

ANALYSIS OF FACTORS AFFECTING THE AUDITORS' PROFESSIONAL SCEPTICISM AND AUDIT RESULT QUALITY-THE CASE OF INDONESIAN GOVERNMENT AUDITORS

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***Abstract:** The purpose of this study is to examine the effects of auditors' independency, objectivity, experience, competency and integrity on auditors' professional scepticism and audit result quality. Respondents of this study are the auditors who work in BPKP-Riau representative office. A total of 119 questionnaires were distributed to the respondents and 104 questionnaires were returned for analysis. Data were analyzed using Structural Equation Model. The results reveal that integrity effects on auditors' professional scepticism and audit result quality. On the other hand, independency, objectivity, experience, and competency do not have significant effect on auditors' professional scepticism and audit result quality, auditors' professional scepticism has positive effect on audit result quality.*

***Keywords:** Professional scepticism, Audit quality, Government Auditor*

1. INTRODUCTION

In the last few years there have been a lot of legal issues that are mainly related to corruption, collusion and nepotism in particular among government officials. Those issues include bribery, extortion, collusive and nepotism reward, abusive use of state money for private purposes have resulted in a serious concern of society and are deemed to be prevalently practiced in this country.

On many legal issues, the public demand for clean governance requires effective and efficient supervisory function and internal control systems for accountable management of state finances through the activities in accordance with the established policies and plans and towards achievement of the expected objectives.

According to Mardiasmo (2005), there are three main aspects that support the creation of good government governance, namely supervision, control and audit. Supervision is an activity undertaken by a party outside the executive, namely the public and parliament to oversee government performance. Control is a mechanism exercised by the executive to ensure proper implementation of systems and

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management policies to achieve the organizational goals, whilst audit is an activity undertaken by independent and competent professionals to ensure the compliance of the government or an entity with the standards set. External audits are conducted by people outside the entity itself while internal audits are performed by the entity itself. In a company internal audit is conducted by internal auditor, while in the government, it is carried out by BPKP-Badan Pengawasan Keuangan dan Pembangunan (*Financial Oversight Agencies and Development*) and Inspectorate.

BPKP is an Indonesian non-ministry agency in charge of such governmental duties as supervision of finance and development in the form of Audit, Consulting, Assistance, Evaluation, Corruption Eradication, as well as Education and Training Supervision in accordance with applicable regulations. Results of supervision in finance and development are reported to the President as the head of government as consideration for setting the policies of governance and accountability obligations. Results of BPKP supervision are also required by such other government bodies as the provincial and district/city governments concerning the performance achievement and improvement.

Accordingly, BPKP contributes to the implementation of good governance through a clean government free of corruption, collusion and nepotism. In addition to fostering the local government to increase financial accountability, BPKP also has to perform the financial audit and special audit or forensic audit (BPKP 2002). One of the results of the audit is a conclusion as to whether there is any indication of a criminal or civil offense that results in financial loss and the country's wealth (BPKP 2002). Therefore, an audit conducted by BPKP must be qualified.

Quality of an audit is the probability in which an auditor finds and reports on the existence of a breach in the accounting system of the concerned auditor's client (DeAngelo, 1981). In the public sector, GAO (1986) defines audit quality as: "compliance with professional standards and contractual terms for the audit under consideration". Audit quality serves as the compliance with the professional standards and the contractual terms when carrying out the audit. Audit quality is a management tool used to evaluate, confirm, or verify activities related quality (Charles, 1989).

Empirical evidence shows that there have been a number of factors affecting audit quality. For example, auditor industry specialization affects audit quality (Lowensohn, *et al.*, 2007), competency of auditor through expertise of the auditor affects audit quality (Schelker, 2009), audit quality in the public sector is poorer than that in the private sector as a result of poor litigation (Brown, 1995); job experience, independency, objectivity, integrity and competency have influence to quality of audit result (Sukriah *et al.*, 2009).

