Effective Audit Procedures: Is It Auditor's Characters and Professional Sceptism Matters?

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Abstract

The aim of this study is to examine the auditors’ characteristics and the selection of effective audit procedures by introducing professional scepticism as an intervening variable. In this study the author focuses on gender, experience and personality type. We examine to what extent such characteristics influence the selection of effective audit procedures. We conducted a survey for practitioners who actively work in the public accountant firms in East Java province. The results show that professional scepticism which is treated as an intervening variable do not play role on the relationships between gender and experience and the selection of effective audit procedures. In contrast, it help us to explain the relationships between personality type and the selection of effective audit procedures.

Keywords: Effective Audit Procedures; Experience; Gender; Personality Type; Professional Scepticism

INTRODUCTION

The basis for the need for an audit of financial statements is due to agency problems (Gomez-Mejia, Cruz, Berrone, & de Castro, 2011; Ebrahim, Battilana, & Mair, 2014). Management (agent) is the party who controls the information about the company, on the other hand, the investor (principal) does not control the information, this causes information asymmetry (Walls, Berrone, & Phan, 2012). The financial statements audited by an independent auditor serve as a mediator for the asymmetry of this information, because financial reports are one of the management's accountability tools to investors. Herbert (1979) states that each entity is accountable for its performance through financial statements audited by an independent auditor. For go public companies in Indonesia, the obligation to submit audited financial reports is regulated by the Capital Market and Financial Institution Supervisory Agency (BAPEPAM-LK) through regulation No.36 / Kep / PM / 2003.

Investors use audited financial reports as an indication of reliability in order to make rational decisions. The audit results on these financial statements are the responsibility of
the auditors, which spur them to work professionally. Professional auditors will make trusted contributions to decision makers. Hall (1996) mentions 5 dimensions of professional auditors, namely; (1) devotion to the profession, (2) social obligations, (3) independence, (4) trust in professional rules, and (5) relationships with colleagues. Public Accountant Professional Standards (SPAP) are the rules of the accounting profession in Indonesia. One of the statements states that in conducting audits and preparing reports, auditors are required to use their professional skills carefully and thoroughly.

The careful use of professional skills requires the auditor to exercise professional scepticism. Scepticism comes from the word sceptic, which means lack of trust or doubt. Auditing Standard Statement (PSA) No. 4 defines professional scepticism as an auditor's attitude that includes the mind of always questioning and evaluating critically of audit evidence (Indonesia, 2020). Meanwhile, the Statement on Auditing Standards (SAS) No. 01 mentions that in exercising professional scepticism the auditor does not assume management is dishonest but also does not assume that honesty is absolute (AICPA), 2002. The definition of professional scepticism is also mentioned in International Standard on Auditing (ISA) No. 200 (IFAC-International Federation of Accountants, 2004).

Professional scepticism must be maintained by every auditor, because a low level of professional scepticism causes auditors to fail to detect fraud (Beasley, Carcello, & Hermanson, 2001). When disclosing information or circumstances that indicate the possibility of material misstatement, the auditor should investigate the matter in depth, obtain additional evidence as needed, and consult with other team members. Sceptical auditors also do not just accept the client's explanation, but will ask questions to obtain reasons, evidence, and confirmation of the object in question (Noviyanti, 2008). Therefore, auditors who perform audit engagements not only perform audit procedures but are required to maintain professional scepticism. Without applying professional scepticism, auditors only find misstatements caused by errors and it is difficult to find misstatements caused by fraud because fraud is usually hidden by well-scenarios (Maulidi, 2020).

Several cases of fraud occurred in large companies in America, such as the McKesson-Robbins case that occurred in 1938. In addition, the failure of auditors to detect fraud also occurred at Enron, Xerox, Walt Disney, World Com, Merck, and Tayco. These cases are confirmed by the research of (Beasley et al., 2001), based on the AAERs (Accounting and Auditing Releases) from the SEC (Securities and Exchange Commission) during 1987 to 1997. From the research results of (Beasley et al., 2001) found that 60 percent of fraud occurred because auditors were less sceptical in carrying out audit assignments (expressed in the work of (Noviyanti, 2008)). So, it can be concluded that the auditor's professional scepticism is very important to apply.

