The Influence of Culture Related Factors on Auditor Performance in Indonesia

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Abstract   This paper aims to explore the influence of cultures on auditor performance. The qualitative case study used key respondents representing clients, auditors and users of audited financial reports. The data were gained through in-depth qualitative interviews. The data analysis used thematic analysis approach. The research findings show that there are different types of cultural values influences on auditor performance. The impact of cultures may impact both positively and negatively on the auditor performance. The finding of the research has practical implication for future research, policy makers, auditors and clients. This research contributes to the extension on the knowledge of cultures and auditing since there is still limited publication on the influence of national cultures in auditing especially on auditor performance. This research fills the current gap. Further, this research adds empirical findings to the literature on cultures and auditing. In summary, the result of the study identifies the influences of local cultures in auditing: prioritizing seniority, maintaining the culture of family, and cultural compromise. These key findings can be seen as the extension of the knowledge debate on the influence of cultures in auditing. The finding can be used as a reference for future research and a guide for policy makers in auditing process. This qualitative finding can provide an understanding of the local cultures and the impact on auditing in a collective society.

Index Terms   auditing, audit quality, auditor performance, culture, society

I. Introduction

The theme of cultural issues on auditing has become one of the main issues among researchers in the current digital economy across the globe. This is due to that culture can shape the way auditors as well as public accountant offices conduct their tasks [1], [2], it can influence the ethical judgement of accountant and auditors [3], it may influence the result of auditing [4], and it can impact on the auditors' performance analysis [5]. From these reasons, the influence of cultures in the auditing activities are worthy for further investigation.

The research on the influence of cultural issues in auditing has been investigated by several researchers in many different themes. For instance, Duff [6] studied the impact of cultures in the accounting business, while Patel et al. [7] investigated the role of culture on professional judgment of Australian, Indian, and Chinese Malaysian accountants with regard to auditor-client conflict resolution. For instance, Lin and Fraser [8] investigated how auditors from various cultural backgrounds view their capacity to tolerate client pressure. These studies demonstrate the significance of cultural influences on auditing.

Despite a large number of studies conducted in western contexts, there is limited research conducted in Indonesian contexts [9]. Consequently, the information and knowledge of the influence of local cultures on auditing in Indonesia is limited. Therefore, this research fills this knowledge gap. This article explores the influence of local cultures on auditing, especially on auditor performance.

A. Concepts of auditing and cultures

According to Hay et al. [10], auditing is an assurance service that enhances the quality of information or its context. Ensuring the correctness, dependability, and trustworthiness of a company's reporting information is the purpose of auditing. Therefore, auditing help to better understand the financial statements of the company.

Meanwhile, several definitions of the local cultures are summarized here. Lum [11] states that local cultures are inner values of the individual and existing social and cultural connections in the local communities. This definition means that local cultures relate to abstract values underpinning the lives of society. In addition, local culture comprises ideas, rules, and material dimensions [12]. It indicates that local cultures include material dimension of the culture [13]–[15]. From these definitions, local cultures relate to inner shared values of people in communities including both abstract and material dimensions.

The connection between auditing and local cultures is that local cultures tend to influence auditors' performance such as in process of making a decision regarding audited financial

statements. Therefore, it is important to understand the type of local cultural values involved in the auditing process especially in the country such as Indonesia where it is known as high contact cultures.

B. Influence of local cultures on auditing

Many studies have conducted research on the influence of cultures on auditing worldwide. However, this paper presents the most relevant investigations on the issue of auditing and local cultures.

For instance, Lin and Fraser [8] investigated how auditors from various cultural backgrounds view their capacity to tolerate client pressure. According to their research, opinions of auditors' abilities to withstand client pressure in audit dispute scenarios will vary depending on their cultural background. This study suggests that various cultural characteristics may lead to differing perceptions of the auditing process and audit results.

In their 2002 study, Patel et al. [7] investigated the impact of culture on the professional judgment of Chinese, Indian, and Australian accountants in Malaysia with regard to the settlement of conflicts between auditors and clients. Their findings offered factual backing for the claim that accountants from various cultural origins make distinct professional decisions. One of the factors taken into account in the study was the prominence of status ties and hierarchies in Indian and Chinese Malaysian society compared to Australian society, while comparing professional accountants from these three countries. It was anticipated that the client's possibly strong position would affect the professional accountants' decisions in Malaysia who are Chinese and Indian. In a similar vein, Nasution and Östermark [16] discovered that in a society with low individuality and great power distance like Indonesia, societal factors impact auditors' assessment.

