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The Effect of Experience and Professionalism on Auditor Performance in Accounting Firms in Jakarta and Surabaya During the Covid-19 Pandemic

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Abstract

The purpose of this study is to determine the effects of experience and professionalism on an auditor's performance. The population of this research comprises nine public accounting firms and 170 auditors as respondents from public accounting firms throughout Jakarta and Surabaya, Indonesia. The method in this research is quantitative with a primary data type. The sampling technique is an analysis of the outer model (measurement model) and inner model (structural model) using the multivariate structural equation model (SEM) in SmartPLS 3. The results of this study indicate that the experience of auditors influences their performance rather than their professionalism. Simultaneously, the R-squared (R^2) value is 0.96, or 96%, which means that an auditor's performance is influenced by their experience and professionalism.

1. Preliminary

1.1. Background

Public accounting firms are businesses that provide compliance, operational, and financial review services for individuals, civil partnerships, firms, and other types of foreign or local organizations. The public accounting profession is known to the public as a review service provided to users of financial information. An auditor must be guided by the review standards set by the Indonesian Institute of Certified Public Accountants (IICPA), including general, fieldwork, and reporting standards. Additionally, there are further standards that an auditor must follow to collect information successfully and prepare an overall report on the audited financial statements.

The Covid-19 pandemic has shifted how auditors perform their role. As the virus spreads between people through close contact, the government has implemented large-scale social restrictions to prevent further transmission. Due to this, businesses have encouraged their employees to work from home. This has affected the performance of accountants and auditors in the areas of punctuality, experience, efficiency, and productivity. For this reason, auditing processes, such as client meetings, have been affected. As a result, reliance on technology among businesses has also increased.

Public accountants must follow a professional code of ethics in carrying out their responsibilities (Budiandru, 2021). This code of ethics outlines an auditor's duties concerning confidentiality, competence, responsibility, integrity, independence, and public interest. A public accountant assigned to a public accounting firm must acquire a license to audit financial statements and provide accounting, assurance, finance, and management services.

However, public accounting firms with a good reputation do not guarantee auditor quality. A decline in audit performance can negatively affect the ability to audit financial statements for clients and provide opinions with sufficient evidence, which increases the risk of breaches under the code of ethics. An auditor's performance is often measured by the quality and quantity of their work. Quality of work relates to an auditor's accuracy in performing tasks, while quantity is the speed at which their work is completed (Nath, Othman, and Laswad, 2019).

Budiandru (2021) stated that audit quality is how likely the auditor is to find intentional or unintentional errors in the company's financial statements. Auditor quality is determined by work experience and career length, and auditor experience is the length of time spent reviewing financial statements and the total number of assignments they have handled (Gyer, Delamat, and Ubaidillah, 2018). Generally, increased auditor experience has a positive effect on audit performance. Research conducted by Setiawan (2022) supports these findings. However, Listiana (2018) found different results in their research and suggests that auditor experience does not influence audit performance.

Istiariani (2018) used a convenience sampling method for the study in the journal article "The Effect of Independence, Professionalism and Competence on the Performance Auditor of the Financial and Development Supervisory Agency (Case Study on Central Java BPKP Auditors." The data analysis method used was the partial least squares SEM, and a multivariate analysis was used to analyze several variables simultaneously. The sample in the study comprised 100 internal government auditors employed by the Financial and Development Supervisory Agency of Indonesia who are representatives of the Central Java region. The results indicate that partial auditor independence positively influences audit performance. Additionally, auditor professionalism and competence were found to increase audit performance.

In theory, if the professionalism of the auditor increases, audit performance improves. In addition, a person can make decisions without pressure from other parties, exchange ideas, and always assume that the people who are authorized to assess his work are fellow professionals.

The issues that arose regarding auditing during the Covid-19 pandemic are as follows:
1. The travel restrictions prevented sufficient and appropriate audit results from being obtained.
2. The tendency for material misstatement, whether caused by error or fraud, is more likely to occur during economic disturbances.
3. There was increased risk of material misstatement in managements' assertions in the financial statements.
4. Global economic uncertainty presented challenges to auditors' judgement.

