# THE INFLUENCE OF PROFESSIONAL SKEPTICISM AND TIME BUDGET PRESSURE OF AUDITOR'S ABILITY TO DETECT FRAUDULENT FINANCIAL REPORTING (SURVEY ON SENIOR AUDITOR IN BIG FOUR FIRMS)

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## ABSTRACT

*The object of this study is the professional skepticism and time budget pressure as independent variables, and the auditor's ability to detect fraudulent financial reporting as dependent variable. The study aims to examine the influence of professional skepticism and time budget pressure of auditor's ability to detect fraudulent financial reporting. The research method used is hypothesis testing. Population in this study are entire senior auditor who work in Big Four. The sampling technique used was purposive sampling. The number of samples collected was 65 senior auditors. Data collection techniques used is by distributing questionnaires. The data analysis technique used is multiple linear regression analysis. The F-test result showed that simultaneously the influence of professional skepticism and time budget pressure have significant effect on auditor's ability to detect fraudulent financial reporting. The t-test results showed that partially the influence of professional skepticism have significant positive effect on auditor's ability to detect fraudulent financial reporting and time budget pressure have significant negative effect on auditor's ability to detect fraudulent financial reporting.*


Key Words : Professional Skepticism, Time Budget Pressure, Fraudulent Financial Reporting

## INTRODUCTION

Currently, companies that have gone public and listed their shares on the Indonesia Stock Exchange (BEI) amounted to more than 500 issuers. Companies go public is a company that sells shares or bonds to the public. Benefits gained for companies that go public is to get access to finance to expand its business. Thus, the growth of a modern enterprise will lead to different ownership groups, where the owner is not directly involved in running the business and using the professional manager to carry out the day-to-day operations of the company.

Jensen and Meckling (1976) developed a theory called agency theory. This theory argues that companies that separate management and ownership functions will be vulnerable to agency conflict. The triggers of the conflict include decision-making related to fundraising and how the funds are invested (Van Horne et al., 2010).

The concept of agency theory is a relationship or contract between principal and agent. Principal is a shareholder and agent is a management that manages the company. Principal employs agents to carry out tasks of principal interests, including delegating decision-making authority from principal to agent. Therefore, managers appointed by shareholders must act in the interest of shareholders. However, the agency relationship between management and shareholders does not always run harmoniously and in accordance with the company's goals. The existence of conflicts of interest between principal and agent in the management of the company causing problems in the agency relationship, or better known as agency problems.

On the basis of this theory is based on the fact that the relationship between principal and agent is always faced with the mastery of information that is not equitable (asymmetric information), where the agent always has more information and deep about the actual state of the company. This unbalanced condition provides incentives for agents to do things that benefit them personally, but it imposes a burden on the principal. This act is often also called a moral hazard (moral hazard).

The main target of shareholders is to obtain a return (return) of shares on the funds they have invested. The size of the stock return depends on the profits generated by the company. Therefore, shareholders rely on financial statements as a source of corporate performance information in decision making. Financial reports other than as a communication tool between managers and shareholders, as well as a form of managerial responsibility for the use of resources entrusted to them.

However, in the preparation of financial statements, management is often influenced by several factors, both internal and external factors to commit fraud in order to gain profit. One of the fraud committed is a misstatement or deliberate omission on the amount or disclosure that misleads the users of financial statements, such as overstated sales or presents an understated expense. This situation is famous for the term cheating in the financial statements (fraudulent financial reporting).

As a result of this fraud, professionals, directors, executives and accountants are now faced with increasing expectations of shareholders and other stakeholders for what the company does and how they do it. At the same time, the environment in which companies operate becomes increasingly complex, as well as their ethical challenges. The organizational accountability mechanism is now under enormous pressure (Tugiman, 2012).

It is at this time that the role of an independent auditor is necessary to provide confidence to the interested parties that the company's financial statements have been prepared in accordance with applicable standards and reflect the actual circumstances. In addition, the auditor must also provide reasonable assurance that the company's financial statements are free of material misstatement caused by fraud. Auditor verification of financial information will add to the credibility of the financial statements and reduce the risk that information produced by the company will be misleading or misleading.