Smith and Hume [17] suggested that fairness and appropriateness of behaviour may be influenced by cultural dimensions within a society. Their study was focused on the examination of the link between ethics and cultural dimensions. Smith and Hume [17] argued that, when individuals from collectivistic cultures faced ethical issues, which affect organizations as a whole, they are expected to prefer an action that serves the greater good of the organization. Even in situations where dubious circumstances are being evaluated, leaders are likely to expect loyalty and devotion from their subordinates [7]. Moreover, Alas [5] proposed that the ethical standards that are wanted in a particular society may be predicted by certain aspects of national culture. Even if such actions are unethical, they would be acceptable in a collectivistic culture if they served a greater purpose.

Furthermore, perceptions of appropriate ethical actions could differ as a result of a country's different values [18]. For example, Ge and Thomas (2008) showed that participants from a high-power distance and high collectivism country have lower ethical reasoning than participants from countries with opposite values. This suggests that ethical perceptions are sensitive to cultural values.

The influence of cultures on auditing show that cultural values are significant variables in determining ethical decisions, fair and valid auditing, fairness and appropriateness of attitudes of auditors. In regard to this paper, the basis argument is that there is a role of cultural values on auditor performance.

II. Method

A. Research design

The research design used is a descriptive case study. The design of qualitative case study research is to understand issues by investigating the perspectives of individuals in real setting [19]. Therefore, qualitative case study is appropriate design to understand the influence of culture in auditing.

The instruments of data collection used semi-structured interview questions. Semi structured interviews allow the researchers of the flexibility to prompt additional questions during interview sessions [20]. The type of semi-structured interviews is in the form of conversational and informal tones [21].

B. Participants' recruitment for this study

This paper aims to explore the important of competence in auditing in Indonesia from cultural perspectives. The qualitative study used with the 12 key subjects of the research representing four subjects of each party in audit market: clients, auditors, and users. The in-depth qualitative interviews were applied and the data were analyzed via thematic analysis approach.

All participants are recruited to purposively based on their voluntary participation. The procedure for participants recruitment is that researchers identify several auditing companies. Then, researchers send the official letters to auditing companies for voluntary participation in this research. Then, head of auditing companies suggest the potential auditors, clients and users. All potential names are given to researchers, then the researchers contact them personally to invite to participate in this research voluntarily. Once they agree, the researchers arrange for interviews.

Based on the preferences of the participants, the interviews were held in the offices of the respondents. Every interview commenced with broad inquiries concerning matters pertinent to the individuals involved. Participants were free to respond to queries and voice their own opinions as a result. It took forty minutes to an hour for each interview. To organize the interview process, a list of questions and an interview guide were created. The questions were designed so that the interviewees could respond openly. Twelve major questions were asked. Each question was designed to reveal how the participants perceived the influence of cultures in auditing.

C. Data analysis

Data analysis approach used in this study is thematic analysis. Thematic analysis a useful analysis tool for qualitative research [22]. For this study, data from participants are analyzed thematically beginning with the identification of themes and
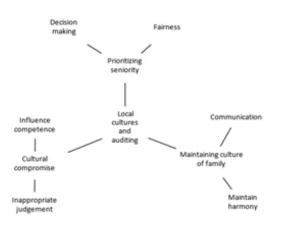
Figure 1: Influence of local culture on auditing

sub-themes of the interview transcripts and then identifying the core themes and core categories of the data.

D. Trustworthiness of the research

To ensure the trustworthiness of the research, researchers performed member checking. To do member checking, researchers sent back the interview transcripts to research participants. Therefore, participants of the study have the opportunity to check, to add and to review the transcripts of the interview.

E. Ethics approval

The ethical issue of this proposal has been approved by The State University of Makassar Ethics Committee in 2021. The letter approval of this research will be available upon the request. To ensure the protection of privacy and confidentiality of participants, the research avoid using their real names, but researchers used pseudonyms: Ali, Andi, Ary, Cerry, Cuan, Chen, Usmet, Ushi and Udin. Therefore, anonymity of the participants is strictly adhered in this study.

