

The Effect of Audit Experience and Audit Risk on Audit Judgment with Auditor's Perceptions of the Code of Ethics of Public Accountants as Moderating Variables

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Abstract. This research purposes to empirically analyze the effect of audit experience on audit judgment, to determine auditor's perception of the code of ethics of public accountants as moderating variable that affect audit experience on audit judgment, to assess the effect of audit risk on audit judgment, to determine auditor's perception of code of ethics of public accountants as moderating variable that effect of audit risk on audit judgment. This research used a sample of 140 external auditors who work in the KAP at DKI Jakarta period 2016-2020. Based on method convenience sampling. Data were obtained through a mail survey and personal survey. The analytical method used in this study is Moderated Regression Analysis (MRA). The result of this research indicates that; audit experience not effect significantly on the audit judgment, auditor's perception of the code of ethics for public accountants is not moderating variables that affect of audit experience on audit judgment, audit risk not affect significantly on the audit judgment, auditor's perception of code of ethics for public accountants is moderating variable that effect of audit risk on audit judgment.

Keywords: Audit Experience, Audit Risk, perception of code of ethics for public accountants, and Audit Judgment

1 Introduction

In recent decades, the profession of external auditor (public accountant) has been under sharp scrutiny from the general public because auditors are seen as acting instead to serve or become advocacy for clients. The disclosure of the Jiwasraya case in 2018 caused a loss of up to Jiwasraya's capital minus, and the State is estimated to have suffered a loss of up to Rp. 13.7 billion (beritasatu.com). In this case, it can see that the auditors who audited Jiwasraya have failed to detect or disclose fraud in their financial statements. Such failures can occur because *professional judgment* is not implemented in auditing financial statements [1].

The auditors in making *judgments* must use their professionalism as accountants. According to the ISA 200, *professional judgment* is the application of relevant knowledge and experience, in the context of auditing, *accounting*, and ethical standards, to reach

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appropriate decisions in situations or circumstances during the running of audit assignments and personal qualities, meaning that *judgment* differs among experienced auditors (but training and experience are intended to encourage consistency in *judgment*).

Some experts conduct various studies on factors that influence audit *judgment*. Jayanti [3] conduct research that affects Independence, Experience, Complexity of Tasks, Pressures of Obedience, and Auditor Ethics on Audit *Judgment*. Auditor experience, locus of control, and knowledge of detecting errors positively affect audit judgment [4]. In addition, *audit judgment* can also be affected by audit risk. Audit risk occurs if the auditor, unwittingly, does not modify their opinion as appropriate on a financial statement containing material misstatements. The existence of standard audit reports in the examination of financial statements aims to obtain adequate (not absolute) confidence that the audited financial statements have been free from material misstatements. Rachmawati et al. [5] indicate that audit risk affects the auditor's judgment.

These audit and experience risk factors can also be influenced by one more element, namely the auditor's perception of the public accountant's code of conduct. This is in line with the fact that an external auditor is inseparable from ethics about the *judgment audit* process, dilemmas. The dilemma arises when an auditor is confronted with choices between values as opposed to the client, which asks the auditor to take actions that violate the standards of examination. It found that ethical perceptions affect audit *judgment* [6]. It is argued that the role of the code of ethics is essential in determining audit *judgment* [7].

From the background above, the author is interested in researching whether the auditor's perception of the public accountant's code of conduct can strengthen the effect of the audit experience and audit risk on audit *judgment*.

2 Literature Theory and Hypothesis Development

2.1 Effect of Audit Experience on Audit Judgment

Some research shows that the auditor's experience contributes significantly to the *judgments* made by the auditor. Experience can also affect the auditor's predictive and detection ability against fraud to affect the *judgment* taken by the auditor. Experience is an important attribute that the auditor has.

Learning orientation has a more substantial effect on audit judgment performance than the objective orientation of performance approaches and performance avoidance. Self-efficacy mediates the effect of goal orientation when audit tasks are less complex than when tasks are more complex, so the audit experience affects decision making in audit judgment [8]. Pfulgrath et al. found that experience affects audit *judgment* [7]. Suraida [9] suggests that experience affects audit *judgment*. As for the research, Septyarini [14] and Tampubolon [15] say that the auditor's experience does not affect audit *judgment*. Based on the above understanding, it can be concluded the following research hypotheses:

H1: Experience has a significant effect on *audit judgment*.