In 2013, there were cases of embezzlement and falsification of documents conducted by employees of Bank Syariah Mandiri (BSM) Bogor Branch. The mode that is done is by giving fictitious credit for housing or business property using 197 debtors, of which 113 debtors are fictitious. Total disbursed loans amounted to Rp 102 Billion, of which Rp 43 Billion has been returned to BSM so that the remaining loss is around Rp 59 Billion. The disbursement of credit has been started since 2011 but only revealed in the year 2013. Due to the fictitious credit, the interest income on BSM financial statements to be overstated. KAP Purwantono, Suherman & Surja as independent auditor of BSM has provided Unqualified Opinion on BSM financial report (Anggriawan, 2013).

In July 2015, there was a case of profit inflate made by Toshiba Corporation for U$ 1.2 Billion. The case since 2008 is due to corporate executives have been pressing the business unit to achieve unrealistic profit targets. This encourages the head of the business unit to manipulate the accounting records. Abuse of accounting procedures is done continuously as the official policy of management. KAP Ernst & Young as independent auditor Toshiba Corp. has provided Unqualified Opinion on Toshiba Corp.'s financial report (Sukmana, 2015).

Based on the case, it appears that the auditor failed to detect fraudulent financial reporting. The failure of the auditor to detect the fraudulent financial reporting is suspected because the auditor has not performed professional skepticism in performing the audit of financial statements, as well as the time budget pressure, in which the auditor is required to complete the audit procedure in accordance with the specified time allocation. Noviyanti (2015) states that auditors need to adopt skeptical behavior when implementing audit procedures. Auditors should not be easily satisfied with their audit evidence or examination based solely on the belief that management and related parties have behaved honestly and operate with absolute integrity. Skeptical behavior is necessary especially if there is an indication of fraud on the audited entity. Without the behavior of skepticism, cheating is often difficult to detect because it is usually cheated by the perpetrators. Koroy (2008) states that auditors who are under time pressure will be less sensitive to fraudulent gestures making it less likely to detect fraud. There is a reduction in attention when one is faced with time pressure and indicates that time pressure will cause the auditor to fail to present fraudulent signals.

Many previous studies on the effects of professional skepticism and time budget pressure on the auditor's ability to detect fraudulent financial reporting, such as Pangestika, Taufik and Silfi (2014) studies have suggested that time budget pressure has no effect on fraud detection. Anggriawan's research (2014) states that skepticism positively affects the auditor's ability to detect fraud, while time budget pressure negatively affects the auditor's ability to detect fraud. Lhaksmi's research (2014) states that professional skepticism positively affects the auditor's ability to detect fraud. Research Wiguna (2014) states that professional skepticism affects the detection of fraud.

Previously inconsistent research results prompted researchers to replicate the study. Independent variables in this study are professional skepticism and time budget pressure, while the dependent variable is the ability of auditors in detecting fraudulent financial reporting. Fraud in the financial statements is a serious problem because people rely on financial statements as a source of corporate performance information in decision making. This form of fraud masks true financial conditions by means of financial statement engineering, misuse of accounting principles and changes or falsification of accounting records. Therefore, the auditor must take comprehensive steps, namely by increasing its ability to detect fraudulent financial reporting. It is very important to continue to be done and the auditor should always follow the developments that occur in the world of business and profession by studying, understanding and implementing new provisions in accounting principles and auditing standards set.

Based on the description above, the formulation of the problem in this study were (1) How does professional skepticism and time budget pressure affect simultaneously the auditor's ability to detect fraudulent financial reporting on senior auditors at Big Four? (2) How professional skepticism positively affects the auditor's ability to detect fraudulent financial reporting on senior auditors at Big Four? (3) How does time budget pressure adversely affect the auditor's ability to detect fraudulent financial reporting on senior auditors at Big Four?

