

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Theory of Trait and State Professional Skepticism

Trait professional skepticism is a shape of psychological construct that each individual has no similarity, while state skepticism can be affected by some external factors such as culture dan situation of audit firm. This theory can be applied in this study because each student has their own level of skepticism before getting influences from external factors. However, if students have been affected by external factors such as work experience, bonuses, pressure from superiors or ethical dilemmas they will result in different skeptics. It is because their characteristics have been influenced by existing factors.

2. Definition of Professional Skepticism

The auditor's professional skepticism is an auditor attitude in conducting audit assignments in which this attitude includes thoughts that always question give docritical evaluation of audit evidence. Audit evidence is collected and assessed during the audit process, as long as the audit process of an auditor must apply skepticism professional. As an individual characteristic, professional skepticism can be both a trait a relatively stable, enduring aspect of an individual and also a state a temporary condition aroused by situational variables (Hurtt,2010).

American Institute of Certified Public (AICPA) defines professional skepticism as:

"Professional skepticism in auditing implies an attitude that includes a question of mind and a critical assessment of audit evidence without being obsessively suspicious or skeptical. The Auditors are expected to exercise professional skepticism conducting the audit, and in getting evidence evidence to support to rufutr management's assetion "(AU 316 AICPA).

The above explanation can be interpreted as an understanding of professional skepticism named AICPA as an attitude including the mind that always asks and does critical assessment of audit evidence without obsessive suspicion or skeptical. The auditor is expected to use professionals skepticism in conducting audits and in collecting sufficient evidence to support or deny the management statement. Based on the above understanding, it can be concluded that professional skepticism is an attitude that is owned by auditors to think critically about audit evidence owned during the audit process.

According to Gusti and Ali (2008), auditor professional skepticism can be influenced by several factors including expertise, experience, audit situations faced, and ethics. Expertise and experience are something which becomes an important component for the auditor in conducting audit procedures because the expertise of an auditor is also likely to affect the level of professional skepticism of the auditor. Butt

(1988) shows in his research that experienced auditors would make judgment that was relatively better in his duties. Auditors with more experienced audit must have been more experienced when compared to less experienced auditors. According to Libby and Frederick (1990) that the more experience the auditor, the more judgments he can make in explaining audit findings. This is reinforced by the results of the Fullerton (2005) study which shows that female internal auditors on average are more skeptical than male internal auditors.

3. Education Program.

Accounting Program in each university has different standard. This is because some universities have been accreditation by other companies or organization. ABC University has already been well accredited from Association of Chartered Certified Accountants (ACCA). In most cases, they are certified within one year after graduating. It is important to mention that there are differences in the course materials and teaching methods used in both graduate accounting programs. Within the accredited program, around 60–70% of the course materials, as well as the final exam tests, are provided by ACCA. This implies that they are applying consistent teaching methods, which are somehow different from the ones being used in the standard university graduate accounting courses.

Earlier studies find that the type and extent of an auditor's university education can affect how he/she perceives his/her role. For

instance, Monroe and Woodliff (1993) show that there are significant changes in students' audit beliefs about auditor responsibilities during their studies. However, the study by Gramling et al (1996) shows that there is no significant change in auditing students perspective on auditor responsibility. Ferguson et al. (2000) reveal that coop (internship) education programs can be an effective alternative means to formal education for educating students about auditing functions.

4. Association of Chartered Certified Accountants (ACCA)

The Association of Chartered Certified Accountants (ACCA) is the first global organization for professional accountants. ACCA has a goal to offer assistance to everyone who has a career ambition in accounting. In order to be proficient in accounting, finance and management. ACCA was founded in 1904. ACCA consistently provides its core values of unique, opportunity, diversity, innovation, integrity and accountability. ACCA presents to strengthen the global accountant profession based on the application of standards consistent, supporting international business and the desires of people who have the desire to have a successful career on an international level (ACCA, 2018). To date, ACCA has 162,000 members, 426,000 participants studying around 180 country. ACCA also works with 8,500 companies worldwide where every member and participant of ACCA learning has the opportunity to work in 8,500 of these companies. With the ACCA certification program this international standard can provide facilities for certificate holders to work internationally (ACCA,

2018). The ACCA employer network is spread over more than 180 countries with 91 branch offices throughout the world, ACCA degree holders will enjoy the service globally from a worldwide organization. To obtain an ACCA degree, there is a learning process and the candidate goes through several stages or levels, namely Diploma in Accounting & Business as follows (ACCA, 2018) consists of:

F1 - Accounting in Business

F2 - Management Accounting

F3 - Financial Accounting

The next level is the Advanced Diploma in Accounting & Business, consisting of:

F4 - Corporate & Business Law

F5 - Performance Management

F6 – Taxation

F7 - Financial Reporting

F8 - Auditing & Assurance

F9 - Financial Management

Getting an advanced diploma in accounting and business is one step closer to achieving an ACCA degree, because the next class to take is the professional class that was explained earlier. This class is intended for bachelor graduates with relevant accreditation degrees from recognized institutions.