2.2 Auditor's Perception of Accountant Code of Ethics Can Moderate The Effect of Audit Experience On *Audit Judgment*

The auditor's understanding of the code of ethics affects audit *judgment*. Perceptions between auditors and clients are sometimes different, which leads to conflict. Conflict situations occur when the auditor meets the client's demands meaning they are passing the rules or vice versa, and if the auditor does not complete the client's needs request, then the auditor will receive sanctions from the client in the form of possible termination of the

assignment. Therefore, each ethical and moral perception plays an important role in the auditor's decision making. Fitriani and Daljono [6] Found that ethical perceptions affect audit *judgment*. It is argued that part of the code of ethics is essential in determining audit *judgment* [7]. An auditor who understands the code of ethics will tend to make the right *judgment* compared to an auditor who does not understand the code of ethics. It also reveals auditors with good ethics in obtaining information about client financial statements must be in accordance with established standards [10]. Based on the above understanding, it can be concluded the following research hypotheses:

H2: Auditor's Perception of Accountant Code of Ethics can Moderate the effect of Audit Experience On *Audit Judgment*.

2.3 Effect of Audit Risk on *Audit Judgment*

Audit risk occurs if the auditor, unwittingly, does not modify their opinion as appropriate on a financial statement containing material misstatements. Dutta [11] demonstrates that underestimating audit risk can occur if the audit risk model is used without explicitly considering the risks associated with fraud committed by management. It is revealed that audit risk affects the *skepticism of the auditor's professional* [9]. Rachmawati [5] indicate that audit risk affects the auditor's judgment. Based on the above understanding, it can be concluded the following research hypotheses:

H3: Audit risk has a significant effect on *audit judgment*

2.4 Auditor's Perception of Accountant Code of Ethics can moderate the Effect of Audit Risk on *Audit Judgment*

Audit risk is the risk of providing an improper audit opinion on financial statements that are materially misserved. The purpose of an audit is to reduce the risk of this audit to a low level that the auditor can accept. Ethics is important because the auditor must perform his duties as an opinion giver on financial statements. High ethics will be reflected in the auditor's attitudes, actions and behavior. Auditors with good ethics in obtaining information about the client's financial statements must be in accordance with established standards [10].

The research results [9] found that audit and ethical risks strongly affect the professional *skepticism* of auditors and the accuracy of the provision of auditor opinions by public accountants. It found the same thing that ethics affect professional *skepticism*. It was also found that ethical orientation is significant with *audit judgment* [12]. Based on the above understanding, it can be concluded the following research hypotheses:

H4: Auditor's Perception of Accountant Code of Ethics can moderate the Effect of Audit Risk On *Audit Judgment*.

The thinking model can present this research in Figure 1 below based on the theoretical study outlined earlier.