## LITERATURE REVIEW

Jensen and Meckling (1976) have developed a theory called agency theory. This theory argues that companies separating management functions and ownership functions will be vulnerable to agency conflict. The triggers of the conflict include decision-making related to fundraising and how the funds are invested (Van Horne et al., 2010).

The concept of agency theory is a relationship or contract between principal and agent. Principal is a shareholder and agent is a management that manages the company. Principal employs agents to carry out tasks of principal interests, including delegating decision-making authority from principal to agent, as Jensen and Meckling (1976) have said "We define an agency relationship as a contractor which one or more persons (the principal (s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent." The purpose of the above statement is "we define agency relations as a contract, in which one or more persons (principal) engage with another agent that performs some services for the principal's interest, which involves delegating authority over some decisions to the agent."

The main goal of the company is to maximize shareholder wealth. Therefore, managers appointed by shareholders must act in the interest of shareholders. However, the agency relationship between management and shareholders does not always run harmoniously and in accordance with the company's goals. The existence of conflicts of interest between principal and agent in the management of the company causing problems in the agency relationship, or better known as agency problems.

On the basis of this theory is based on the fact that the relationship between the principal and agent is always faced with the mastery of information that is not equitable (asymmetric information), where the trustee always has more information and deep about the mandate he bear. This unbalanced condition provides incentives for managers to do things that benefit them personally, but to provide the burden borne by the trustee. This act is often also called a moral hazard (moral hazard).

Moral hazard problems occur because of differences in purpose or desire of the principal and agent are opposite each other. Agent as the company's management will act with great awareness to be more concerned with its own interests, such as trying to get high bonuses rather than as a wise and fair to shareholders to increase the value of the shareholders. Thus, agency theory is more of a view that management can not be trusted to act best for the benefit of the public at large as well as shareholders in particular.

The existence of agency problems, then the shareholders have the need to control the management. Principal should check the agent's work to achieve the company's goals. However, to harmonize shareholder and management interests is difficult and costly. Therefore, with the agency problem, it is necessary to overcome these costs and these costs are called agency costs. According to Jensen and Meckling (1976) agency costs consist of cost control, bonding expenditure or bonding cost and residual cost.

Problems relating to the relationship between principal and agent are born from the separation of the rights and obligations of each party after the agreement is made. Once the equity is entrusted and the responsibility of the owner to the manager is given, the owners are unable to regulate the daily technical matters in executing the equity, but they have no obligation to incur losses in excess of the equity they have deposited as a result of mismanagement. They are only entitled to get a return from equity. In addition, they are authorized to monitor every decision taken by the agent.

Skepticism comes from the word skeptic which means less trust or doubt. Skepticism is a school of thought that everything is always uncertain, dubious and suspicious. Understanding professional skepticism according to IAPI (2011) are "Professional skepticism is an attitude that includes minds that are always questioning and critically evaluating audit evidence."

According to Nelson (2009) professional skepticism is indicated as an auditor's judgment and judgment that reflects a high-quality assessment of the risks of untruthfulness of the assertion, depending on the information obtained by the auditor. According to Noviyanti (2015) the term skeptic refers to the attitude of auditors when performing audit tasks. Skeptical attitudes imply that auditors are always questioning and critically evaluating audit evidence. In addition, the collection of audit evidence must exist within the audit process, where professional skepticism should be applied to all audit procedures. Skeptical auditors have a tendency to not accept their client statements without adequate supporting evidence. Therefore, auditors will always need clients to prove their financial statements.

The definition of time budget pressure according to DeZoort (1998) is "The time budget pressure is relatively chronic, the form of pressure arising from the limited resources allocated to perform the task." Definition of time budget pressure according to Kurnia, Khomsiyah and Sofie (2014) are "Time budget pressure is the circumstance that indicates the auditor is required to perform efficiently against the time budget that has been prepared or there are restrictions on time budget is very tight and rigid."