Then, the last level is ACCA Qualification. This level is intended for undergraduate accounting graduates with accreditation degrees from recognized institutions. The ACCA Qualification is divided into two modules namely principal or compulsory modules consisting of:

P1 - Governance, Risk and Ethics

P2 - Corporate Reporting

P3 - Business Analysis

Module options comprises :

P4 - Advanced Financial Management

P5 - Advanced Performance Management

P6 - Advanced Taxation

Q7 - Advanced Auditing & Assurance

To obtain an ACCA degree, students need to do all exams. However, if the university where they study has been accredited by the ACCA, they will get an exemption. One of them is the ABC University Accounting Study Program which becomes one of the Accounting Study Programs in Indonesia that has been accredited by the ACCA. This ACCA accreditation will make it easier for FE ABC University Accounting Study Program students to get the ACCA degree. From 9 fundamental class modules, Accounting Study Program has been granted 8 course modul exemption. FE UII Accounting Study Program students who will take fundamental classes, need only to take the two module exams, namely the F5 (Performance Management) and F8 (Auditing & Assurance) modules. FE ABC University accounting study program also has a special class

where students focus on being able to take the ACCA test program to get an advanced diploma in accounting and business. It should be noted that such class has a curriculum of around 60% -70% of the material coming from the ACCA program. Therefore, the ACCA accounting program and accounting program standards are different in terms of material and examination.

The universities concern in comparing the measurement of the level of skepticism of their students. Comparing what auditors need be skeptical about is not only needed by auditors but also required by all accounting graduates who work in accountants in general. This is because to increase the sensitivity of financial reports that they get from clients or when they re-examine the financial reports in the company they work for.

5. The Six Constructs

First, the sentiment of sceptics can be build from the charactristic of searching for knowledge based on the philosophers point of view . Mautz and Sharaf (1961) identify one of the importance factors of being skeptical auditor is having high curiosity, and suggest that auditors should have an attitude of curiosity in the audit process. Hurtt (2010) indicates that the desire for knowledge is usually discussed in terms of individual curiosity.

Second, the audit judgement should be suspended until sufficient evidence is obtained (Hurtt, 2010). This statement can be an aspect of

professional scepticism that make a conclusion to be resolved. Mautz and Sharaf (1961) identify that the validation of audit judgement can be reached when sufficient evidence is obtained. If there is a dogmatic assertion, the auditor must suspend the judgment. This rule is the basic trait of professional scepticism (Hurt 2010).

Third, Mautz and Sharaf (1961), show that auditors care about their own determination. McGinn (1989) identifies skeptics as people who do not easily accept other people's claims. Philosophers view skeptics as holding back conclusions until they are satisfied that they have obtained sufficient evidences (Bunge 1991). SAS No. 1 also requires the auditor to obtain appropriate audit evidence during the audit.

Fourth, interpersonal understanding involves individual interest in the motivation and integrity of the evidence provider. This aspect of skepticism helps individuals get better understanding about motivation, and question the sources of information (Hurt 2010). Philosophical literature shows that understanding people's motivation is the key to understanding potential biases in perception (McGinn 1989; Kurtz 1992), and is a basic component of skepticism (Hurt 2010)

Fifth, Hurt (2010) shows that the characteristic of self-confidence can make auditors endure seduction attempts and question about the conclusion or assumption that the clients claim. The auditors should have professional ability and confidence to challenge others, rather than simply accepting what people present during the audit process.

Last, previous studies relate scepticism to suspicion or disbelief, and this has some similarity to the questioning construct (McGinn 1989; Nelson 2009). In the auditing standards, SAS Nos. 82 and 99 indicate that professional scepticism is an attitude that includes a questioning mind. The philosophical literature includes inquiry and active questioning as characteristics of sceptics (Stough 1969; Kurtz 1992). Kurtz (1992) indicates that doubt initiates inquiry and leads to the formation of beliefs. Thus, the questioning mind construct is an important aspect of scepticism in the literature (Nelson 2009).