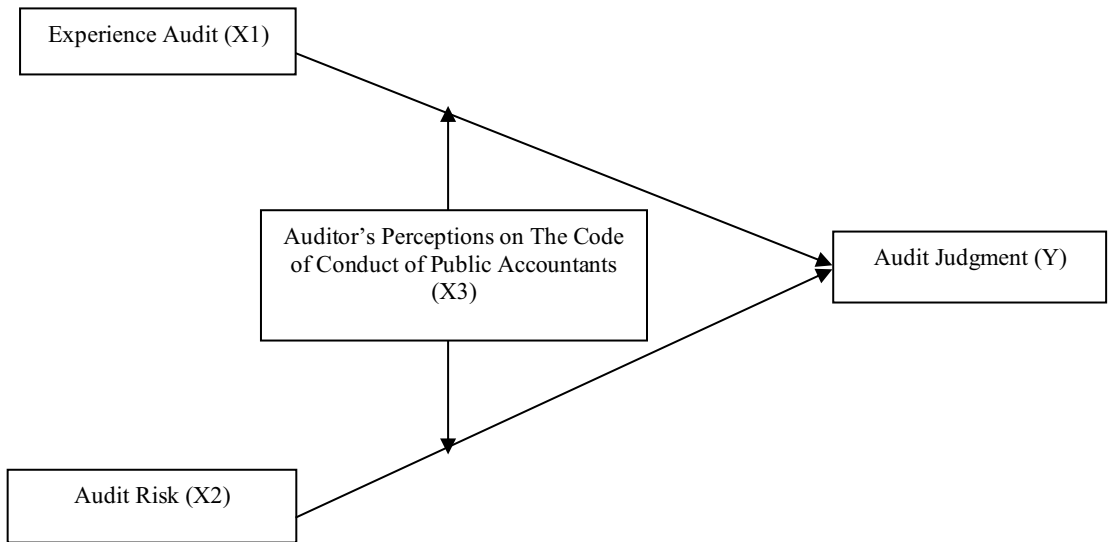


Fig. 1. Research Framework Model

3 Research Method

This study used a population of external auditors working at the Public Accounting Firm (KAP) in Jakarta registered with the Indonesian Akuntan Association (IAI) Directory for 2016-2020. As for the sample in this study, there were 140 External Auditors in Jakarta. The sampling technique used in this study was the convenience sampling method. The respondent criteria were external auditors who work at the Public Accounting Firm (KAP) in Jakarta in accordance with the Director of the Indonesian Akuntan Association (IAI) in 2016-2020 with work experience of at least one known. The data collection method used was the *mail survey* method and *personal survey*. The analytical method used in this study was *Moderated Regression Analysis* (MRA). MRA is a specialized application of multiple linear regression in which it contains elements of regression equation interaction (multiplication of two or more independent variables) [13].

4 Results and Discussion

4.1 Research Instrument Test Result

Testing of research instruments both in terms of validity and reliability of 137 respondents obtained that the results of the research instruments used were valid at a significance level of 5%, and the coefficient of reliability (Cronbach Alpha) was more significant than 0.6 [13].

The results of the normality test using the Kolmogorov-Smirnov test amounted to 0.909. Based on the testing criteria, because the probability value was > 0.05 , it can conclude that the regression error (residue) data was a normal distribution. The heteroskedasticity test using the Glejser test showed that all variables have a Sig value more significant than the level of $\alpha = 0.05\%$. This indicates that residual (error) that arises from the regression equation has the same variant or does not occur heteroskedasticity.

4.2 Hypothesis Test Result

The results of the statistical t test can be seen in Table 2 below.

Table 2. Statistical Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9,188	3,859		2,381	,019
	PA	,055	,893	,053	,061	,951
	RA	-1,430	,926	-1,377	-1,543	,125
	KEA	-1,795	,905	-1,749	-1,984	,049
	PA* KEA	,045	,205	,313	,222	,825
	RA*KEA	,410	,219	2,888	1,876	,063

Dependent Variable: AJ

Source: SPSS 20.0

The results of the equation using coefficients are as follows:

$$AJ = 9,188 - 0,55 PA - 1,430 RA - 1,795 KEA + 0,045 PA*KEA + 0,410 RA*KEA + \varepsilon$$

1. Audit Experience on *Audit Judgment*

From the results of the test t, it is known that the value of t-calculated Audit Experience to *Audit Judgment* is 0.061 with a significance level of 0.951 (≥ 0.1). It can then conclude that hypothesis 1 (H_1) is rejected, which means the audit experience does not affect the *audit judgment*.

2. Experience auditing *judgment with* auditors' perception of the code of ethics of public accountants as a moderation variable.

From the results of the test t, it is known that the value of t-calculate the audit experience of *audit judgment* with the auditor's perception of the public accountant's code of ethics as a moderation variable of 0.222 with a significance level of 0.825 (≥ 0.1). It can then conclude that hypothesis 2 (H_2) is rejected, which means that the audit experience with auditor perception variables about the public accountant's code of ethics as moderation does not significantly affect the *Audit Judgment* so that the auditor's perception of the public accountant's code of ethics is not a moderating variable but is an intervening, exogen, antecedent or predictor.

3. Risks of Audit Audit to *Audit Judgment*

From the results of the test t, it is known that the value of t-calculated Audit Risk to *Audit Judgment* amounted to -1.543 with a significance level of 0.125 (> 0.1). It can then conclude that hypothesis 3 (H_3) is rejected, which means that audit risk has no effect on *audit judgment*.

4. Audit Risk to *Audit Judgment* with auditor's Perception of Public Accountant Code of Ethics as Moderation Variable.

From the results of the test t, it is known that the value of t-calculate the risk of the audit against *the audit judgment* with the auditor's perception of the public accountant's code of ethics as a moderation variable of 1.876 with a significance level of 0.063 (≤ 0.1). It can then conclude that hypothesis 4 (H_4) is accepted, which means there is a positive influence of audit risk on *audit judgment* with the auditor's perception of the public accountant's code of ethics as a moderation variable. The risk of auditing the *audit judgment* with the auditor's perception of the public accountant's code of ethics as a

moderation variable is included in the type of quadrant moderator variable 3, namely *quasi moderator* (pseudo moderator), where the auditor's perception of the public accountant's code of ethics relates to *the audit judgment* and the auditor's perception of the public accountant's code of ethics as a moderation variable when interacting with audit risk has a significant effect on *audit judgment*.