Suraida (2005) has proven that ethics, competence, audit experience, and audit risk both simultaneously and partially influence the auditor's professional scepticism, furthermore these factor’s influence both simultaneously and partially on the provision of audit opinion. Similar research conducted by (Gusti & Ali, 2006) shows that there is a relationship between the professional scepticism of auditors and the audit situation, ethics, experience, and audit expertise with the accuracy of the provision of auditor opinion by public accountants. Noviyanti (2008) used trust, fraud risk assessment and personality type as independent variables, the dependent variable used auditor professional scepticism.
This study will empirically examine the influence of personal factors on the selection of effective audit procedures with the professional scepticism of auditors as an intervening variable, the aim of which is to prove whether attitudes can mediate personal factors on behaviour. Personal factors in this study include gender, experience, and personality type. The first reason is the inconsistency of research results regarding gender and experience. The second reason is that gender is a suggestion from Noviyanti (2008). The third reason is that the personality type with locus of control is a suggestion from (Suraida, 2005), while the personality type for professional scepticism suggested by Noviyantri (2007). In addition, Hellriegel, Slocum Jr., & Woodman (2001) stated that genetic factors such as gender can influence a person's attitude. According to research by (Fullerton & Durtschi, 2005), female internal auditors are more sceptical than male internal auditors.

The findings of research in the cognitive and marketing psychological literature suggest that women are thought to be more efficient and effective in processing information when there is a complexity of decision-making tasks compared to men. Strengthened by (O’Donnell & Johnson, 2001) who examined whether the gender of auditors and the complexity of the task interactively affect the efficiency of auditor judgment. The results show that female auditors are more efficient than male auditors in performing complex analytical procedures. Female auditors show more efficiency in processing information on complex assignments, while male auditors show more efficiency in processing information for simple assignments. Ruegger & King (1992) also stated that women generally have a higher level of moral judgment than men. According to Hellriegel et al (2001) genetic factors such as gender can affect a person's attitude. This opinion is supported by the results of research by (Fullerton & Durtschi, 2005) which state that female internal auditors are more sceptical. The determinant of attitude toward the behaviour from Theory of Planned Behavior states that attitudes will influence behavior. This statement has been proven by the research of (Carpenter & Reimers, 2007) whose results state that adequate scepticism will support sceptical behaviour, namely choosing an effective audit procedure, so the hypothesis is as follows:

H1: Gender influences on the selection of effective audit procedures with auditor professional scepticism as an intervening variable.

Audit experience is the experience of auditors in auditing financial statements in terms of both the length of time and the number of assignments that have been handled (Suraida, 2005). Most people understand that the more the number of hours an auditor flies, the better the audit quality than an auditor who is just starting his career. It can be hoped that experienced auditors are more sceptical than inexperienced auditors. Supported by (Libby, 1995), who state that the more experience the auditor has, the more assumptions can be made in explaining audit findings. Shaub & Lawrence (1996) state that auditors with longer tenure tend to be more sceptical. Fullerton & Durtschi (2005), Payne & Ramsay (2005), and Suraida (2005), show that experience affects the professional scepticism of auditors. Experience is an important factor in the formation of attitudes. The determinant of attitude toward the behaviour from Theory of Planned Behaviour states that attitudes will influence behaviour. This statement has been proven by the research of (Carpenter & Reimers, 2007) whose results state that adequate scepticism will support sceptical behaviour, namely choosing an effective audit procedure, so the hypothesis is as follows:
H2: experience influences the selection of effective audit procedures with the auditor's professional scepticism as an intervening variable.

Personality type is also thought to influence auditors' professional scepticism. This is supported by Malone & Robberts (1996) who state that individual behaviour is a reflection of their personality, while the situational factors that occur at that time encourage a person to make a decision. Noviyanti (2008) states that personality type affects the professional scepticism of auditors. The personality type in this study is divided into internal locus of control and external locus of control. Those who can control their own goals are said to have an internal locus of control, while those who view life as controlled by external forces are said to have an external locus of control. It can be expected that individuals with internal locus of control are more confident than individuals with external locus of control, so they are more sceptical. The differences in the personality of each individual could form the basis of a person's attitude including scepticism. This statement has been proven by the research of Carpenter & Reimers (2007) stating that adequate scepticism will support sceptical behaviour, namely choosing an effective audit procedure, so the hypothesis is as follows:

H3: Personality Types influences the selection of effective audit procedures with the auditor's professional scepticism as an intervening variable.

RESEARCH METHOD
The object of this research is the auditors who work in the public accountant firms located in East Java province. The consideration of choosing East Java as the research location was because East Java is considered to be the second highest number of the public accountant firms, so the sample used in this study could be said quite representative.