2. Study of Theory and Framework of Thinking

2.1. Agency Theory

Jensen and Dan (1976) defined agency theory as the principle in which a person (the principal) is involved in an agent's decision-making. In agency theory, the third party with an independent perspective must act as a mediator between the principal and agent. The role of the third party is to monitor the agent's behavior and ensure that they work in the principal's best interest. The party responsible for the principal's interests is the auditor (Izzati et al., 2021). The principal receives an opinion on the fairness of the financial statements from the auditor, whose reliability is ascertained by audit performance.

An audit report provides an early warning regarding a company's financial condition for the principal. Investors see company data as more credible if the financial statements that reflect the company's performance are provided with a fair statement from an auditor. This process ensures that financial statements are free from material misstatements and that the company makes the right decisions.

Auditing should be carried out by competent and independent individuals who must have a professional attitude in carrying out audits. Auditor professionalism refers to an auditor's professional ability and behavior. Ability is defined as knowledge, experience, adaptability, technical ability and the ability to master technology.

The audit performance is the result of work that has been achieved by the auditor in carrying out their duties in accordance with the responsibilities that have been given to him and becomes the benchmark used to determine whether the work is done well or otherwise (Edwy, Hasan, and Kamaliah, 2019). According to Tumundo, Kep, Compliance, Kode, and Dan (2019), auditor experience is the experience obtained through examining financial statements, the number of tasks performed, or the length of time spent as an auditor.

Auditor professionalism means taking actions that are more than just fulfilling one's responsibilities as well as the provisions of the laws and regulations of society. Public accountants as professionals recognize their responsibility to the community, clients and partners (Sangadah, 2022).

3. Research Method

This research method is quantitative (see Figure 1), and the type of primary data was collected via questionnaires. The sampling technique used is purposive sampling, which is an analysis of the outer model (measurement model), and analysis of the inner model (structural model) was carried out using the SEM technique.
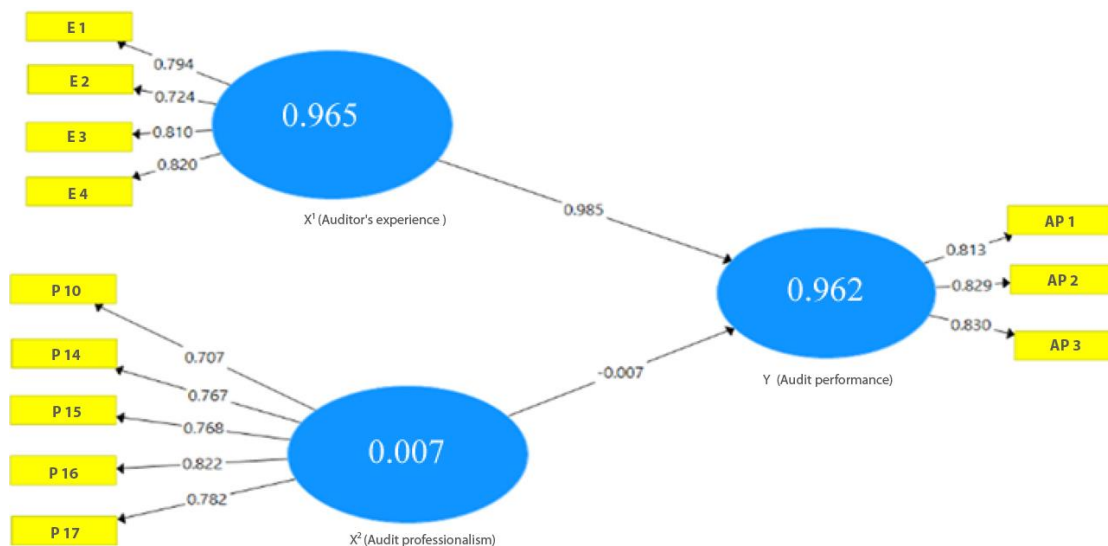

Figure 1. Measurement model (outer model).

4. Results and Discussion

The measurement model on the convergent validity of the reflexive indicators is assessed based on the relationship between the item score/component score and the construct score calculated by the SEM. The individual reflexive measures are said to be high if they correlate with the construct by more than 0.70. However, in the early stages of developing a measurement scale, a loading factor value between 0.50–0.60 is considered sufficient.