4.3 Discussion of Research Result

4.3.1 Effect of Audit Experience on Audit Judgment

From the results of data analysis and hypothesis testing above, it is known that the audit experience does not affect *audit judgment*, so we can conclude that the results of this study do not support the hypothesis that the audit experience affects *audit judgment*. That is because the sampling procedure is not perfect. After all, the number of respondents is not too large, and work experience as an auditor is dominated by 78 (56.9%) experienced 0-2 years, 37 (27.0%) experienced 2-5 years, 9 (6.6%) experienced 5-10 years and 10 (9.5%) experience >10 years. In addition, the positions resulting from respondents were uneven, especially among managers and partners, but who answered the most to junior auditors by 72 (52.6%), seniors by 51 (37.2%), managers by 8 (5.8%), and partners by 6 (4.4%).

So that the auditor in making an audit consideration (audit judgment) has no effect because the respondent is generally a junior and senior auditor who in his duties as a member in a team only while who will make the *audit judgment* is the manager and partner. The results of this study are in line with Septyarini [14] and Tampubolon [15], which say that the auditor's experience does not affect *audit judgment*. However, it does not support the results of Pfulgrath [7] and Suraida [9], which suggest that experience has an important role in determining *audit judgment*.

Based on cognitive theory, practices in the field of auditing as independent auditors can be a means of learning and experience for auditors. The auditor will integrate the experience and knowledge in carrying out future tasks. So that the auditor's expertise and knowledge will continuously develop and support the auditor to make *professional judgments*.

4.3.2 Auditor's Perception of Accountant Code of Ethics can Moderate the Effect of Audit Experience on Audit Judgment

From the results of data analysis and hypothesis testing above, it is known that the auditor's variable of the public accountant's code of ethics is not a moderating variable but an intervening, exogen, antecedent, or predictor. Thus, the auditor's association with a high accountant's code of conduct does not strengthen the relationship between the audit experience and the *Audit Judgment*. So, the results of this study do not support hypothesis 2.

The code of ethics established by the Indonesian Accountants Association (IAI) is an indicator of the auditor's perception variables about the public accountant's code of ethics, namely professional responsibility, public interest, integrity, objectivity, competence, professional ingenuity and prudence, confidentiality, and professional behavior. The auditor's perception of the public accountant's code of conduct is not a moderating variable that can affect the experience of *audit judgment*, this can happen because accountants are often faced with a situation of dilemmas that cause and allow accountants cannot be independent. Conflict situations occur if the auditor meets the client's demands meaning he is violating the rules or vice versa. If the auditor does not meet the client's requests, then the auditor will receive sanctions from the client in the form of a possible termination of the assignment. This audit

conflict will develop into an ethical dilemma when the auditor must make judgments regardless of the auditor having longer or shorter experience.

It is stated that the role of experience and code of ethics is very important in determining *audit judgment* [7]. An auditor who understands the code of ethics will tend to make the proper *judgment* compared to an auditor who does not understand the code of ethics. However, the auditor's perception of the public accountant's code of conduct is not determined by the magnitude or length of time a person becomes an auditor. So more experienced auditors don't necessarily have a better perception of an accountant's code of conduct than an inexperienced auditor. Thus, the auditor's perception of the public accountant's code of conduct is not a moderating variable to not strengthen the relationship between the audit experience and the audit *judgment*.

4.3.3 Effect of Audit Risk on Audit Judgment

From the results of data analysis and hypothesis testing above, it is known that audit risk has no effects *on audit judgment*, so it can conclude that the results of this study do not support hypothesis three that states that audit risk affects *audit judgment*. That is because the sampling procedure is not perfect. After all, the number of respondents is not too large. The positions resulting from respondents are uneven, especially among managers and partners but who answer the most to junior auditors by 72 (52.6%), seniors by 51 (37.2%), managers by 8 (5.8%), and partners 6 (4.4%).