Before the questionnaires were distributed to the real participants, we conducted pilot study. The purpose of the pilot study in this study is to find out whether the respondent understands the meaning of each statement item, it is hoped that there is correction for grammar improvement in the questionnaire. The results showed that all questions and statements in the questionnaire are valid and reliable, suggesting that the significance value of the Pearson product moment correlation is <0.05, while Cronbach alpha (α) is > 0.6. The measurements for the proposed variables are illustrated in the table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Measurements</th>
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<tbody>
<tr>
<td>Gender (X₁)</td>
<td>A cultural concept that seeks to make a difference in terms of roles, behaviour, mentality, and emotional characteristics between men and women that are developed in society (Jamilah, Fanani, &amp; G, 2007)</td>
<td>Gender is a dummy variable and is measured on a nominal scale, male = 0 and female = 1</td>
</tr>
<tr>
<td>Experience (X₂)</td>
<td>Audit experience is the experience of auditors in auditing financial statements in terms of both the length of time and the number of assignments that have been handled (Suraida, 2005)</td>
<td>The experiential characteristics are measured on a Likert scale with the type of interval data from a score of 1 to a score of 5:</td>
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<td></td>
<td></td>
<td>- The length of time working as an auditor</td>
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<td></td>
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<td>- The number of assignments</td>
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Personality

(X₃)

Personality is a description of personal characteristics that lead to consistent patterns of behaviour (Engko, Cecilia, & Gudono., 2007)

The items are based on The Work Locus of Control (WLCS) instrument developed by Spector (1988) and used by Engko and Gudono (2007) using on a 5-point Likert scale; 1 = very disagree; 5 very agree.

Professional scepticism (Z)

The attitude of the auditors that includes the mind that always questions and evaluates critically of audit evidence (Indonesia, 2020)

The items are adopted from Hurtt (2010) using on a 5-point Likert scale; 1 = very disagree; 5 very agree. Those items such as:
1. a questioning mind
2. the suspension of judgement
3. a search for knowledge
4. Interpersonal understanding
5. autonomy
6. Self-esteem

The selection of effective audit procedures (Y)

The selection of appropriate audit procedures, measured based on whether the procedure can be directly used to obtain audit evidence or not (Carpenter & Reimers, 2007)

The items are adopted from Ansah et al. (2002) using on a 5-point Likert scale; 1 = very disagree; 5 very agree.

RESULTS AND DISCUSSION

The age characteristics showed that most of the respondents (52.78%) were aged 20-25 years. Respondents aged 26-30 years were 33.33%, 5.56% aged 31 - 35, and 6.48% aged 35 - 40. The rest (1.85%) were over 40 years old. It can be concluded that most of the respondents are fresh graduations, so that the respondents have less work experience and their knowledge is limited to college. In relation to the characteristics of the position, it shows that most of the respondents (53.70%) work in junior staff positions, 32.41% in senior positions, 11.11% in supervisor positions, 0% in partner positions, and in manager or assistant manager positions 2.78%. From the results of interviews with several respondents, auditors are said to be senior staff if they have more than 5 years of experience and have successfully passed the evaluation test. It means that most of the respondents are juniors, so that the respondents have less work experience. Meanwhile, the educational characteristics suggest that most of the respondents (85.18%) had a bachelor's degree. Respondents with a diploma education are 10.19%, master education are 4.63%, and doctoral education are 0%.

All the items have meet the criteria for validity. It can be product moment pearson < 0, 05. Then for reliability, it appears that all variables are reliable and measurable. This is indicated by Cronbach's alpha 0.734 on the experience variable, 0.633 on the personality type variable, 0.733 on the auditor professional scepticism variable, and 0.825 on the effective audit procedure selection variable as seen in appendix 1. Thus it indicates that all question items for each variable are valid and reliable for further testing.
Based on Table 2, it can be seen that path 1 and path 2 have a residual Kolmogorov Smirnov significance value> 0.05, namely 0.127 and 0.169, it can be concluded that the residuals in the path 1 and path 2 analysis have been normally distributed, so that the residual normality assumption have been met.

<table>
<thead>
<tr>
<th>Table 2. Kolmogorov-Smirnov</th>
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<tr>
<td>Unstandardized Residual</td>
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<td>Path 1</td>
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<tr>
<td>Path 2</td>
</tr>
<tr>
<td>Kolmogorov Smirnov Z</td>
</tr>
<tr>
<td>Sig.</td>
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</tbody>
</table>

Source: Author’s own research

Multicollinearity test is to test whether the regression model found a correlation between exogenous variables. A good regression model should not have a correlation between exogenous variables. Multicollinearity testing is done by looking at the VIF value and tolerance value. If the VIF value is <10 and the tolerance value is> 0.10, the multicollinearity assumption has been fulfilled (there is no correlation between independent variables). Conversely, if the VIF value is> 10 and the tolerance value is <0.10, the multicollinearity assumption is not fulfilled (there is a correlation between the independent variables).

