis

This study uses two kinds of experiments. The first experiment aims to test how the effect of the performance incentives (those who receive and those who does not receive) on the audit judgment with effort (effort) as an intervening variable, in this experiment the participants were divided into two groups, those who receive a performance incentive and those who does not receive the performance incentives (financial incentives). The second experiment aims to test the hypothesis 1. The third experiment aims to test the effect of the effort on audit judgment which is moderated by the complexity of the task, the participants in the experiment were divided into two groups of experiments in order to test the hypothesis 2.

The study examines the effect of mediation / intervening and moderator on the audit judgment. For the effect of the mediating/ intervening variables, analysis of the covariance was conducted to test the direct effect and interaction of the performance incentives, with effort (effort), and the complexity of the task to the audit judgment. For the mediator effect, it is applied three steps multiple regression suggested by Baron and Kenny (1986) and Frazier *et al.* (2004). The previous research also applied this technique when performing mediation analysis (Becker, 1997; Earley *et al.*, 1990). Because this study examines the effect of mediators simultaneously, then the three-step technique is analyzed through a hierarchical regression analysis (multilevel).

3.2. The Test of the Research Instrument

Validity test is performed by using Pearson product moment. If the validity value is greater than 0.3, then the instrument is valid. The result of the validity test of each instrument can be seen in Table 1 as follows:

Based on the Table 1 above, it can be seen that all indicators on all variables have been declared valid because they have a value of correlation of > 0.30 . Therefore, all the indicators can be used in this study.

In this study, the reliability test applies the Cronbach alpha coefficient. The test result is revealed reliable if the value is greater than 0.6 (Malhotra, 1992 in Solimun, 2010). Reliability test result of each variable is shown in Table 2.

Table 1
Validity Test Results

<i>Variables</i>	<i>Indicator</i>	<i>Correla- tion</i>	<i>Explana- tion</i>	<i>Vari- ables</i>	<i>Indicator</i>	<i>Correla- tion</i>	<i>Explana- tion</i>
Effort	EF 1	0.726	Valid	Audit Judgment Low	KTR 1	0.765	Valid
	EF 2	0.603	Valid		KTR 2	0.785	Valid
	EF 3	0.426	Valid		KTR 3	0.516	Valid
	EF 4	0.713	Valid		KTR 4	0.831	Valid
	EF 5	0.640	Valid		KTR 5	0.637	Valid
Task Complexity Low	TR 1	0.765	Valid	Audit Judgment High	KTR 6	0.396	Valid
	TR 2	0.785	Valid		KTT 1	0.719	Valid
	TR 3	0.516	Valid		KTT 2	0.852	Valid
	TR 4	0.831	Valid		KTT 3	0.572	Valid
	TR 5	0.637	Valid		KTT4	0.798	Valid
	TR 6	0.396	Valid		KTT 5	0.597	Valid
Task Complexity High	TT 1	0.719	Valid	KTT 6	0.341	Valid	
	TT 2	0.852	Valid	KTT 7	0.852	Valid	
	TT 3	0.572	Valid	KTT 8	0.572	Valid	
	TT 4	0.798	Valid				
	TT 5	0.597	Valid				
	TT 6	0.341	Valid				
	TT 7	0.852	Valid				
	TT 8	0.572	Valid				

Table 2
Reliability Test Results

<i>Variables</i>	<i>Alpha Cronbach</i>	<i>Explanation</i>
Effort	0.618	Reliable
Task Complexity (Low)	0.751	Reliable
Task Complexity (High)	0.828	Reliable
Audit Judgment (Low)	0.751	Reliable
Audit Judgment (High)	0.828	Reliable

Source: Appendix (processed data, 2014)

Based on the Table 2, it is obtained the alpha Cronbach values of > 0.6 in all indicators. This means that the research instrument is valid and reliable. Therefore indicators in this study can be used for further analysis.