Managers or partners make audit risk before the audit process is carried out, so the audit risk does not affect *audit judgment* because respondents in this study are generally junior and senior auditors who are in their duties as members in a team only while those who will make *audit judgments* are managers and partners. The results of this study do not support the results of Suraida [9] and Rachmawati et al. [5] indicate that audit risk affects the auditor's judgment. Dutta [11] demonstrates that underestimating audit risk can occur if the audit risk model is used without explicitly considering the risks associated with fraud committed by management.

Inherent risk, control risk, and detection risk are indicators of audit risk variables. According to ISA 200.A34, the risk of material misstatements can occur at two levels: at the level of the overall financial statements and the level of assertion for the types of reports, account balances, and disclosures. ISA 200 A says that auditors are not expected to, and cannot, reduce the audit risk to zero and therefore cannot obtain absolute insurance that financial statements are free from material misstatements caused by fraud or misconduct. That is due to the innate constraints in an audit that cause most audit evidence (which is the basis for the auditor's conclusions and opinions) to be *persuasive* and not *conclusive*. The inherent constraints in an audit arise from: the nature of financial reporting, the nature of audit procedures, and the need for the audit to be carried out within a decent period and at a decent cost [2].

4.3.4 Auditor's Perception of Accountant Code of Ethics can Moderate the Effect of Audit Risk on Audit Judgment

From the results of data analysis and hypothesis testing above, it is known that the auditor's perception variable about the public accountant's code of ethics is a moderating variable because of the interaction of audit risk to audit *judgment* with the auditor's perception of the public accountant's code of ethics as a moderation variable, including the type of quadrant moderation variable 3, namely *quasi moderator* (pseudo moderator). Thus, the auditor's association with a high accountant's code of conduct strengthens the relationship between audit risk to *Audit Judgment*. So, the results of this study support hypothesis 4.

The role of audit risk and code of ethics is significant in determining *audit judgment* [9]. An auditor who understands the code of ethics will tend to make the proper *judgment* compared to an auditor who does not understand the code of ethics. Can determine the auditor's perception of the public accountant's code of ethics by the auditor's ability to detect audit risks. So, an auditor who can minimize the risk of auditing by not committing violations that have been implemented in conducting audits and complying with the code of ethics as an accountant in carrying out his duties will affect the *audit judgment*. Thus, the auditor's perception of the public accountant's code of ethics is a moderating variable.

The code of ethics established by the Indonesian Accountants Association (IAI) is an indicator of the auditor's perception variables about the public accountant's code of ethics, namely professional responsibility, public interest, integrity, objectivity, competence, professional discernment and prudence, confidentiality, and *professional* behaviour. The auditor's perception of the public accountant's code of ethics is a moderating variable that can affect audit risk to audit judgment. However, auditors are often faced with situations of dilemmas that cause and allow auditors to be independent. Still, the auditor's perception of a high public accountant's code of conduct can strengthen the relationship between audit risk to audit *judgment*.

5 Conclusions, Limitations and Suggestions

5.1 Conclusions

Based on the results of research and improvement outlined in the previous chapter, the following conclusions are: Audit experience does not affect *audit judgment*. This hypothesis one is rejected. This indicates that the audit experience does not affect the *judgments* made by the auditor. Auditors' perceptions of the public accountant's code of conduct cannot moderate the influence of experience on *audit judgment*. This hypothesis two is rejected which means that the auditor's perception of the public accountant's code of ethics is not a moderating variable. Audit risk does not affect *audit judgment*. This hypothesis three is rejected, this indicates that the audit risk does not affect *judgment* made by the auditor. Auditors' perception of the public accountant's code of ethics can moderate the effect of audit risk on *audit judgment*. This hypothesis four is accepted, which means that the auditor's perception of the public accountant's code of ethics is a variable moderating.

5.2 Limitations of Research

This research is basically in accordance with research procedures and meets the methodological principles of analysis. However, admittedly the results of this study, there are still shortcomings that can affect the results of this study. The author has made efforts and efforts to avoid things that can reduce the results of this study, but because of the lack of maximum collection of sample data, the busyness of the auditors because the process of taking questionnaires along with the activities of auditors is dense so that it could be that the respondents, in this case, external auditors fill it out in accordance with their conclusions and not based on the reality that happened and experienced by the auditor, so it isn't to distinguish the objective and subjective views that respondents may give.

5.3 Suggestions

This research in the future is expected to present more qualified research results with several things including further research is recommended for filling out questionnaires that

should be done by managers, supervisors and partners who in their duties provide an audit consideration.

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