<table>
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<tr>
<th>Table 3. Multicollinearity Tests for Path 1 and Path 2</th>
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<tr>
<td>Collinearity Statistics</td>
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<tr>
<td>Path 1</td>
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<tr>
<td>Path 2</td>
</tr>
<tr>
<td>Variabel</td>
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<tr>
<td>Tolerance</td>
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<tr>
<td>Auditor's professional skepticism</td>
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<tr>
<td>Gender</td>
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<tr>
<td>Experience</td>
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<tr>
<td>Personality</td>
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Source: Author’s own research

Based on Table 3, it can be seen that in the path analysis 1, the VIF value of the gender variable is 1.055, the experience variable is 1.047, and the personality type variable is 1.019. Meanwhile, the tolerance value in the path 1 analysis for the gender variable was 0.948, the experience variable was 0.955, and the personality type variable was 0.981. So in the analysis of path 1, the VIF value of the variable gender, experience, and personality type <10 and the tolerance value> 0.10, so it can be concluded that the multicollinearity assumption in path 1 has been fulfilled.

Then, based on Table 3, it can also be seen that in path analysis 2 the VIF value of the auditor's professional scepticism variable is 1.102, the gender variable is 1.056, the experience variable is 1.047, and the personality type variable is 1.119. Meanwhile, the tolerance value in path 2 analysis for the auditor's professional scepticism variable is 0.908, the gender variable is 0.947, the experience variable is 0.955, and the personality type variable is 0.894. So in the analysis of path 2, the VIF value on the variables of auditor professionalism, gender, experience, and personality type <10 and tolerance value> 0.10, so it can be concluded that the multicollinearity assumption in path 2 has also been met.
Table 4. Hypotheses Testing

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Path coefficient</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender* Scepticism → The selection of effective audit procedures (H1)</td>
<td>0.005</td>
<td>Rejected</td>
</tr>
<tr>
<td>Experience * Scepticism → The selection of effective audit procedures (H2)</td>
<td>0.006</td>
<td>Rejected</td>
</tr>
<tr>
<td>Personality * Scepticism → The selection of effective audit procedures (H3)</td>
<td>0.122 *</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Author’s own research

According to table 4, it is reported that H1 and H2 are rejected and H3 is accepted. For the discussion it can be seen the further subtheme.

The result of hypothesis testing indicates that the effect of gender on the selection of effective audit procedures with auditor professional scepticism as intervening is not proven. This occurs due to the fact that female respondents were more dominant (57.4%) than male respondents (42.6%). In the laboratory study of (Breesh & Branson, 2009), female auditors are less accurate than males to analyse the misstatements. However if they (female as well as male auditors) have more time or do not have time constrains they would tend to adopt more simplified processing strategies. This result supports (Owhoso, 2002). Owhoso (2002) stated that female auditors and male auditors had no differences in sensitivity to the presence or absence of positive ethical information when assessing the possible risk of fraud from clients. This implies that female and male auditors tend to adopt the same attitude when conducting audit activities. (Trisnaningsih & Isnawati, 2003) also stated that there was no difference in auditor performance in terms of gender. Smith et al. (2005) also found that auditors 'gender demographics did not affect auditors' perceptions of the risk factor indicators for fraud.

The result of this study do not agree with the results provided by (Fullerton & Durtschi, 2005; O'Donnell & Johnson, 2001). The current study have difference perspectives in terms of barriers or even discrimination faced by women. This has been clear in the work of gender equality (Sian, Agrizzi, Wright, & Alsalloom, 2020) that religious and cultural norm have significant influence on the audit works. This means cultural norms in every country or organisation have their own influence on the female auditors (Bik & Hooghiemstra, 2018; Svanberg & Öhman, 2013). As such it is reasonable if the paradigm proposed by (Fullerton & Durtschi, 2005; O'Donnell & Johnson, 2001) may be inconsistent when is applied in Indonesia. This study proposes for the next study to examine the usage of professional skills requires and its impact on the auditors’ sensitivity to exercise professional scepticism. Auditors use the knowledge, skills and abilities demanded by the public accounting profession to objectively collect and evaluate audit evidence (Siriwardane, Kin Hoi Hu, & Low, 2014). Therefore this study offers difference perspective on gender diversity, confirms gender, which is one of the personal factors, cannot influence the formation of auditors’ professional scepticism.