This condition makes the auditor inclined to behave dysfunctionally, such as performing premature sign-off, under-reporting time, overconfidence in client explanations and presentations and failing to investigate relevant issues that result in the auditor being unable to detect fraud in the company's financial statements. Svanberg and Ohman (2013) states that the auditor's reaction to time budget pressure consists of 2 (two) ways, ie functional or dysfunctional reactions. If it reacts functionally, the auditor will work more for the client, request additional audit time to the boss, focus on relevant information, and use more efficient audit techniques. Whereas if dysfunctional reacts, the auditor will perform under-reporting time, receive a weak explanation from the client, perform a shallow client review review, lack of investigating accounting principles, suspicious items not included into the audit sampling, not relying on the client's internal controls appropriately, and failed to obtain the item in question.

Fraud in the financial statements is a serious problem because people rely on financial statements as a source of corporate performance information in decision making. This form of fraud masks true financial conditions by performing financial engineering in the presentation of financial statements for profit, misuse of deliberate accounting principles and change or falsification of records. Therefore, the auditor should take comprehensive steps in the prevention and detection of such fraud.

Improving the auditor's ability to detect fraudulent financial reporting is essential to continue and auditors should keep abreast of developments in their business and profession by learning, understanding and applying new provisions in accounting principles and auditing standards. The auditor's ability to detect fraud can be seen from the competency level of the auditor.

Ida Suraida (2005) states that auditor competence is measured by the number of certificates and the number of participating in training, seminar or symposium. The more certificates are owned and the more often the training or seminar / symposium expected the relevant auditor will be more competent in carrying out its duties.

Competence is gained through education and experience. Members should not describe themselves as having skills or experiences they do not have. In all assignments and in all responsibilities, each member shall make an effort to attain a level of competence which shall ensure that the quality of the services provided meets the high level of professionalism as required by the Ethics Principle. The main general standard affirms that no matter how high a person's ability in other areas, including in business and finance, he or she can not meet the requirements set forth in this auditing standard, if he or she does not have adequate education and experience in auditing.

Muliani and Rangga (2010) say that if someone does the same job continuously, then it will be faster and better in solving it. This is because he has really understood the technique or how to solve it and has experienced many obstacles or mistakes in the work so that it can be more careful and careful to finish it. Agusti and Putri (2013) argued that auditor competence is an auditor who with sufficient knowledge and experience can explicitly audit objectively, thoroughly and thoroughly.

Thus, it can be seen that the lack of auditors to obtain and use their knowledge can lead to failure to detect fraudulent financial reporting, and some knowledge that the auditor needs to improve his competence include knowledge of accounting and auditing, knowledge of the client's business, knowledge gained from formal education, and knowledge gained from training.

The auditor's ability to detect fraudulent financial reporting depends also on the sophistication of the fraud, the frequency of manipulation, the degree of collusion and the size of seniority involved because of the higher collusion in fraud and the higher levels of management involved in this fraud, the more difficult it is to detect the fraud by the auditor.

## RESEARCH METHOD

In accordance with the objectives of the research to be achieved, this research will be conducted by using hypothesis testing, a study explaining the nature of a particular relationship or determining the difference between two or more factors of the group or independent variable in a particular situation.

The population in this study are all senior auditors working in Big Four. The sampling method used is purposive sampling, which is a technique that involves choosing the most favorable placed subject or in the best position to provide the required information. This technique is used when the number or category of people who have limited information and the selection of sample members based on certain criteria set by researchers. The sample criteria are :

a. Senior auditor who works at Big Four.
b. Senior auditor who has working experience in Big Four for 2 - 5 years.

The sample in this research is 65 senior auditors working in Big Four. The reason is because senior auditors are assigned to be deployed directly to the field to collect audit evidence, so that the auditor's decision in giving audit opinion depends on audit evidence obtained from senior auditor.

Therefore, the senior auditor must be skeptical in collecting audit evidence because the skepticism of the senior auditor will lead them to always ask about any possible guidance as a fraudulent financial reporting. Senior auditors will also feel more immediate time budget pressure because when deployed directly to the field, the senior auditor will face a situation where the time budget given is not balanced with the work to be done so that the planned time allocation in order to collect audit evidence to be reduced from the time it should . As a result, dysfunctional behaviors arise that result in senior auditors lowering the level of detection and fraudulent financial reporting investigation.