In conducting the audit of the financial statements the auditor should have an attitude of scepticism. The term of scepticism in public accounting profession is

called professional scepticism which means a critical attitude shown by the auditor in evaluating audit evidences. An auditor who has a sceptical attitude, will not simply accept the explanation of the client, but will ask questions to obtain reason, evidence and confirmation of the object examined. Without applying professional scepticism, the auditor will only find misstatements caused by error and will find it difficult to discover the misstatements caused by fraud, because fraud will usually be hidden by the perpetrator (Suraida 2005). Audits conducted by the governments' internal auditor sometimes encounter obstacles in the instances where the sense of family, togetherness and humane considerations are so prominent. This may have an impact on the attitude of professional scepticism of auditors and audit result quality.

In an experimental work paper review task, sceptical auditors engage in moderately more behaviors under ordinary audit circumstance and react to scepticism-inducing conditions by generally increasing their behaviors more than less skeptical auditors. Auditors with higher levels of professional scepticism behave systematically and differently than less skeptical auditors (Hurtt et al., 2008). Audit firm efforts to promote professional scepticism are more effective for specialists as non-specialists are sceptical regardless of these efforts (Grenier, 2015).

The application of professional scepticism enhances the effectiveness of an audit procedure and of its application and reduces the possibility that we might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results. The purpose of this study was to obtain empirical evidence of the influence of independency, competency, objectivity, experience, and integrity toward auditor's professional scepticism and quality of the audit results. Using a sample of 104 respondents from BPKP representative Riau City of province Riau, Indonesia, this study finds that only integrity affects both auditors' professional scepticism and audit result quality. The paper is organized as follows. Section two presents the review of literature. Section three explain the research methods. This is followed by presentation of results and discussion. Final session concludes the paper.

2. LITERATURE REVIEW

Recent financial conditions have highlighted the critical importance of credible, high-quality financial reporting in all sectors of the world economy, including the capital markets, small companies, not-for-profit and government organizations. They have also reinforced the need, in the public interest, for continual improvement to audit quality.

The term "audit quality" is frequently used in debates among stakeholders, in communications of regulators, standard setters, audit firms and others, and in

research and policy setting. Audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition.

A quality audit is likely to be achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team. To be regarded as a quality audit, it has to exhibit appropriate values, ethics and attitudes; possess sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work apply a rigorous audit process and quality control procedures, provide valuable and timely reports, and interacted appropriately with a variety of different stakeholders (IAASB, 2013).

High-quality external auditing is a central component of well-functioning capital markets. The accounting literature focuses on two principal forces that motivate auditors to deliver quality: a litigation/insurance incentive and a reputation incentive. Under the first motive, if auditors are legally liable for audit failures, they have an incentive to deliver high-quality audit to avoid the costs of litigation. The insurance role arises because investors prefer larger audit firms as these firms can better meet investors' legal claims thus providing investors' financial recourse against poor audit quality. Under the second motive, auditors have reputational incentives to avoid audit failures because audit quality is valuable to clients and so priced in the market for audit services. Under this view, clients defect to other auditors when an audit firm's reputation for quality deteriorates (Skinner and Srinivasan, 2012). There are several factors that can improve the audit results quality namely, independency, objectivity, experience, competency, integrity, and professional scepticism.

Auditor independence refers to the independence of the external auditor. It is characterised by integrity and an objective approach to the audit process. The concept requires the auditor to carry out his or her work freely and in an objective manner.

Objectivity is an unbiased mental attitude that allows auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity means auditors must not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

Experience is related to audits of financial statements in terms of duration and number of assignments handled (Suraida, 2005). The professional experience is the power which can be obtained by the practice over time from past experiences and direct feedback and the general knowledge which lead to accomplish the task with high quality (Bedard and Chi, 1993). Professional experience is one of the key determinants that affect upon the efficiency of performance in professional practice (Gaballa and Zhou Ning, 2011).