Then this also assess the effect of experience on the selection of effective audit procedures with the auditor's professional scepticism as an intervening variable. The result of hypothesis testing indicates that the effect of experience on the selection of effective audit procedures with auditor professional scepticism as intervening is not proven. In other
words it shows that auditors' professional scepticism cannot be an intervening variable that mediates between experience and the selection of effective audit procedures. There is an insignificant effect of experience on auditors' professional scepticism because the majority of respondents have low experience. In fact, industry-based experience has a greater impact on auditor performance than task-based experience (Moroney & Carey, 2011), then it leads positively to the quality of the judgments made by professional accountants (Pflugrath, Martinov-Bennie, & Chen, 2007). This study is supported by Budi et al. (2004) mentioning that work experience has no influence on professional commitment or ethical decision making.

The result of this study is not in line with (Sumardi & Hardiningsih, 2002) due to differences in respondents’ characteristics. The respondents of this study were independent auditors, while (Sumardi & Hardiningsih, 2002) were governmental auditors. The results of this study is also inconsistent with (Fullerton & Durtschi, 2005; Payne & Ramsay, 2005; Shaub & Lawrence, 1996) due to methodological concern, particularly societal values. (Fullerton & Durtschi, 2005; Payne & Ramsay, 2005; Shaub & Lawrence, 1996) used an experimental studies using students, while the current study used a survey for independent auditors. Despite the methodological concern, another aspect that contribute the inconsistency is because of societal values between Indonesia and other countries. This study supports the (Cowperthwaite, 2010) study suggesting that the influence of national cultures on the auditors’ works is obvious.

Furthermore for personality type, the result of hypothesis testing suggests that the effect of personality type on the selection of effective audit procedures with the professional scepticism of auditors as intervening is proven. It can be said that auditors' professional scepticism can be an intervening variable that mediates between personality types and the selection of effective audit procedures. This study also shows that the presence of the auditor's professional scepticism variable makes the personality type variable have a significant effect on the selection of effective audit procedures and in the absence of any intervening variables (auditor's professional scepticism), the personality type variable does not have a significant effect on the selection of effective audit procedures. How it affects the auditors’ sceptical judgments, as (Ying, Patel, & Pan, 2020) explained, it is influenced by peer attitude in the context of a peer providing informal advice. In that sense, the evaluation of social clues provided by other is predominantly influenced by the frame of auditors’ integrity (i.e., potential honesty versus potential dishonesty) (Bowlin, Hobson, & Piercey, 2015).

The results of this study support the research of as mentioned by (Malone & Robberts, 1996) and the research of Noviyanti (2008). (Malone & Robberts, 1996) state that individual behaviour is a reflection of their personality, while the situational factors that occur at that time will encourage a person to make a decision. Meanwhile, Noviyanti (2008) states that personality type affects the professional scepticism of auditors. So, the differences in the personality of each individual become the basis for one's attitude, including scepticism. This supports the meaning of locus of control, which is not from birth but arises in the process of its formation which is related to environmental factors (Sarita & Agustia, 2009).

CONCLUSION
This study examines the influence of personal factors (gender, experience, and personality type) on the selection of effective audit procedures through auditor professional scepticism as an intervening variable. Through this simple study, it can be concluded that: (1) Gender does not have a significant effect on the selection of an effective audit procedure through scepticism as an intervening variable. This condition indicates that gender differences between female and male auditors do not affect sceptical attitudes and behaviour. (2) Experience has no significant effect on the selection of effective audit procedures through scepticism as an intervening variable. This condition indicates that the auditor's experience is still lacking in increasing sceptical attitudes and behaviour. (3) Personality type has a significant effect on the selection of effective audit procedures through scepticism as an intervening variable. This condition shows that scepticism can mediate the relationship between personality types and the selection of effective audit procedures.

As in all studies, there is potential limitation that attenuates somewhat the generalizability of the results. This study was constructed by a limited number of research participants. It might influence on the the generalizability of the results. For example, this study does not mean to imply that experience has no significant effect on the selection of effective audit procedures: of course, the vast majority of auditor in practice who have a wide range of experience will be familiar with any (fraud) risks. However when it was interacted with sceptics concerns nestled in auditor, its predictive power on the selection of effective audit procedures does not appear in this study. Therefore in this sense, it would be better if the next study extends the number of research participants.

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