B. Hypothesis Development

1. The Comparison of Accounting Program towards Professional Skepticism

Accounting students should obtain general education to acquire the professional skills and the knowledge of accounting education (Crawford, et al 2011). Thus, the goals of professional accounting education is to prepare students for gaining knowledge, abilities, and techniques needed in the auditing profession. Although the pervious researchers found that it was possible to build professional skepticism through formal accounting education, it is worth mentioning they only use on the very specific course, not accounting education in general. Therefore, it is difficult to conclude whether university accounting education in general can give an impact towards the students skepticism in a positive way. The authors also does not use the same

measurement such as HPSS, because it should also be noted that in this study use the Hurtt Profesional Skepticism Skale (HPSS) (Hurtt, 2010). Therefore, the results they obtained are difficult to compare with the results of other studies.

Some of the most recent research show that it is possible to effectively shape auditors' professional skepticism through university accounting program. For example, Ciolek, et al (2019) showed the significant increased of the skepticism coming from the student who is enrolled the ACCA accreditation (Association of Chartered Certified Accountants) compared to the other students who are enrolled the standard accounting program. Professional skepticism is possible to shape the use of manner consistency and attitude in the auditing dan accounting standard. For example, Plumlee et al, (2012) found that training auditors can give dissimilarity thinking that "increases both the number and quality of explanations generated, and receiving both divergent and convergent-thinking training leads to the likelihood of choosing the correct explanation more than four times that of divergent-thinking training alone".

Farag & Elias, (2012) noted from the previous study that there was a positive relationship between accounting student of ethical program and their skepticism. This proves that accounting student will be more curious to think skeptically than nonaccounting student who did not enroll the ethical program. Eventhough other studies have found that

even the students have better ethical perception, but there is no evidence mentioning they have greater ethical decisions than nonaccounting students (Thomas, 2012). As the previous research yielded different results, this is important to explain the main role of accounting education to build up the students professional skepticism.

These evidences also prove that it is possible to effectively shape the level of students skepticism using the specific kind of training. It should be noted that the regulators in accounting programs also mention that the influences some business environmental factors can generally affect the level of professional skepticism. Mostly, the fresh graduates who begin to work in audit firm will start as audit assistances. They intend to learn the growth of their own skepticism in the work environment and the culture as auditors. Basically, each auditor has different level of their skepticism meaning that not all auditors were born having the skeptical behaviour. Consequently, if the auditor firm does not give the training or introduce that skepticism, this will cause some troubles. One solution of this problem is the skepticism should be built up in the university accounting program through accounting and auditing programs or courses.

The most closely related study with this issue is Carpenter et al, (2011). They found the evidence that the student who completely did their forensic accounting course showed the higher ability to detect the risk assessments than student who did not completely finish their study

in forensic accounting and those students from the control group. It is also mentioned before in other study that the specific course can give positive impact to shape their focus on solving and detecting problems. With their ability to increase the skill in solving problem in auditing issue, the skepticism of the students will automatically increase. However, the authors of the study did not use any commonly known professional skepticism scales, such as the Hurtt Professional Skepticism Scale (HPSS) or Rotter Interpersonal Trust Scale (RIT) .

However, the other previous studies did not use the same method or the general scales to measure the level of skepticism. The scales commonly used is Hurtt Professional Skepticism (HPSS) or Rotter Interpersonal Trust Scale (IRT). The absence of such scale causes some problems. Firstly, this measurement becomes questionable whether the level of profesional skepticism is really measured or they measure closest possiblity which is the professional judgement. This is because these two factors are mistakenly equalized because the similar characteristics between profesional skepticism and profesional jugment. Secondly, this study measures the effect of university accounting program in general towards the level of students skepticism. This causes the difficulty to compare the result from each previous studies because they used the impact of specific courses to measure the students skepticism and there was no control group. Along the discovery of the issue the following hypotheses were tested :

Hypothesis 1 (H1) : The level of professional skepticism of ACCA-accredited accounting program students is higher compared to that of non ACCA-accredited accounting program students.

Hypothesis 2 (H2) : The level of professional skepticism of non ACCA-accredited accounting program students is higher compared to that of Management Students.

Hypothesis 3 (H3) : The level of professional skepticism of ACCA-accredited accounting program students is the highest among other students.

C. Research Model

Figure 2.1

Research Mode

		ACCREDITATION	
		ACCA-Accredited	NON ACCA-Accredited
PROGRAM STUDY	ACCOUNTING	GRUP 1	GRUP 2
	MANAGEMENT	GRUP 3	