



(RESEARCH ARTICLE)



Auditor independence and skepticism in relation to client self-deception: A phenomenological study

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World Journal of Advanced Research and Reviews, 2023, 20(01), 486–491

Publication history: Received on 02 September 2023; revised on 09 October 2023; accepted on 11 October 2023

Article DOI: <https://doi.org/10.30574/wjarr.2023.20.1.2075>

Abstract

The central phenomenon in this study is an auditor who experiences the phenomenon of client self-deception, where this research aims to get the meaning of the phenomenon of self-deception theory which in practice is faced by auditors to reveal whether the phenomenon of self-deception which in theory is true when dealing with clients during the audit process.

The research approach applied in this research is qualitative research that is specific to phenomenological studies. From the total population, the sample determination as informants in this study is young auditors at the Budhananda Munidewi Public Accounting Firm who are willing to become informants by completing the consent form provided by the researcher and the informants are auditors who have experienced the phenomenon of client self-deception.

From the research results, the similarity that emerges from each informant is that there is one theme that exists in the concept of a tripartite model of self-deception in intrapersonal self-deception revealed by all informants, namely the Self-Improvement Motive which is interpreted by the four informants with the purpose of self-deception by clients for personal gain.

Keywords: Independence; Skepticism; Client Self Deception; Auditor

1. Introduction

During the audit process of a client entity, the auditor traces information from the client company's financial statements to the availability of the company's physical assets and examines the behavior of the accountants responsible for the client company to dig deeper before determining the audit opinion, whether there is a misstatement of financial statements or fraud committed intentionally for personal gain, so that the auditor can issue an appropriate audit report. In research conducted by Alrawashedh et al., (2020) it is stated that in general there is no audit process that guarantees that client reports are free from misstatement or fraud. External auditors are not responsible for the prevention of errors, fraud, and illegal acts, but must exercise sufficient and reasonable professional care to properly complete the audit process so as to write the final report. Auditors should also check and evaluate the internal control system and detect deficiencies and even fraud in the system.

Despite the best efforts to put the interests of external users above those of clients and to maintain auditor objectivity, independence still remains a problem even for the most moral and honest auditors. As stated in Chiang's (2016) research, the auditor-client structure exposes auditors to various independence threats (i.e. self-interest threats, self-review threats, advocacy threats, familiarity threats, intimidation threats). This poses a threat to auditor independence in maintaining objectivity in the resulting audit opinion, so that various types of possible fraud committed by clients can

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be controlled and even prevented by auditors during the audit process (Chiang, 2016). However, research from Mardijuwono & Subianto (2018), revealed that auditor independence does not guarantee whether it will produce a quality audit. This statement is indicated by the results of measuring auditor independence which has a positive but insignificant correlation with the quality of the resulting audit (Mardijuwono & Subianto, 2018).

The perspective and mindset of an auditor will certainly be influenced by the auditor's independence and skepticism. The formation of an auditor's mindset is very necessary when an auditor learns how the client entity to be audited. The process of forming an auditor's initial mindset will not be separated from the influence of the client's perspective, and in this case the auditor's independence and skepticism must be the basis for consideration to assess something objectively, because this is a form of responsibility of an auditor as a professional auditor.

From research conducted by Chiang (2016), criticising that the independence of an auditor is impossible due to the auditor's personal interests and conflicts of interest because of the auditor's client structure. In addition, the auditor's judgement is influenced by conscious and unconscious personal biases. The threat of an auditor's independence is something that greatly affects the auditor's level of professional skepticism, because without auditor independence, it would be very difficult to apply professional skepticism when making audit judgement decisions. However, auditor bias is real, namely the existence of cognitive and psychological biases that make auditors arrive at marginal decisions that focus on and favour clients which will certainly make it difficult for auditors to maintain an independent attitude both independence of mind which is an antecedent or thing that is first required from the formation of auditor professional skepticism. In addition, Chiang (2016) suggested that such an understanding is necessary to appreciate the context and meaning of independence and professional skepticism in relation to the broader body of literature on ongoing audit issues (Chiang, 2016).