Based on the information in Table 1, the variables in study have loading factor values greater than 0.70 and can be declared valid. There are four indicators of auditor experience, namely E1 showing a value of 0.794, E2 with a value of 0.724, E3 with a value of 0.810 and E4 with a value of 0.820. There are five indicators of auditor professionalism, namely P10 with a value of 0.707, P14 with a value of 0.767, P15 with a value of 0.768, P16 with a result of 0.822, P17 with a result of 0.782. The third indicator of audit performance has three indicators, namely AP1 with a value of 0.813, AP2 with a result of 0.829, and AP3 with a result of 0.830.

Table 1. Loading factors.

Variable	X^1 Auditor experience (E)	X^2 Auditor professionalism (P)	Y Audit performance (AP)
AP1			0.813
AP2			0.829
AP3			0.830
E1	0.794		
E2	0.724		
E3	0.810		
E4	0.820		
P10		0.707	
P14		0.767	
P15		0.768	
P16		0.822	
P17		0.782	

Note: AP = audit performance; E = auditor experience; P = auditor professionalism.

In Table 2, the average variance extracted (AVE) values for audit performance, auditor experience, and auditor professionalism are greater than 0.50, which means that each variable has good discriminant validity. The commonly used approaches to test discriminant validity are the Fornell–Larcker criterion (FLC) and cross-loadings, which are indicators of latent constructs that are expected to be greater than the values of cross-loadings on other latent constructs.

Table 2. Average variance extracted.

Variable	Cronbach's alpha	Rho_A	Composite	Average variance extracted (AVE)
Y (AP)	0.763	0.764	0.864	0.679
X_1 (E)	0.798	0.809	0.867	0.621
X_2 (P)	0.793	0.792	0.866	0.617

Note: AP = audit performance; E = auditor experience; P = auditor professionalism.

Based on Table 3, the auditor experience variable has the highest FLC value in the latent construct itself, which is 0.788 compared to the FLC values of 0.564 and 0.981 in the other constructs. The value of the highest latent construct of the FLC for the auditor professionalism variable is 0.786, and the value of the other construct (audit performance) is 0.552. The audit performance variable has the highest latent construct FLC value of 0.824.

Table 3. Fornell–Larcker criterion (FLC).

Variable	X_1 (E)	X_2 (P)	Y (AP)
X_1 (E)	0.788	0	0
X_2 (P)	0.564	0.786	0
Y (AP)	0.981	0.552	0.824

Note: AP = audit performance; E = auditor experience; P = auditor professionalism.

Table 4 shows that the value of the relationship between the variable and its indicators is higher than the value of the relationship with the other variables. Therefore, all latent variables have good discriminant validity, or indicators in the indicator block of these variables are better than indicators in other blocks.

Table 4. Cross-loading.

Variable	X^1 Auditor experience (E)	X^2 Auditor professionalism (P)	Y Audit performance (AP)
AP1	0.794	0.471	0.813
AP3	0.810	0.434	0.829
AP4	0.820	0.459	0.830
E1	0.794	0.471	0.813
E2	0.724	0.413	0.576
E3	0.810	0.434	0.829
E4	0.820	0.459	0.830
P10	0.438	0.751	0.462
P14	0.472	0.763	0.439
P16	0.448	0.811	0.417
P17	0.407	0.815	0.407

