

**Skepticism, Time Limitation of Audit, Ethics of Professional Accountant and Audit Quality (Case Study in Jakarta, Indonesia)**

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**ABSTRACT**

This study aims to examine the influence of professional skepticism, audit time constraints, and the application of professional ethics of accountants on audit quality. The population is mostly senior auditors and junior auditors at the accounting firm in Jakarta. Sampling was conducted using purposive sampling method with the withdrawal of convenience sampling technique. The results show that simultaneous professional skepticism, audit time constraints, and implementation ethics of accountant profession affect the quality of the audit. Partial results show that professional skepticism variable effect on audit quality. While the time limit and implementation ethics of accountant profession do not affect the audit team. The coefficient of determination indicates that together the independent variables in this study contribute to the dependent variable (Audit Quality) of 27.8%, while the remaining 72.2% is influenced by other factors outside the model.

Keywords: Skepticism, Ethics, and Quality

**I. INTRODUCTION**

As an independent party, public accountant is a profession that requires the trust of the public of the reliability of those statements. Needs for quality financial reporting demands also qualified the auditor. The needs for the financial statements that have been audited by the external auditors will provide a higher level of confidence to shareholders, despite the fact that the external auditor can provide only reasonable assurance and not absolute assurance.

Awareness of the importance of the financial statements for the stakeholders felt still not good. This is evident from the emergence of cases in the United States where the independent auditors actually help the company manipulate their financial statements, such as Enron, WorldCom, Xerox. Seeing the problems that occurred on the above, the quality of the audit was to be a very questionable. Therefore, the quality of an audit conducted by the Public Accounting Firm (Audit Firms) a key for users of financial statements. Great confidence of users of audited financial statements and other services provided by public accountants is ultimately requiring. A good audit quality, generally measured by adherence to the audit process standards established

and approved by the Indonesian Institute of Certified Public Accountants in the form of Statement on Auditing Standards (SA).

One of the most important behaviors in the audit professional is skepticism. In the SPAP (SA Section 230, paragraph 06) states the auditor's professional skepticism as an attitude that includes a questioning mind constantly and critically evaluate the audit evidence.

In addition to the professional skepticism, timeliness of completion of the audit work is required of the auditor to produce quality audit. However, in practice, the auditors often have some limitations. One of the limitations experienced by auditors when conducting audits is the limited time of the audit. If the time allocated was not sufficient, the auditor will work quickly, so only implement part of the audit procedures required (Waggoner and Cashell, 1991). Time limit causes a person is required to complete a job immediately and if it is not achieved it will cause a conflict for a predetermined time to an elapsed and the quality of the audit work can be interrupted (Mutia Maulina et al, 2010).

One of the missions of Certified, compile and develop professional standards and code of professional conduct public accountant qualified by reference to international standards (Introduction to the Code of Professional Accountants, 2008).

On October 14, 2008, issued a new Code of Professional Ethics of certified Accountants and effectively enforced as of January 1, 2010. The code of conduct contained 44 paragraphs and contains things that are rules bases. Meanwhile, a new ethical code has 266 paragraphs divided into two parts. The first part contains the basic principles of ethics (rule bases), the second part contains the rules of professional ethics (practice bases).

The formulation of these codes apply the basic principles and rules of professional ethics must be applied by each individual in the public accounting firm, Certified and not Certified auditor .The auditors in analyzing of requiring high reasoning to implement the new code of conduct. This potentially indicates a different interpretation (Nasrullah Djamil 2009).

Researchers are interested to know whether the time limit would affect audit quality audit, whether skepticism professional also affect audit quality, and whether the new code of conduct has also been understood by the auditors in their duties, and understanding the ethics of whether the effect on audit quality.

This study aims to determine the influence of professional skepticism, the time limits auditing and application of professional ethics of accountants to analyze its impact on the quality of audits conducted auditor at Audit Firms.