The results of research by Khan (2019) found that the attractiveness of the client's office environment can affect the level of professional skepticism. Therefore, understanding the factors that influence professional skepticism is the initial stage that can help auditors meet their expectations for performing tasks with a high level of professional skepticism. The results of his research suggest the possible benefits of remote auditing and aesthetic engagement weaken trait skepticism in the presence of aesthetically appealing elements, but not when they are not present. In this case the focus in developing the aesthetic engagement scale was on traits, rather than states or conditions, where the underlying trait tendency to engage with aesthetically appealing elements of the environment, rather than behavior, feelings, or thoughts observed in a particular setting. This research also makes an important contribution to understanding how sceptical traits influence the level of skepticism reflected in audit judgements and is an initial stage leading to an expansion of focus in this regard to include other personality traits (Khan, 2019).

Research examining how the level of professional skepticism traits based on personal traits and different experiences with clients can affect audit judgments conducted by Popova (2013) shows that audit decisions are influenced by the level of skepticism of participants and their previous client specific experiences (CSE) hypothesis and more specifically when determining expectations of fraud or initial errors (Popova, 2013). Based on auditing standards (AU 230, paragraph 09) emphasises its concern when the client is considered honest is an ineffective audit. To overcome this, control cases without prior experience should also be examined. CSE manipulation is based on the client's history of honesty and competence. These two client characteristics affect perceived trustworthiness and make the reason client trustworthiness judgement is chosen as a manipulation check.

Research by Mardijuwono & Subianto (2018) which aims to obtain empirical evidence regarding the relationship between independence, professionalism, and skepticism with the resulting audit quality. Factors that can affect audit quality are determined based on the level of auditor independence, auditor professional attitude and auditor professional skepticism. The results of this study indicate that independence does not guarantee that it will produce a quality audit, but it is important for auditors to remember that a level of professionalism is needed in carrying out the audit process. An auditor who has professional skepticism will seek additional evidence to obtain sufficient confidence. The higher the level of auditor vigilance, it will be accompanied by a high level of auditor professional skepticism, and of course it will produce a quality audit report (Mardijuwono & Subianto, 2018).

In research conducted by Rodgers et al., (2017) which examines how audit knowledge transfer works together to influence the level of professional skepticism in auditors, as well as how auditor competence and expertise simultaneously interact with the knowledge transfer process. The results of his research show that differences between expert auditors and novice auditors strengthen support regarding the role of knowledge and expertise in increasing skepticism in planning. This can also illustrate that knowledge transfer plays an important role in increasing the professional skepticism of auditors and will increase the accuracy of auditors' judgments (Rodgers et al., 2017).

Skepticism is formed from a person's understanding of something so that there is more curiosity about things that are suspicious. Judging from research by Fatmawati et al. (2018) which investigates the impact of trait skepticism and situational skepticism on participants' initial assessment of fraud or error, which tests the extent to which participation in accounting education programs affects a person's level of skepticism. The results of this study draw the conclusion that the higher the level of formal education in the field of accounting, it will be followed by the higher the nature of one's skepticism, then with this it can maintain its sceptical judgement regardless of previous experience with clients. This study also suggests to the authorities in making standards and practitioners that the importance of education in increasing professional skepticism (Fatmawati et al., 2018).

Auditor independence and skepticism will certainly play an important role during the audit process, because in certain conditions it is possible that the auditor finds things that are suspected and requires further confirmation to the client who will often deliberately provide an opinion that is different from the reality and this will lead to fraud. Mentioned in the Auditing Standards (SA) on General Principles and Responsibilities of Auditors SA 200 which regulates the overall responsibility of independent auditors when conducting audits of financial statements based on Auditing Standards (SA) specifically, this SA sets out the overall objectives of independent auditors, and describes the nature and scope of an audit designed to enable independent auditors to achieve these objectives. In addition, this Auditing Standard (SA) describes the scope, authority, and structure of the SA, and sets out provisions to establish the general responsibilities of independent auditors that apply to all audits, including the obligation to comply with Auditing Standards (SA) and requires auditors to use professional judgement and maintain professional skepticism during the planning and conduct of the audit (IAPI, 2013).