Suraida (2005) states that competence is professional expertise possessed by the auditors as a result of formal education, professional examinations and participation in training, seminars, symposium such as CPA exam, Continuing Professional Education, Training internal and external, Participating in seminars, symposium and others. Susanto (2000) argues that competence is often used in underlying characteristics of individuals to achieve superior performance. It is also the knowledge, skills, and abilities associated with the job and the skills needed for jobs of non-routine.

The fundamental principles require that a member should behave with integrity in all professional, business and relationships. Integrity implies not merely honesty but fair dealing and truthfulness. Integrity is a prerequisite for all those who act in the public interest. It is essential that auditors act, and are seen to act, with integrity, which requires not only honesty but a broad range of related qualities such as fairness, candour, courage, intellectual honesty and confidentiality. Integrity requires that the auditor is not affected, and is not seen to be affected, by conflicts of interest. Conflicts of interest may arise from personal, financial, business, employment, and other relationships which the audit engagement team, the audit firm or its partners or staff have with the audited entity and its connected parties (APB ES 1 (revised) December, 2011 par.7-8).

A variety of changes are being made by audit firms to raise audit quality such as measures to ensure the highest levels of staff and integrity and independence, increasing focus on professional scepticism (ACCA, April, 2013). Professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence (www.icaew.com, downloaded on 10/09/2015). Thus, independency, objectivity, experience, competency, integrity and professional scepticism auditor determines the quality of the audit results.

3. RESEARCH METHOD

Respondents of this study are the auditors who work in BPKP-Riau representative office. A total of 119 questionnaires were distributed to the respondents and 104 questionnaires were returned for analysis of which all are usable. Data are analysed using Structural Equation Model.

3.1. Measurement Variables

Description of each variable and the measurement is presented in Table 1.

Table 1
Variable measurement

<i>No</i>	<i>Variable</i>	<i>Measurement</i>	<i>Note</i>
1	Endogenous Variables		
	Auditors' professional Scepticism	measured by the attitude of mind that is always questioning and critical evaluation of the audit	consists of 10 questions
	Audit result quality	measured by a reliable of audit reports based on the established standards	consists of 10 questions
2	Exogenous Variables		
	Auditors' independency	measured by the auditors' position independence in attitude and appearance with other parties related to the audit task	consists of 12 questions
	Auditors' objectivity	measured by the auditor must be fair, impartial, honest and unprejudiced and for free from conflict of interest	consists of 8 questions
	Auditors' experience	measured by the length of working as an auditor and audit performed	consists of 14 questions
	Auditors' competency	measured by indicators of the personal quality, general knowledge and specialized expertise	consists of 12 questions
	Auditors' integrity	measured by the honesty, courageous and responsibility in carrying out the audit	consists of 14 questions

Note: The research instruments refers to Sukriah *et al.*, 2009

4. RESULT OF THE STRUCTURAL EQUATION MODELLING ANALYSIS

4.1. The Measurement Model

The following tables present the loading factor, expected variance, and reliability of each variable.

Table 2
Result of validity and reliability of auditors' independency variable (revised)

<i>No</i>	<i>Items</i>	<i>Std loading</i>	<i>Measure error</i>	<i>VE</i>	<i>Reliability</i>
1	IA 4	0.609	0.629		
2	IA 6	0.717	0.486		
3	IA 7	0.783	0.387		
4	IA 9	0.757	0.427	0.517	0.865
5	IA 10	0.714	0.490		
6	IA 11	0.722	0.479		
	Total	4.302	2.898		

Table 3
Result of validity and reliability of auditors' objectivity variable

No	Items	Std loading	Measure error	VE	Reliability
1	OA 1	0.777	0.396		
2	OA 2	0.645	0.584		
3	OA 3	0.817	0.333		
4	OA 4	0.743	0.448		
5	OA 5	0.804	0.354	0.722	0.898
6	OA 6	0.723	0.477		
7	OA 7	0.615	0.622		
8	OA 8	0.651	0.576		
	Total	5.775	3.790		

Table 4
Result of validity and reliability of auditors' experience variable (revised)