## VARIABLE OPERATIONAL

1. Independent Variable

   a. Professional Skepticism (X1)
   Hurtt (2010) developed a model for measuring professional skepticism and identified it in 6 (six) characteristics :
      a. Questioning Mind
      b. Suspension of Judgment
      c. Search for Knowledge
      d. Interpersonal Understanding
      e. Autonomy
      f. Self-Esteem

   b. Time Budget Pressure (X2)
   Otley and Pierce (1996) developed a model for measuring time budget pressures and identified them in 4 (four) characteristics :
      a. Budget Tightness
      b. Budget Attainability
      c. Participation
      d. Influences Over Time Budgets

2. Dependent Variable (Y)
   The auditor's ability to detect fraudulent financial reporting is measured using the model used by Tubbs (1992), that is, the auditor identifies the irregularities that occur in the financial statements, which the researcher makes in the case form.

## RESULTS AND DISCUSSION

**Table 1 : Simultan Regression Coefficient Testing**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 41,639 | 2 | 20,819 | 17,853 | ,000[b] |
| | Residual | 72,300 | 62 | 1,166 | | |
| | Total | 113,938 | 64 | | | |

a. Dependent Variable: Kemampuan Auditor (Y)

b. Predictors: (Constant), Tekanan Anggaran Waktu (X2), Skeptisisme Profesional (X1)

Based on Table 1, it can be seen that the value of F count is 17,853 with a significance value of 0.000. This value becomes the test statistic that will be compared with the F table value where in table F for $\alpha$ = 0,05 and df1: 2 and df2: n-k-1 (65-2-1) = 62, the value of F table is 3.145. Since F count (17,853) is greater than F table (3.145) then at error level 5% ($\alpha$ = 0,05) it is decided to reject Ho and accept Ha. This means that with 95% confidence level can be concluded that professional skepticism and time budget pressure simultaneously affect the auditor's ability in detecting fraudulent financial reporting.

**Table 2 : Partial Regression Coefficient Testing**

**Coefficients**[a]

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 8,313 | 1,414 | | 5,878 | ,000 |
| | Skeptisisme Profesional (X1) | ,075 | ,020 | ,384 | 3,666 | ,001 |
| | Tekanan Anggaran Waktu (X2) | -,183 | ,051 | -,377 | -3,600 | ,001 |

a. Dependent Variable: Kemampuan Auditor (Y)

Based on Table 2, it can be seen that the value of t count obtained professional skepticism variable (X1) is 3,666. This value will be compared with the t table value in the t distribution table. With $\alpha = 0.05$, df = n-k-1 = 65-2-1 = 62, obtained t table value for two-party test of (± 1.999). From the above values it can be seen that the t count value obtained by professional skepticism (X1) is 3,666> t table (1,999), according to the hypothesis testing criteria that Ho is rejected and Ha accepted. This means partially, professional skepticism has a positive effect on the ability of auditors in detecting fraudulent financial reporting (Y).

Based on Table 2, it can be seen that the t count obtained by time budget pressure variable (X2) is -3,600. This value will be compared with the t table value in the t distribution table. With $\alpha = 0.05$, df = n-k-1 = 65-2-1 = 62, obtained t table value for two-party test of (± 1.999). From the above values it can be seen that the t count obtained by time budget pressure variable X2 is -3,600> t table (-1,999), according to the hypothesis testing criteria that Ho is rejected and Ha accepted. This means partially, time budget pressure negatively affect the ability of auditors in detecting fraudulent financial reporting (Y).

**CONCLUSIONS**

Based on research that has been done before, it can be concluded that professional skepticism and time budget pressure simultaneously affect the auditor's ability in detecting fraudulent financial reporting. Test results show that professional skepticism positively affects the auditor's ability to detect fraudulent financial reporting and time budget pressure negatively affect the auditor's ability to detect fraudulent financial reporting.

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