In the ethical provisions relating to audits of financial statements, auditors must be independent of the audited entity. The code of ethics describes independence as independence in thought and independence in appearance. Auditor independence protects the auditor's ability to formulate an audit opinion without being influenced. Independence increases the auditor's ability to maintain his integrity, as well as act objectively and maintain an attitude of professional skepticism (IAPI, 2013). Because the quality of the opinion produced in the final report is determined by the quality of the independent audit with the auditor's skepticism applied during the audit process to make decisions that will be stated in the audit report, whether there is a misstatement of the entity's financial statements or unqualified. This of course must be of more concern to auditors to comply with existing standards in carrying out the audit function and be able to detect acts of deception committed by the auditor's clients.

In general, someone commits acts of deception and justifies things that do not really happen, namely with the intention of hiding the true situation which is believed that this situation will not be able to produce the expected results. So, to hide this situation, individuals tend to provide self-defence and justification for themselves. It is emphasised that psychological factors can be seen as markers of deception, but not as comprehensive explanations (Duffield et al., 2001). At first glance, an explanation of the psychology of deception would seem simple with just the words greed and dishonesty (Dove, 2020b).

An alternative theory first proposed by evolutionary biologist Robert Trivers 14-16 suggests that people deceive themselves into higher confidence to effectively persuade or deceive others (Schwardmann & van der Weele, 2019). Self-deception is commonly described as an adaptive psychological mechanism that ensures well-being, a sense of identity, and social advancement (Kuntz et al., 2019). Some parties may not easily believe a statement expressed by someone if they are unable to show evidence to support the statement, because the more complex a problem is, it will not be enough to be expressed only verbally. However, research from (Bereby-meyer et al., (2018) explains that the role of something that may seem irrelevant to honesty will be shown by the language a person uses to communicate and can show why and when the person shows a dishonest attitude (Bereby-meyer et al., 2018). It is claimed that self-deception developed as an adaptation of other deceptions based on the principle that believing one's own lies makes it easier to deceive others (Jones & Paulhus, 2017). Of course, this phenomenon often appears in organisations of maladaptive actions that permeate organisations that necessarily hinder critical reflection and intensify biases motivated by self-enhancement and self-protection (Kuntz et al., 2019).

2. Methods

This research will apply a qualitative method with specific phenomenological research that will focus on describing the similarities shared by all potential informants when they experience phenomena and try to reduce individual experiences with a phenomenon. The of purpose phenomenology is to reduce individual experiences with a phenomenon to a description of its universal essence (Lewis, 2015). This research was conducted on young auditors at a public accountant in the Denpasar area, namely the Budhananda Munidewi Public Accounting Firm Indonesia as informants who carry out field audit duties and responsibilities that are directly related to clients. Auditors who serve

and detect the state of client companies will be better able to provide an assessment of the phenomenon of client self-deception.

This research uses the Interpretative Phenomenological Analysis (IPA) approach. IPA is research that aims to investigate how an individual makes sense of their experiences (Pietkiewicz & Smith, 2014). In this case it is assumed that a person is actively involved in interpreting events, objects and people in their lives. With IPA this research aims to produce an in-depth examination of a particular phenomenon and does not produce theories to be generalized to the entire population.

3. Result and discussion

Based on research conducted on informants who work as young auditors at the Budhananda Munidewi Public Accounting Firm, it can be concluded that informants have never heard of the term client self-deception, but from the informant's submission, this phenomenon was experienced during the audit process with the client. This answers the research question regarding how auditors interpret the phenomenon of client self-deception. Of the four informants, only one informant interpreted the phenomenon with a feeling of annoyance because the interpretation occurred in conditions that resulted in harming many parties by defending themselves to cover up the mistakes made. Other informants interpreted it with ordinary attitudes and feelings, because they felt that the action had no effect on the informant's person and only focused on their duties in carrying out the audit. In addition, informants who interpret with ordinary feelings towards the phenomenon convey that this is a common thing that happens and will always be faced during the audit process.

Informants conveyed the meaning of the phenomenon associated with the concept of a tripartite model of self deception in intrapersonal self deception to see the implementation of the theory. Of the five themes in the theory, four of them are included in the interpretation of the phenomenon and one theme is not mentioned at all by all informants, and it can be concluded that the one theme is not experienced and not done by the client.