F. Limitation of the study

Our study was conducted with small participants so that it cannot be generalized for broader population. It may not represent wider perspectives because it recruits participants in one city.

III. Findings and Interpretations

From the thematic analysis, we found three types of influences of local cultures in auditing: prioritizing seniority, maintaining the culture of family, and cultural compromise (Figure 1).

A. Prioritizing Seniority

Prioritizing seniority is all decision making in auditing is strongly influenced by seniors. For example, in conducting the audit process, junior auditors must report to seniors. The reason for this is due to the rules and procedures in auditing to

report to seniors. The report is given to seniors also expressed by a participant below:

. . . whatever the audit results are, we need to confirm it first with the senior. . . it is the superiority of the senior. . . we might expect that the roles of seniors are dominant in the case of auditing (Ali).

Further, a junior is also called subordinates expected to consult with the senior any decision to be made. Another participant commented on this issue:

. . . It is expected that a junior should comply with his/her senior. . . so. . . whatever the decision that is the provision of the eldest one. That is the kind of the culture that occur around here (Andi).

In addition, seniors in the audit process have strong authority over juniors. This exercise of senior powers influenced the final result of financial report, as it is expressed by one of the auditors:

. . . in the end, the final report will be signed by a senior. . . so the last decision is by the superior. . . They are the one of who decide to provide final decision of the report (Ary).

From these three extracts, they show that there is a strong pattern superior-subordinate relationships between senior and junior auditors. Also, it describes the inequality among auditors. Consequently, such superiority and unequal relationships may influence the fairness and credibility of the decision making.

B. Maintaining culture of family

Maintaining family culture refers to the culture where auditors and clients establish relationship as a family, even though they have no familial hierarchical connection. For example, when auditors who perform auditing in clients' firm more than once, the clients consider auditors as part of their family. This is also expressed by one of the auditors:

In conveying audit results, I think the most important thing is how to communicate it with the client. . . in a way that it can be well accepted is like a family. Therefore, the compromise result of the audit is like the concept of family which means that the discussion is done in a very informal way (Cerry).

The above quotation indicates that a communication skill of auditors should reflect the way they communicate with their family. The reason for this is that they would like to maintain respect among them and avoid embarrassing communication fails between clients and auditors. The family communication type is the one that is acceptable within the research context as expressed by participants below:

The way we communicate. . . we prefer a polite way like a family when we informed about something. That is what we expect. That is very informal way. It is like a family communication (Cuan).

If there is a problem or an error in our financial reports and the auditor notifies us. . . it would be uneasy for us to accept. . . but if it is delivered in a respectful family way then it would be much easier. . . anyway we also do not want to have any problems in the future. . . (Chen).

It is expected that clients and auditors to establish a familial communication mode that does not create others feel embarrassing and losing their faces. It is understandable that interviewees reflected this social norm in considering auditors' competence such as the following statement:

In my opinion... competence is important. It's just that when we conduct the audit process, we have to consider other things... such as... mind our manner. But competence is a must. If we want to produce a good audit result then we need a competent auditor with a good reputation (Usmet).

In solving disagreement between clients and auditors, one side tends to use the approach where auditors seen as part of their family. It is expressed by a participant below:

In conducting our work sometimes there are other things that could influence us, but for me... as long as it still can be tolerated and immaterial... then it should not be a problem... (Ushi).

These interview findings provide the explanation that individuals in a collectivist society tend to have mutual obligations to maintain their society's harmony. One of the ways to do this is by considering auditors as part of their family. Consequently, this culture of family may influence the process of auditing and the compromise result of auditing activities.

C. Cultural compromise

The cultural compromise here means the negotiation of the way they perform auditing, the result of auditing, and the decision making. In the context of cultural compromise, people in this society context consider rules as something that could not guarantee certainty. The negotiation reflects on both written and unwritten rules that are considered more a matter of convenience. People are able to live comfortably without rules. It is expressed by one of the participants below:

... the local audit firm is quite different... I feel. Maybe because management practices in a local firm are somewhat different from management practices in foreign firms. For example, foreigners usually prepare well and get used to following guides and rules. However, for Indonesians is it quite the opposite. So, in the Indonesian case... I think... the auditing standards should be stated clearly... in a way that the standards will not allow for multiple interpretations and compromise the rules (Udin). Such cultural compromise may impact on inappropriate judgment of auditing standard in performing audits.