Note: AP = audit performance; E = auditor experience; P = auditor professionalism.
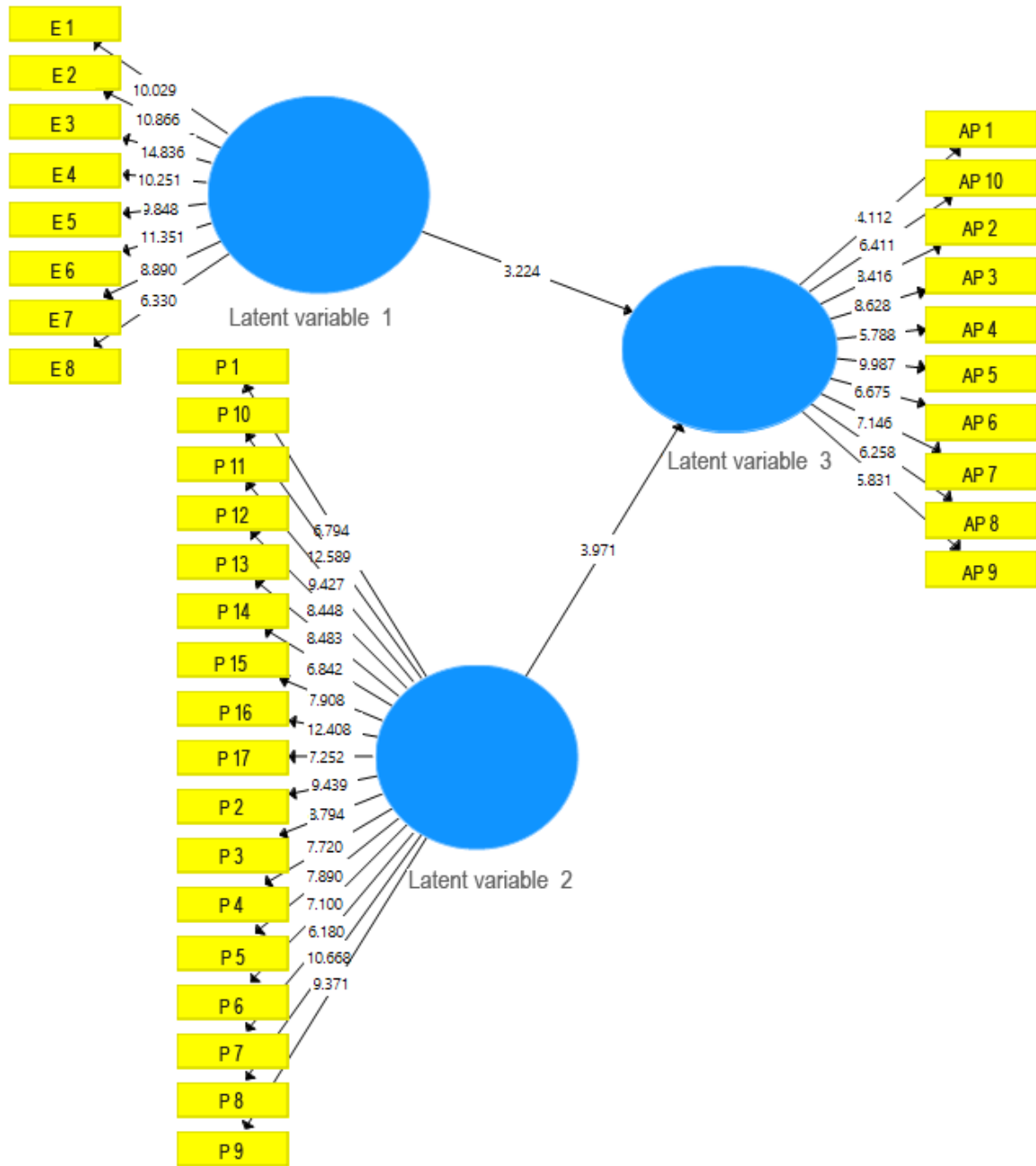
Figure 2. Structural model (inner model).

Structural model testing aims to determine the R-squared value for each endogenous latent variable and the predictive power of the structural model.

In Table 5, the auditor experience variable (X1) on the audit performance variable (Y) has a path coefficient value of 0.982, which means that auditor experience has a positive influence on audit performance. The auditor professionalism variable (X2) has a path coefficient value of -0.002 on audit performance (Y), which means that auditor professionalism has a negative influence on audit performance.

Table 5. Path coefficients.

Variable	X₁ (E)	X₂ (P)	Y (AP)
X₁ (E)	0	0	0.982
X₂ (P)	0	0	-0.002
Y (AP)	0	0	0

Note: AP = audit performance; E = auditor experience; P = auditor professionalism

Table 6 shows that the Cronbach's alpha reliability value for auditor experience is 0.798, auditor professionalism is 0.793, and audit performance is 0.763, all of which are greater than 0.7.

Table 6. Reliability test results.

Variable	Cronbach's alpha	Critical value	Information
Auditor experience (X_1)	0.798	0.700	Reliable
Auditor professionalism (X_2)	0.793	0.700	Reliable
Audit performance (Y)	0.763	0.700	Reliable

Based on the results in Table 7, the composite reliability (CR) score for each variable is above 0.70. The auditor experience variable has a CR value of 0.867, auditor professionalism has a CR value of 0.866, and audit performance has a CR value of 0.864. Therefore, all variables have good reliability and are in accordance with the predetermined minimum value limits.