## **II. LITERATURE AND HYPOTHESES DEVELOPMENT**

### **2.1 Professional Skepticism**

Skepticism means less confident or doubtful (Indonesian Dictionary, 2008). In the SPAP (SA Section 230, paragraph 06) states the auditor's professional skepticism as an attitude that includes a questioning mind constantly and critically evaluate the audit evidence. Auditors use the knowledge, skills and capabilities demanded by public accounting profession to carry out carefully and thoroughly good faith and integrity, collection and assessment of audit evidence in an objective.

Shaub & Lawrence (1996) provides a definition of auditor's professional skepticism as follows "Professional Scepticism is a choice to fulfill the auditor's professional duty to Prevent or reduce the harmful consequences of another person's behavior".

Gusti and Ali (2007), Kee & Knox's (1970) describe a model "Professional Auditor Scepticism" which states that consideration of individual factors, previous audit experience and situational factors influence the professional auditor Scepticism. In this study, Kee and Knox's (1970) model "Professional Auditor Scepticism" states that the auditor's professional skepticism is influenced by several factors, including:

1. Factors of ethics

The American Heritage Dictionary declared ethics as a rule or standard that determines the behavior of the members of the profession. The development of an ethical or moral consciousness plays a key role in all areas of the accounting profession (Louwers, 1997), included in the training of professional accountants skepticism attitude.

2. Factors of situations

Factors positively influence the situation on the auditor's professional skepticism. Factors such situations audit situations with high risk (situation irregularities) affect the auditor to improve the attitude of professional skepticism.

3. Experience

The experience is the auditor's experience in conducting the examination of financial statements in terms of both the length of time, and the number of assignments I've ever done. Butt (1988) shows in his research that experienced auditors to make judgments that are relatively better in professional duties, rather than less experienced auditors.

Suraida (2005), which measures specific professional skepticism to doubt or question or disagreement with evidence audit, an additional audit, and inquire directly as a form of confirmation in doubt follow the auditor to the client. The explanation of each instrument is as follows:

1. Doubts auditor to audit evidence

Hesitant attitude is the manner in which a person is not sure of something. Auditors are required to have sufficient confidence in making decisions on the fairness of the financial statements.

2. Additional Audit

When doubts arise on the audit evidence, the auditor requires additional evidence or samples to convince in making a decision on the fairness of the financial statements.

3. Confirm instantly

According to Indonesian dictionary, confirmation is validation, and justification. To corroborate such evidence, the auditor confirm directly to third parties.

## 2.2 Limitation of Time Audit

Auditors determine the allocation of audit time is very tight, but this situation has side effects that harm the public, which led to behavior that threatens the quality of audits, including reduced levels of detection and investigation of qualitative aspects of misstatements, failed to examine the principles of accounting, document review superficially, receive explanations weakly clients, and reduce the work one step below the accepted level audit Kelly and Margheim (2001)

Ventura (2001: 73) stated that the determination of unrealistic time constraints on specific audit task will have an impact on the lack of effective implementation of the audit or auditor implementers tend to accelerate the implementation of the test. Conversely, when the determination of the time limit is too long then it will impact negatively on the cost and effectiveness of the audit.

Waggoner and Cashell (1991) in the Lily (2011) said that if the time allocated is not enough, then the auditor will work quickly, so only implement part of the required audit procedures. Thus, the limited time of the audit may affect the amount of evidence that can be obtained related to events or transactions that may affect the financial statements.

Prasita and Adi (2007) also stated that the allocation of time is too long it makes more dreamy auditor / day dream and not motivated to be more active in the work. Conversely, if the allocation is too narrow, then it can lead to unproductive behavior, because their tasks are neglected.

The allocations of time have directly affects on the evaluation of the risks involved with the expansion of substantive procedures. The limited time owned auditors audit can lead to the violation of auditing standards and behaviors that were unethical. Prasita and Adi (2007), McDaniel (1990) states the limited allocation of time caused a decline in the effectiveness and efficiency of auditing activities.