No	Items	Std loading	Measure error	VE	Reliability
1	EA 2	0.662	0.562		
2	EA 3	0.692	0.521		
3	EA 4	0.819	0.329		
4	EA 9	0.771	0.406		
5	EA 10	0.621	0.614	0.599	0.922
6	EA 12	0.831	0.309		
7	EA 13	0.866	0.250		
8	EA 14	0.887	0.213		
	Total	6.149	3.205		

Table 5
Result of validity and reliability of auditors' competency variable (revised)

No	Items	Std loading	Measure error	VE	Reliability
1	CA 4	0.777	0.396		
2	CA 7	0.674	0.546		
3	CA 8	0.664	0.559	0.510	0.795
4	CA 10	0.689	0.525		
	Total	2.804	2.026		

Table 6
Result of validity and reliability of auditors' integrity variable (revised)

No	Items	Std loading	Measure error	VE	Reliability
1	InA 1	0.695	0.517		
2	InA 2	0.707	0.500		
3	InA 4	0.729	0.469		
4	InA 5	0.816	0.334		

contd. table 6

No	Items	Std loading	Measure error	VE	Reliability
5	InA 6	0.749	0.439		
6	InA 7	0.627	0.607		
7	InA 9	0.713	0.492	0.536	0.932
8	InA 10	0.635	0.597		
9	InA 11	0.853	0.272		
10	InA 12	0.791	0.374		
11	InA 13	0.740	0.452		
12	InA 14	0.693	0.520		
	Total	8.748	5.573		

Table 7
Result of validity and reliability of auditors' professional scepticism variable (revised)

No	Items	Std loading	Measure error	VE	Reliability
1	PS 2	0.674	0.546		
2	PS 3	0.723	0.477		
3	PS 4	0.749	0.439		
4	PS 5	0.838	0.298	0.536	0.889
5	PS 6	0.762	0.419		
6	PS 7	0.677	0.542		
7	PS 10	0.688	0.527		
	Total	5.111	3.247		

Table 8
Result of validity and reliability of audit result quality variable (revised)

No	Items	Std loading	Measure error	VE	Reliability
1	AQ 1	0.695	0.517		
2	AQ 2	0.690	0.524		
3	AQ 3	0.765	0.415		
4	AQ 4	0.759	0.424		
5	AQ 5	0.745	0.445	0.530	0.910
6	AQ 6	0.821	0.326		
7	AQ 8	0.637	0.594		
8	AQ 9	0.687	0.528		
9	AQ 10	0.734	0.461		
	Total	6.533	4.234		

As shown in the tables above, all of the indicators can measure the construct validity (variance extract > 0.5) and reliability (construct reliability > 0.7).

4.2. Examination of assumptions underlying Structural Equation Modelling

The assumptions underlying SEM are that normality, absence of data outlier, and linearity must be met before performing the analysis. Using the bootstrap procedure resulted in a probability Bollen - Stine bootstrap 0.557 which proves that the data

are normally distributed. The results of data analysis shows that data outlier is absent in which all variables produce $SD < Mean$. Linearity test results showed that the model was significant at $\pm < 5\%$

4.3. Goodness of Fit

The results of the SEM analysis to determine whether the hypothetical model is supported by empirical data are presented in table 9 below:

Table 9
Result of Goodness of fit overall model

<i>Criteria</i>	<i>Value</i>	<i>Cut-off value</i>	<i>Results</i>
Chi-square	2293.610	expected smallest ≥ 0.05	not fit
p-value	0.000	≥ 0.05	not fit
RMR	0.024	≤ 0.05	fit
CFI	0.783	≥ 0.95	not fit
RMSEA	0.084	≤ 0.08	fit
CMIN/DF	1.726	≤ 2 or 3	fit

As shown in the table 9 above, RMSEA and CMIN/DF meet the cut-off criterion of 0.084 and 1.726, respectively, so that the model fit. Therefore, SEM model in this study is suitable and feasible, and interpretation can be made for further discussion.

4.4. Analysis result of the relationship between constructs

The results of the relationship between constructs are presented in table 10.

