Examining the Effects of Framing on Auditor's Independence
and Its Influence on Audit Decisions

Jessica A. Price, Department of Psychiatry, Washington University in St. Louis, 660 S. Euclid, Campus Box 8134, St. Louis, MO 63110, USA

Zoe A. Morris, Department of Psychiatry, Washington University in St. Louis, 660 S. Euclid, Campus Box 8134, St. Louis, MO 63110, USA

Abstract: This research aims to examine the influence of auditor independence and framing on audit judgment. The auditor independence variable is examined because in determining the audit opinion or audit judgment, the auditor needs to have strong independence. The framing variable is the auditor's way of conveying information regarding the opinion given. These two independent variables will be measured by how much they can influence the auditor in providing an audit opinion or audit judgment. This research uses a questionnaire distributed to 10 Public Accounting Firms in Bandung City registered with the Financial Services Authority. Non-purposive sampling with convenience sampling was used. Data analysis was conducted using SmartPLS software version 4.0 through the outer model and inner model. The hypothesis results show that auditor independence has a significant posit if effect on audit judgment, framing affects audit judgment, and auditor independence and framing simultaneously affect audit judgment.

Keywords: auditor independence, audit judgment, public accounting firms

Introduction

There is an audit phenomenon reported by the Financial Services Authority (OJK), namely the imposition of sanctions on Public Accountants (AP) in the names of NN and JH as well as the KNMT Public Accounting Firm (KAP) for audit services on PT Asuransi AW's Annual Financial Report from 2014 to 2019. AP and KAP could not find any indication of manipulation of financial reports, especially they did not report the increase in production of insurance products similar to high-risk savings plans carried out by directors, board of commissioners and shareholders. Sanctions were given because they were deemed to have committed serious violations, namely in Article 39 letter b POJK number 13/POJK.03/2017 concerning the Use of Public Accounting Services and Public Accounting Firms in Financial Services Activities. And the Public Accountant is considered to have no knowledge, professional skepticism, independence and competence as requirements for a Public Accountant and the opinion given is not in accordance with the financial reports and existing evidence (OJK.go.id. 2023). The violations above are related to the results of the opinion given by the auditor who handled the PT Asuransi AW case. Where in this case it can be concluded that the auditor or AP in question does not have independence, professional skepticism, and the competence and opinion given is not appropriate. In accordance with Audit Standard 200, it is stated that professional skepticism is a requirement for an independent auditor, where an independent auditor will influence how he receives and conveys existing information (framing) and how he gives consideration (judgment) in determining an opinion.

In the process of providing an opinion, an auditor must be responsible for the actions, performance and decisions they make. This responsibility is towards rules, standards, laws, or other parties concerned.

This is related to auditor independence where auditor independence is one of the auditor principles that must always be applied. In accordance with the Professional Standards for Public Accountants (SPAP), the second general standard states "In all matters relating to the engagement, independence in mental attitude must be maintained by the auditor". Auditors must not take sides with anyone, either the entity being audited or parties who have an interest in the financial statements.

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Independence is an attitude that is not dependent on or controlled by other parties (Pertiwi & Budiartha, 2017).

There is a phenomenon related to auditor independence that occurs in the city of Bandung, namely research conducted by Dikdik Maulana (2020) amounting to 12.74% that there are still public accountants who receive sanctions from the Financial Profession Development Center (P2PK) starting from administrative and administrative sanctions. The sanction of freezing a public accountant's license is because there are still a small number of public accountants who do not maintain client confidentiality within the Bandung City KAP environment and a small number of public accountants who are not firm in their stance when carrying out their work.

According to Haryanto & Subroto (2012), the decisions taken by a person are influenced by that person's framing. Therefore, an auditor must be independent so that the framing of the information obtained is free from the influence of other parties so that the assessment made is unbiased and reliable. Framing is a phenomenon that indicates decision making will later respond in different ways to the same problem if the problem is presented in a different format (Adnyana and Satria, 2019).

The phenomenon related to Framing in the City of Bandung is research conducted by Astuti and Islamiati (2021) on KAP in the City of Bandung that 48.09% of auditors have not been optimal in consulting on the implementation of audit engagements with regulators due to a lack of implementing policies and procedures related to consult during the engagement and document the nature, scope and conclusions resulting from the consultation.

In the audit opinion process or what is usually called an audit judgment, the auditor carries out various procedures to obtain confidence in the fairness of the company's financial statements. Audit Judgment is a cognitive process which is the behavior of selecting decisions in a continuous process of obtaining information and determining opinions regarding the results of the audit which refers to an idea, opinion or estimate of an object, event, status or other type of event (Kristin et al, 2023).

A special phenomenon that occurred in the city of Bandung regarding Audit Judgment occurred at the YR Public Accounting Firm which stated that the quality and audit opinions produced were not completely good in carrying out audits of financial reports. This was seen when conducting audits where there were still deficiencies in auditing financial reports. This results in the summary of the findings being less good because they are not in accordance with accounting policies (Astuti & Islamiati, 2021).

Literature Review

Alawiyah and Widajantie (2021) said in their research that independent auditors also have an influence in producing good audit opinion results, because with independent auditors the audit opinion or audit judgment will be more reliable and there is a significant influence between independence on audit judgment and the direction of the relationship. positive, namely that the increasing level of Independence will also increase the level of Audit Judgment. Thus, the hypothesis of this research is:

H1: Auditor independence has a significant positive effect on Audit Judgment

Framing is an event where someone, when making a decision, provides information with different views related to the same problem but is presented in a different format (Amini, 2020).