H2: Audit Time Limitation significant has effect on audit quality.

### 2.3 Accounting Profession Ethic.

Ethics comes from the Greek word which is a combination of two syllables that ethos (singular), which means custom, character, feelings, attitudes, ways of thinking. While the plural form meaning that customs.

Arens, et al (2008: 62) states that there are six (6) the value of main ethical according Josephon Institute related to ethical behavior, such as: Trust (trustworthiness), Respect, Responsibility, Fairness, Concern (Caring), Citizenship

Arens, et al (2008: 68) says that an expert or a professional is expected to have standards of decency in behavior that is higher than most people in general. Professional terms means an expert is not just a duty of responsibility but are required to be responsible for their behavior. He must be aware that both the responsibility and behavior should be accountable to the public interest, clients, and fellow profession.

The code of ethics accountant (formerly called Ethics Rules Compartment Public Accountants) is the ethics rules that must be applied by members of the Indonesian Institute of Accountants or Certified (formerly Institute of Accountants Indonesia-Compartment Public Accountant or IAI-Audit Firms) and professional staff (both of which are members of the Certified as well as non-members) Certified working on a Audit Firms.

Accountant Professional Standards Board in this regard IICPA on October 14, 2008, endorsed the Draft code of Professional Ethics of Certified Public Accountants. In the new draft consists of 266 paragraphs, while the previous draft of only 44 paragraphs. The contents of the new draft Code of conduct which includes a lot of things are the principle base while the previous draft to be mostly rule base.

This draft has been declared effective in a sense began practiced on January 1, 2010. The code of ethics Indonesia Profession Public Accountants is comprised of two parts, namely Part A and Part B. Part A of this Code sets out basic principles of professional ethics and provides the conceptual framework for the application of this principle.

### 2.4 Audit Quality

Audit quality is defined by the De Angelo in (Balance Vol.1 2004) as the joint probability of an auditor to be able to find and report fraud that occurs in the client's accounting system. Skepticism and time limitations impact on audit quality to be produced. The new codes of conduct that is expected to improve the quality of public accountants and public accounting firm. Indonesia Public Accountants can prepare

themselves to understand and implement the tasks of the profession, so that the quality of audit can reach the highest point. De Angelo in Prasita and Adi (2007) also stated that the quality of the audit can be seen from the level of compliance auditor in carrying out the various phases that should be implemented in auditing activities.

The Indonesian Accountants Association (IAI) stating that the auditor audit quality is said, if it meets the standards of auditing and quality control standards. Quality control should be applied by Audit Firms in professionalism conduct the audit and accounting services, and services review. Nine elements of quality control (quality) by the AICPA (Agoes, 2004) are: Independence, Assignment personnel, Consulting, Supervision, Appointment, Professional Development, Promotion, Revenue and continuity of working with its clients, Inspection. The research result Princess (2010) and Monica (2007) found that there are four attributes that positively affects customer satisfaction. Among them are four attributes, audit experience (client experience), to understand the client's industry (industry expertise), adhere to the common standards, and a strong commitment to audit quality. Results of research conducted (Brouwman and Bradley, 1997) found evidence that users attribute audit experience with regard to quality is based on the assumption that the task of providing feedback is useful to how things are done better. Libby and Frederick (1990) experience of auditor will affect the quality of the audit, they found that the more experience the more the auditor may produce allegations in explaining the findings of the audit.

Knowledge of the business unit of effort will assist the auditor in identifying areas requiring special consideration, assess the conditions in which accounting data are produced, processed, reviewed, and collected in the organization, assessing the reasonableness of estimates, such as the assessment of inventory, depreciation, allowance for receivable losses, the percentage of completion long-term contracts, assessing the reasonableness of management representation, consider the appropriateness of the accounting principles applied and the adequacy of disclosure in the Professional Standards of Certified Public Accountants (IAI-SPAP, 2001). Elitzur and Falk (1996) also says that the auditor's credibility depends on possible auditor will report what it finds.