Table 7. Composite reliability results.

Variable	Rho_A	Composite	Average variance extracted (AVE)
X_1 (E)	0.809	0.867	0.621
X_2 (P)	0.792	0.866	0.617
Y (AP)	0.764	0.864	0.679

The results in Table 8 show that the Cronbach's alpha value for the auditor experience variable is 0.798, the auditor professionalism variable has a value of 0.793 and the audit performance variable has a value of 0.763. All Cronbach's alpha values are greater than 0.70, so these three variables have a high level of reliability.

Table 8. Results of Cronbach's alpha.

Variable	Rho_A	Cronbach's alpha	Average variance extracted (AVE)
X_1 (E)	0.809	0.798	0.621
X_2 (P)	0.792	0.793	0.617
Y (AP)	0.764	0.763	0.679

Hypothesis testing in this study uses t-statistics and p-values. The hypotheses are accepted if the p-values are less than 0.05. The t-test values partially determine the effect of the variable X on Y. Table 9 contains the t-statistics test results.

Table 9. T-test statistics (bootstrapping).

Variable	Original sample	Sample mean	Standard deviation	T-statistic	P-value
X_1 (E)	0.975	0.976	0.015	65.262	0.000
X_2 (P)	0.011	0.012	0.027	0.414	0.679

Based on the results in Table 9, the auditor experience variable (X1) has a p-value of 0.000, and auditor professionalism (X2) has a p-value of 0.679. Therefore, the auditor experience variable has an influence on audit performance, whereas the auditor professionalism variable does not influence audit performance.

Table 10. R-squared/R².

Variable	R-squared	R-squared average
Y (AP)	0.962	0.961

Based on Table 10, an R-squared (R2) value of 0.962 or (96%) has been obtained. This shows that 96% of the auditor performance variable can be influenced by the experience and professionalism of the auditor, while the remaining 4% can be influenced by other variables not examined in this study. The Q-squared value in this study is used to determine the goodness of fit of the model, i.e., the higher the Q-squared value, the more suitable the structural model fits with the data. The Q-squared test results are as follows:

Table 11. Construct cross-validated redundancy (Q-squared).

Variable	SSO	SSE	Q² (= 1 SSE/SSO)
X_1 (E)	400.000	400.000	0
X_2 (P)	300.000	300.000	0
Y (AP)	300.000	108.025	0.640

Based on Table 11, the Q-squared value on the endogenous variable is 0.64, meaning that the data diversity described in this research model is 64%. In contrast, the remaining percentage of 36% is explained by

other variables that are outside the research model. Therefore, the model is declared to have met the goodness of fit requirements.

5. Discussion of Hypothesis Testing Results

Based on Table 12, there is variable 1 with the results of the hypothesis being accepted and variable 2 with the results of the hypothesis being not accepted. This shows that hypothesis 1 has a significant effect on variable Y and Hypothesis 2 does not have a significant effect on variable Y. The following is an analysis related to the influence between variables under the proposed hypothesis:

Table 12. Conclusion of hypothesis testing between variables.

Hypothesis	T-statistic	P-value	Result
H_1	65. 262	0.000	Accepted
H_2	0.414	0.679	Rejected

5.1. The Effect of Auditor Experience on Audit Performance

Based on the results of hypothesis testing, the t-statistics value is 65.262 and the p-value is 0.000 (< 0.05). These values suggest that auditor experience positively affects audit performance. Hence, it is confirmed that an auditor's experience can improve their performance in public accounting firms throughout DKI Jakarta and Surabaya.

5.2. The Effect of Auditor Professionalism on Audit Performance

Based on the results of hypothesis testing, the t-statistic value is 0.414 and the p-value is 0.679 (> 0.05). Hence, it can be stated that auditor professionalism has no effect on audit performance. This shows that the professionalism of auditors cannot improve audit performance in public accounting firms throughout DKI Jakarta and Surabaya. The results of this study indicate that the higher the professionalism of the auditors at public accounting firms throughout DKI Jakarta and Surabaya, the higher the performance of the auditors.

6. Conclusion

Based on the statistical t-test hypothesis testing (bootstrapping), auditor experience has a positive effect on audit performance. In contrast, auditor professionalism has no effect on audit performance in public accounting firms throughout DKI Jakarta and Surabaya, Indonesia.

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