Table 10
Result of the relationship between constructs

<i>Constructs</i>	<i>Estimate</i>	<i>S.E</i>	<i>C.R</i>	<i>P</i>	<i>Description</i>
PS < ----- IA	-0.109	0.254	-0.430	0.667	Insignificant
PS < ----- OA	-0.088	0.165	-0.533	0.594	Insignificant
PS < ----- EA	0.121	0.080	1.522	0.128	Insignificant
PS < ----- CA	0.271	0.202	.1.343	0.179	Insignificant
PS < ----- InA	0.831	0.207	4.024	0.000	Significant
AQ < ----- IA	0.279	0.144	1.934	0.053	Insignificant
AQ < ----- OA	0.033	0.086	0.378	0.705	Insignificant
AQ < ----- EA	-0.009	0.042	-0.208	0.835	Insignificant
AQ < ----- CA	0.134	0.110	1.217	0.224	Insignificant
AQ < ----- InA	-0.400	0.122	3.285	0.001	Significant
AQ < ----- PS	0.118	0.072	1.632	0.103	Insignificant

As shown in the table 10 above, independency; objectivity; experience; and competency do not affect auditors' professional scepticism but integrity does affect

professional scepticism and audit quality results Only integrity has effect on the audit quality results. Professional scepticism has no effect on the audit quality results either. The results of this study differ from previous research which states that job experience, independency, objectivity, integrity, and competency have influence to quality of audit result as well as partially and simultaneously (Sukriah, *et al.*, 2009; Suraida, 2005). Competency of auditor through expertise of the auditor affects audit quality (Schelker, 2009).

Gaa (2006) in his paper examines the question whether acting in accordance with professional rules governing accounting and auditing is sufficient to provide assurance. In addition to a set of rules, it is argued that investor protection requires that auditors possess, or act with, integrity. An analysis of the principle of acting with integrity, as contained in the AICPA Code of Professional Conduct, shows that its formulation of the principle conflicts with the concept itself, and thus that the profession's commitment to integrity is questionable. Five recent and prominent cases are examined, which show that the required integrity may be lacking. Gros and Worret (2014) argue, however, there does not exist any generally agreed upon definition of audit quality. They show that the applied audit quality surrogate is able to drive research findings. Moreover, they find that significance levels of various influence factors on audit quality vary depending on the applied audit quality surrogate. Therefore, they point to the fact that researchers as well as practitioners and policymakers have to be careful when using and interpreting research findings that apply different audit quality.

The results of this study is in contrary to the underlying theories that explain that independency, objectivity, experiences, competency, and integrity can strengthen the attitude of professional scepticism and in turn will improve the quality of audit results. This can be explained that the definition of audit quality has not universally been accepted. The significance levels of various influence factors on audit quality vary depending on the applied audit quality surrogate.

Independency, objectivity, integrity are not demonstrated by statements or views being bandied back and forth between parties to the debates. Honest and informed discussion is important but responding with integrity also requires a consistent focus on the objectives, supported by professional behaviour. Integrity is one of those concepts where everyone has an idea of what it is, but often are at a loss to describe the meaning. Some definitions focus on consistency of actions, values, methods, measures, principles, expectations, and outcomes. Others dwell on the honesty and truthfulness or accuracy of one's actions.

5. CONCLUSION AND LIMITATION

This paper presents the results of a study that investigates the effect of independency, objectivity, experience, competency, and integrity on auditors'

professional scepticism and audit quality result. The findings show that the independency, objectivity, experience, competency do not affect to auditors' professional scepticism and audit quality result while integrity has effect on auditors' professional scepticism and audit quality result. Auditors' professional scepticism does not affect audit quality result.

The limitations of this study are that it had relatively small sample size of only 104 analysable questionnaires and that the survey was conducted only at BPKP Riau representative office. The implications of this research is that such issues of professional ethics as auditor independency, objectivity, and integrity in carrying out the audit need attention from the government and auditing professional associations. Future study may use larger sample size by involving other BPKP representative and if possible by controlling for the experience level of the auditor.

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