Both of these are reflecting the implementation of the General Standards. An auditor must have expertise, Independence, and meticulously as a condition of the quality of the audit, the Public Accountants Professional Standards. Given both of these will bring satisfaction to the clients.

Araya, et al (1980) in Sari Zawitri (2009) defines the commitment is a belief that is delivered to the person or organization regarding the acceptance of the objectives of the values of the organization or the profession. Commitment is defined as a desire to maintain membership in the organization or profession. By this definition, auditors are part internalization commitment to the profession.

H3: Application of Accounting Profession Ethics significant effect on audit quality.

### **III. OBJECT AND RESEARCH METHODOLOGY**

The populations in this study are all independent auditor who worked on Public Accounting Firm (Audit Firms) in the East and South Jakarta. Number Audit Firms Jakarta area and South East recorded on Directory Indonesian Institute of Certified Public Accountants (Certified) Compartment Public Accountants are 32 and 90 Audit Firms. To determine the size of the sample used purposive sampling formula with

convenience sampling based on certain considerations and adapted to the wishes and research purposes.

### 3.1 Definitions Variable Operationalization

#### a) Quality Audit

Audit quality is defined by the De Angelo in (Balance Vol 1 2004: 44) as the joint probability of an auditor to be able to find and report fraud that occurs in the client's accounting system. The quality of the audit is the auditor's ability to find potential fraud and provide appropriate evidence audit opinion, having regard to auditing and ethical standards for conducting the audit. In this study, using four determinants or attributes that affect audit quality. Indicators used these variables, among others: audit experience, understand the client's industry, adhere to the common standards, and a strong commitment to audit quality.

#### b) Professional Skepticism

Skepticism comes from the word that means less skeptical believer or hesitation (Indonesian Dictionary, 2008). In the SPAP (SA Section 230, paragraph 06) states the auditor's professional skepticism as an attitude that includes a questioning mind constantly and critically evaluate the audit evidence. Indicators of this research using instruments Suraida (2005), which measures the skepticism specifically to doubt or question or disagreement with evidence audit, an additional audit, and inquire directly as a confirmation form to a third party auditor to follow up any doubt that evidence.

#### c) Time Limitation Audit

If the time allocated was not sufficient, the auditor will work quickly, so only implement part of the audit procedures required (Waggoner and Cashell, 1991). The time limit of the audit is a condition in which the auditor is required to complete the audit work in accordance with a limit or a predetermined time span. Indicators of this variable based on research Prasita and Adi (2007), namely timeliness, target fulfillment, spare time of the audit, and the burden with limited time.

#### d) Application of Accounting Profession Ethics

According to Chasin, et al (1988, 4-6 in Citra Monika, 2007) definition of accounting professional ethics is "The code of professional ethics is your accountant to conduct in fulfilling Reviews their professional obligation and in activity that Affect the public view of profession" , Simply Ethics accounting profession can be interpreted as a guide accountants in meeting the obligations of his profession and all activities that affect public perceptions of the accounting profession. According Certified, the ethics of the accounting profession is divided into SPAP (Public Accountants Professional Standards) and the Code of Ethics of Professional Accountants. The indicators used in this study is section 110 Principles of Integrity, Section 120 Principles of Objectivity, Section 130 Competence and Attitude Accuracy and Precautionary professional, Section 140 Principle Confidentiality, and Section 150 Principles of Professional Conduct in Arens et al (2008: 71).

### 3.2 Data Collection Methods

According to J, Supranto in Wicaksana Vicky (2007), there are basically three kinds of methods of data collection in the research are: census method, sampling method, the case study method. Methods of data collection in this study is done by sampling method, which is a way of inquiry held to ascertain facts or existing symptoms and seek factual particulars. Data collected through observation and

questionnaires distributed to Public Accounting Firm East and South Jakarta. Questionnaire contains questions that represent each of the variables in this study.