Other interviewees were concerned about the rules when they discussed the audit tenure regulation. In Indonesia there is a regulation for audit tenure. PMK No. 17/PMK.01/2008 mandates an audit firm rotation every six years while an audit partner rotation every three years. The audit tenure issue, however, is still raising concerns from the users of financial statements in Indonesia. One participant admitted this:

... even though there is a policy on the limitation of the audit partner's tenure, in reality what really happens is not what is actually expected... (Ali).

Further, in the interview finding, it is not the rules that can guarantee a good application but how and who apply them.

The multi-interpretation of the rules and guidance in auditing standards may lead to the culture of compromise, where decision is negotiated. The implication is that existing auditing standards or regulations in Indonesia are not sufficient to provide users of audited financial statements assurance in high quality. For example, two participants commented:

I think the fees and other services provided by auditors could influence the judgment of the auditor. Therefore, it is very important to maintain regulations... (Andi).

I think we need to be forced to be able to implement the rules properly, without negotiations and multi-interpretation (Usmet). Thus, it can be said that the influence of local cultural may determine the judgments of the result of auditing, may influence auditor competence, and ethical decision making. This is the main concern of the users of audited financial statements in this context of the study. Furthers, cultural factors such as seniority, culture of family, and culture of compromise can influence the ability of auditors to perform their work competently.

The finding of this research is considered an extension of knowledge about on culture and auditing, such as a study on the influence of culture on ability of auditing [17] and audit quality [23]. For this study, there are important implication of the research:

Firstly, prioritizing seniority has implication that the flow of any decision in auditing contexts depend on the final decision of the seniors. It is like what Hofstede [24] expressed as one of the characteristics of management style which is subordinates are expected to be told what to do. In this context, the ability of auditors can be interfered by superiors during the audit process [7]. Further, the unequal situation between senior and junior auditors have impacted on the centrality of power. The centrality of power may consider the concentration of decision on very few top people [25]. With this condition, the audit situation may bring unsustainable working situation and inequality within the audit company. However, placing seniors as the center of decision making may bring positive impact when junior auditors have very limited experiences on auditing and financial report statements. Seniors may function as the guide for auditing process in this context.

Secondly, maintaining family culture in the contexts of auditing process may have both negative and positive outcomes. The positive impact is that there is a sense of togetherness which may influence the decision making. The togetherness can be seen as a polite way to maintain good communication between clients and auditors. It is assumed that auditors and clients could be seen as belonging to one group because they have mutual obligations to maintain harmony with each other. This value is important for people in a collectivist society, to help them conduct their tasks accordingly [26]. However, the family culture in audit process can bring detrimental impact on the judgement of the auditing report. It may impact also on the fairness and appropriateness of the financial statement reports.

Finally, the cultural compromise in the auditing process may be seen as a way to maintain harmony between clients

and auditors. This reflects what Hofstede [25] said as the key characteristics of a collectivist society is to maintain harmony. This is a situation where direct confrontation with another person should be avoided because it is likely to disrupt the established environment. Many researchers [7], [17], indicate a link between the collectivism cultural factor and the ethical decisions made by a professional accountant. The result explained the expectation, by superiors, of dedication and faithfulness from subordinates, even when questionable situations are being considered due to society's harmony is always a priority.

IV. Conclusion

The result of the study identifies the influences of local cultures in auditing: prioritizing seniority, maintaining the culture of family, and cultural compromise. These key findings can be seen as the extension of the knowledge debate on the influence of cultures in auditing. The finding can be used as a reference for future research and a guide for policy makers in auditing process. This qualitative finding can provide an understanding of the local cultures and the impact on auditing in a collective society.

It is suggested that future research with larger sampling from different geographical setting is recommended to be done. Future research may include the elements of competence factors, auditor personal quality, communication styles, and ethical decision making in auditing. It is also suggested that the study using mixed method research design with longitudinal mode can be conducted in the future to establish a comprehensive understanding of the cultures and auditing in many different settings.

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