3.3. Results of Analysis

3.3.1. Results of Testing Assumptions

The classical assumption which underlies the regression analysis includes the normality test, multicollinearity, and heteroskedastisity. For the normality test, it uses the normal probability plots graphs, it is noted that the picture shows the

points spread along and around the diagonal line. This result support the histogram graph that shows that the regression model is normal. In the distribution of non-multicollinearity test, it shows VIF values for all variables of <10 so that the assumption of the absence of multicollinearity is accomplished. In non-heteroscedasticity test using the graph plots between the predicted value of the dependent variable, the audit judgment (Ktask_R) is ZPRED with residual SRESID, it is obtained the results graph that there is no clear pattern as well as the points spread above and below the number 0 on the y-axis and it is concluded that there is no heteroscedasticity.

3.3.2. Hypothesis Testing Results

After the regression model used in this study has met the classical assumption then the next step is to test the hypotheses and discussion.

3.3.2.1 Hypothesis Testing Results First

Mediation of Effort in Performance Intensive Performance on the Audit Judgment.

The complete test result of the test of the mediation efforts (effort) in the effect of the performance incentive on the audit judgment performance is presented below. The following table presents the results of mediation hypothesis testing.

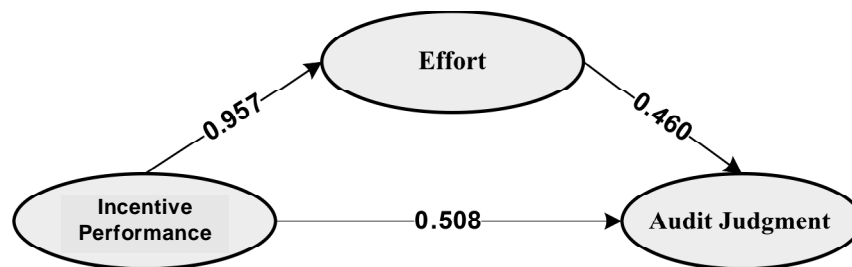


Figure 1: Mediation of Effort in Performance Intensive Performance on the Audit Judgment

Table 3
Mediation of Effort in Performance Intensive Performance on the Audit Judgment

<i>Relationship Between Variables</i>	<i>Coefficient</i>	<i>P-value</i>	<i>Explanation</i>
IK → EF	0.957	0.000	Significant 5%
IK → AJ	0.508	0.000	Significant 5%
EF → AJ	0.460	0.000	Significant 5%
IK → EF → AJ	0.440	0.000	Significant 5%

Source: Primary Data Processed, 2014

Based on the table 3 and the figure 1, the test of the effect of mediation of the performance incentive between Performance Incentive (IK) on the Audit Judgment (AJ) through the efforts / Effort (EF) obtained Sobel test coefficient of 0.440 with a p-value of $0.000 < 0.05$, then it can be said that there is a significant indirect effect on the performance incentive on the audit judgment through the effort. With a marked positive coefficient, it indicates a positive relationship. It means that the higher the performance incentive, the higher audit judgment will be, if the effort is also high. The result of this test indicates that the variable of the effort becomes the mediatory of the performance incentive effort on the audit judgment. The higher the performance incentive, with the mediation efforts, will increase the audit judgment. It means that the effort plays an important role as an intervening factor for audit judgment.

3.3.2.2 Results of the Second Hypothesis Testing

Here is the complete test result of the task complexity moderating in the effort on the audit judgment. The following table presents the results of hypothesis testing of the direct effect and the interaction effect.

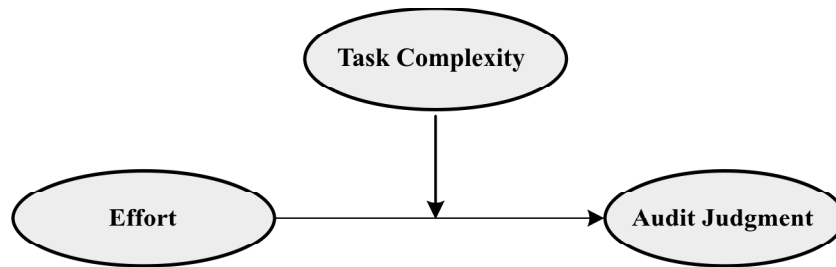


Figure 2: The Moderation of the Task Complexity in the Effect of the Effort on the Audit Judgment