### 3.3 Data Analysis Techniques

The analysis of the data is the ways to process data that has been collected can provide interpretation. The results of processing this data are used to test Hypotheses. Data analysis techniques used in this study is the technique of Multiple Linear Regression Analysis.

## IV. DISCUSSION

From the analysis using multiple linear regression analysis can explain the factors that affect the quality of the audit. Prior to the analysis of the first testing is the validity and reliability of variables.

### 4.1 Professional Skepticism significant effect on audit quality.

Variable professional skepticism has t- statistic 3.560 bigger than t- table 2.0141. The value of t-statistic > t-table and  $0.001 < 0.05$ ; thus concluded that  $H_0$  refused and  $H_a$  accepted. Receive  $H_a$  means is statistically proven that professional skepticism positive significant effect on audit quality. These results indicate a significant positive relationship the variables of skepticism on audit quality. With such an attitude that includes a questioning mind constantly and critically evaluate the audit evidence is need to produce quality audit.

### 4.2 Audit Time Limitation significant effect on audit quality.

Variable time limit has t-statistic of 0.406 smaller than t. table of 2.0141. The study shows the value of t-statistic < t-table and  $0.687 > 0.05$ ; thus concluded  $H_0$  accepted and  $H_a$  rejected. Receive  $H_0$  means is statistically proven that the time limit does not affect the audit tend to audit quality. The regression coefficient 0.146 which means that each increase of one per cent of the time limit the audit will be followed by an increase audit quality by 1.46.

### 4.3 Application of Accounting Profession Ethics significant effect on audit quality.

Variable ethics of the accounting profession has t-statistic 0.689 were much smaller than t-table (2.0141). The study shows the value of t-statistic < t-table and  $0.495 > 0.05$ ; thus concluded  $H_0$  accepted and  $H_a$  rejected. Receive  $H_0$  means is statistically proven that the professional ethics of accountants has not affect on quality of audit. The results of this study stated that the respondents who answered disagree and strongly disagree more than 50%. It can be concluded that most of the auditors who were respondents in this study have implemented the ethics of the accounting profession in the work.

### 4.4 Professional Skepticism

Time limitation, professional skepticism, and profession ethics have effect on audit quality. Value of Test simultaneous (F-test) is 6.643 and the significance of 0.001. Because of the significance of test results F smaller than 0.05 and is therefore acceptable  $H_0$  and This shows the independent variables are professional skepticism, the time limits of the audit, and the application of professional ethics accountant jointly affect the dependent variable is the quality of the audit.

## V. CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Conclusion

Based on the analysis and discussion, the conclusion that can be obtained are: Variable skepticism partial has effect on audit quality to the significance of 0.001 is

the significant value of less than 5%. Variable audit time limit does not affect on quality of the audit with a significance value 0.687 is a significance value greater than 5%. Variable application of the accounting profession ethics does not effect on audit quality with a significance of 0.495 is a significance value greater than 5%.

## 5.2 Suggestions

Advice can be given based on the conclusion that has been submitted is as follows:

For further research is recommended in order to use other factors that can be used to see its effect on audit quality planning. Where in the planning of this audit will have an impact on skepticism, time constraints, and ethics. Factors such as the complexity of the task, due professional care, time budget pressure, and the ethics of accounting profession can give a clearer impact on audit quality.

The scope of research is very small population, which is in the East and South Jakarta. Expected coverage area and sample region expanded in order to describe the variables in this study as a whole, For example in the whole area of Jakarta as the capital of Indonesia's relatively heterogeneous with a big four accounting firm, big ten. Thus the auditor is expected to describe in Indonesia. Given the limited number of researchers in terms of time constraints, it is recommended to further research to be more active in the search and data collection in order to enhance this data research, because not all of the firm to respond favorably to this research for example, by utilizing a response from a friend who works in the firm to participate as respondent or by phoning and go directly Audit Firms study to be sampled, so that the desired level of responsiveness by the researchers can be achieved.

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