Harahap and Pratama (2020) in their research stated that framing influences audit judgment. In other words, the audit judgment variable can be influenced by the Framing variable. So the better an auditor's way of conveying information, the better his performance in audit judgment will be. Thus, the hypothesis of this research is:

H2: Framing influences Audit Judgment

Auditor independence and framing both support influencing audit judgment. Auditors provide their opinions through audited reports regarding the fairness of the company's financial statements. The opinion given by the auditor must not involve interference from other parties and is supported by adequate evidence and in accordance with the conditions of the company so that this evidence will influence making the right decisions and conveying information (Damayanti, 2021).

As research conducted by Yuliyana and Waluyo (2018) explains that auditor independence and framing simultaneously influence audit judgment. Thus, the hypothesis of this research is:

H3: Auditor independence and framing simultaneously influence audit judgment.

Research Method

This research is empirical research using quantitative research methods. This research collects data by distributing questionnaires and structured interviews. This research will be conducted in the city of Bandung by testing the factors that influence audit judgment, namely the auditor independence and framing variables. This research was designed in the form of an initial hypothesis which will then be tested to explain whether there is a relationship between latent variables based on Cronbach alpha and t test. This research was conducted at an active public accounting firm registered with the Financial Services Authority (OJK) in the Bandung City area. The object of the research is the public accounting firm (KAP) with the consideration that the subject of this research is the external auditor at the public accounting firm. This research was carried out in the 2023/2024 period by distributing questionnaires to 10 KAPs with 38 respondent auditors.

The type of data used in this research is quantitative data, data presented in the form of numbers, or qualitative data written in the form of numbers, and there is also pure quantitative data whose existence is already in quantitative form (Sugiyono, 2017), the type of data in this research namely quantitative data with qualitative data written in numerical form through a questionnaire.

This research uses latent variable analysis. Latent variables are variables that cannot be measured directly and require other indicators to support these variables (Agusti & Pertiwi, 2013). Data analysis was carried out using the Partial Least Square (PLS) method using SmartPLS software version 4.0. PLS is a Structural Equation Modeling (SEM) solution method which in this case is more compared to other SEM techniques. SEM has a higher level of flexibility in research that connects theory and data, and is able to carry out path analysis with latent variables so it is often used by researchers who focus on social sciences. Partial Least Square (PLS) is a fairly strong analysis method because it is not based on many assumptions. The data also does not have to have a multivariate normal distribution (indicators with categorical, ordinal, interval and ratio scales can be used in the same model), the sample does not have to be large (Pratiwi & Ghozali, 2022)

Result and Discussion

Structural model evaluation aims to predict the relationship between latent variables based on substantive theory. The structural model is evaluated using R-Square for the dependent construct.

R-Square (R2)

R-Square is used to measure the predictive power of the structural model. R-Square explains the influence of certain exogenous latent variables on whether endogenous latent variables have a substantive influence. R-squares values of 0.67, 0.33 and 0.19 indicate a strong, moderate and weak model (Pratiwi & Gjozali, 2022).

From the R-Squares results in the table above, it shows that the R-Squares value is 0.733. This value shows that the auditor independence and framing variables influence the audit judgment variable by 73.3% and the rest is influenced by other variables.

F-Square

F-Square is used to measure the strength of the influence of the independent variable on the latent variable. If the F-Square value is above 0.15 then this shows that there is an influence of the independent variable on the latent variable.

Based on the test results on F-Square, it shows that the F-Square value for auditor independence is 2.541 while framing is 0.115. This shows that auditor independence and framing have a moderate or moderate influence on audit judgment.

Hypothesis Test

The auditor indep endence variable has a t-statistical value of 10.620 which is greater than 1.96, and a pvalue of 0.00 which is smaller than 0.05 and the original sample value moves in a positive direction. Therefore, the first hypothesis which states that auditor independence has a significant positive effect on audit quality is proven. The results of this research are in accordance with previous research, namely Alawiyah and Widajantie (2021) who said in their research that independentauditors also have an influence in producing good audit opinion results, because with independent auditors the audit opinion or audit judgment will be more reliable and have a significant influence. between Independence and Audit Judgment with a positive relationship, that is, as the level of Independence increases, the level of Audit Judgment will also increase. Therefore, auditor independence is an important thing for an auditor to maintain because this determines the results of audit considerations.

The Framing variable has a t-statistic value of 1.680 which is smaller than 1.96, and a p-value of 0.047 which is smaller than 0.05 and the original sample for the framing variable moves in a negative direction. Therefore, the second hypothesis which states that framing has an effect on audit judgment is proven. The results of this research are in accordance with previous research, namely Harahap and Pratama (2020), in their research, which states that framing has an effect on audit judgment. In other words, the audit judgment variable can be influenced by the Framing variable. So the better an auditor's way of conveying information, the better his performance in audit judgment will be.

Based on the test results on F-Square, it shows that the F-Square value for auditor independence and framing has a value above and close to 0.15. This shows that auditor independence and framing have a moderate or moderate influence on Audit Judgment. Therefore, the third hypothesis which states that Auditor Independence and Auditor Framing simultaneously influence Audit Judgment is proven. The results of this research are in accordance with research conducted by Yuliyana and Waluyo (2018) explaining that auditor independence and framing simultaneously influence audit judgment.

Conclusion

Based on the results of the discussion in the previous chapter regarding the influence of Auditor Independence and Framing on Audit Judgment, the following conclusions can be drawn:

1. Auditor independence has a significant positive effect on audit judgment, the higher the independence, the better the audit judgment carried out.

2. Framing influences Audit Judgment. It can be concluded that framing can influence an auditor's considerations in making decisions in accordance with the framing that the auditor gets from the existing environment or conditions.

3. Auditor independence and framing influence audit judgment. It can be concluded from the explanation above that auditor independence and framing together influence each other's audit judgment. Apart from that, audit considerations which are strongly influenced by individual auditors cannot be separated from the auditor's independence and framing

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