Table 4
The Moderation of the Task Complexity in the Effect of the Effort on the Audit Judgment

Relationship Between Variables	Coefficient	P-value	Explanation
EF → AJ	0.785	0.000	Significant 5%
KT → AJ	1.168	0.000	Significant 5%
KT*EF → AJ	-0.981	0.030	Significant 5%

Source: Primary Data Processed, 2014

The analysis result on the Table 4 is obtained the interaction coefficient of -0.981 with sig of $0.030 < 0.05$ so it can be said that the complexity of the task is the moderator variable between the effect of effort on the audit judgment. Noticing that the interaction coefficient is negative then nature moderation of the task

complexity is the weaken moderation. That is, the more complex the task, the weaker effort effect on the audit judgment will be.

4. DISCUSSION

The effect of the performance intensive with the effort as the intervening variable gives F value of 695.982 with probability 0.000, so it is concluded that the variable performance incentives together with the effort have the effect on the audit judgment. While the t test result also shows the variable of the performance incentives and the variable of effort effect on audit judgment with the significant value of 0.000, with a constant value of 60.497, the regression coefficient of performance incentives for 0508, the regression coefficient effort of 0.406. The test of the effect of the mediation between the performance incentives (IK) on the Audit Judgment (AJ) through the effort (EF) is obtained the sobel test coefficient of 0.440 with the p-value of $0.000 < 0.05$, so I can be concluded that there is the significant indirect effect between the performance incentives on the audit judgment through the effort. With the positive coefficient, it indicates the positive relationship. It means that the higher the performance incentive, the higher audit judgment will be, if the effort is also high. This result is also consistent with the result of research conducted by Libby and Luft (1993), Bonner (1999) which found that performance incentives (financial) will increase the efforts and audit judgment (performance). Other studies which support this study include the research conducted by Zuraidah and Takiah (2007) and Ria Nelly Sari et al. (2008) which prove that the auditor who gets the performance incentives will improve his duration of effort and audit judgment (performance).

Hypothesis 2 is about the effort effect on the audit judgment with the task complexity as the moderating variable. The result of the statistical analysis shows that the effort variable affect on the audit judgment with the task complexity as the moderating variable with the significant value of 0.000, the F value 481.556 with the probability level of 0.000, so it can be concluded that the effort variable, the task complexity variable, and together with the moderating variable of the task complexity give the effect on the audit judgment. The result of the statistical analysis of the t-test shows the significant value of 0.000, besides, the constantan value of 44.009 and the effort regression coefficient of 2.554, the task complexity of 64.367 and the moderating of -0.981. based on the analysis above, it can be concluded that the task complexity moderates the effort with the audit judgment. The result of the test is consistent with the research conducted by Early *et al.* (1990), Kanfer (1990), Bonner (1999), Bonner and Sprinkle (2002), Zuraidah and Takiah (2007) and Ria Nelly Sari *et al.* (2008) which find that the effort will improve the audit judgment when they have the low task complexity and if the task complexity is high, there is no difference between the audit judgment on the high effort with the low effort.

5. CONCLUSION AND SUGGESTION

From the analysis result and the discussion, it is concluded that the effort variable becomes the mediatory of the performance incentive on the audit judgment. The higher the incentive performance, with the effort mediation, the higher audit judgment will be. thus, the effort has the important role as the intervening factor for the audit judgment. The task complexity is the moderator variable between the effect of the effect on the audit judgment. Noticing that the interaction coefficient has the positive sign, the task complexity moderation sifa is the strengthening moderation. It means that, the higher the task complexity, the stronger effort effect on the audit judgment will be.

It is suggested to other researchers who will select the participant in the experimental group to differentiate the size of the public accountant office, period of work, and the difference of the education level. The sample taking on the auditor research is based on the research framework where the auditors are gathered in a room and they are divided into two groups (incentive and non-incentive). The treatment of the performance incentive amount which is given to auditors who become the research participants should be based on the proper calculation and the consideration. The task complexity variable for the further researches should divide the women and men so the difference of women an men in making the audit judgment can be analyzed. The further researches can involve the participants who come from the big public accountant firm.

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