From the research results, the similarity that emerged from each informant is that there is one theme that exists in the concept of a tripartite model of self deception in intrapersonal self deception revealed by all informants, namely the Self-Improvement Motive which is interpreted by the four informants with the purpose of self-deception by clients for personal gain. Another similarity from the research results is that none of the four informants conveyed the meaning of themes related to the Pragmatic Cognitive System. Where this pragmatic cognitive system is described that individuals can hold opposing beliefs at different levels of depth and commit to certain beliefs regardless of their truth value. This is not expressed by all informants in conveying the meaning of client self-deception.

Four of the five themes expressed by informants on the meaning of the phenomenon are related to auditor independence and skepticism. In relation to client self-deception, independence and skepticism are weapons for informants to be able to issue audit opinions that are in accordance with the actual circumstances and are needed to reduce the risk of using incorrect assumptions in assessing audit results. The ability to foster and maintain independence and skepticism really needs to be applied by auditors as professional public accountants. Informants said that training related to independence and skepticism was obtained to guard against various threats in dealing with clients. In addition, auditors who are always given the opportunity in audit assignments greatly influence the development of auditors' potential for skepticism and independence because they are dealing directly with real problems in the field. It is important not to just trust the client without valid supporting evidence.

4. Conclusion

Independence and skepticism in relation to client self-deception, there are five themes in the concept of a tripartite model of self-deception that underlie the phenomenon of client self-deception, namely pragmatic cognitive systems, bias motives, self-enhancement motives, epistemic motivation and knowledge perception. The results of this study can contribute both theoretically and practically. Theoretical contributions are related to providing benefits and new thoughts about the concept of a tripartite model of self deception that can be applied in behavioral accounting theory to detect acts of self-deception and fraud in auditing. The concept of a tripartite model of self-deception can be used as a basic theoretical reference related to individual psychology to assess the behavior or acts of self-deception committed by users of accounting information.

In addition to contributing to the development of behavioral accounting theory in auditing with the concept of a tripartite model of self-deception, this research can be a reference and contribution for all accounting practitioners to

assess the attitudes and behavior of users of accounting information. In the research results, informants said that they had never heard of self-deception, even though in practice informants as auditors experienced phenomena in accordance with the concept of a tripartite model of self-deception in intrapersonal self-deception. Understanding this phenomenon can contribute to auditors to read or detect and recognise self-deception attitudes carried out by the party concerned, while still being guided by the standards and audit procedures applied. This understanding will help auditors deal with and deal with the phenomenon of client self-deception which is a threat, so that auditor independence and skepticism become the auditor's guide to carry out audit duties and responsibilities.

Of the various threats that may occur during the audit process caused by the phenomenon of client self-deception, the role of auditor independence and skepticism is important for auditors to pay attention to. So, auditors must be aware that training themselves to be able to understand and read individual behavior to overcome all acts of self-deception committed by their clients. The more experience an auditor has in dealing with various kinds of problems in the field during the audit process with clients, will help auditors train themselves to get to know and understand various individual characters and behavior, so that auditors become more independent, and their level of skepticism is sharpened to produce accurate and reliable audit reports in accordance with the actual situation in the field.

Managerial Implication

All results in this study cannot be generalized to all existing auditors, because this study only seeks the meaning of the experience of young auditors at the Budhananda Munidewi Public Accounting Firm. So this research can be used as a reference for further research to get meaning outside the informants in this study. In addition, this study only applies one grand theory, namely self-deception theory, so for further research, other supporting theories can be added to expand the discussion and comparison of theories, such as theories related to the fraud triangle which are usually applied as a method to find fraud in business or company financial reports. Fraud triangle is a theory that observes the causes of fraud, namely pressure, opportunity, and rationalization.

This research contributes to the Budhananda Munidewi Public Accounting Firm which houses young auditors as informants in this study to provide information and insights regarding the importance of auditor independence and skepticism of the phenomenon of client self-deception. It is realized that the profession as an auditor is on two different sides, namely the position as a service owner who needs clients to use his services and the position as an independent auditor who must be free from any influence. This must be understood by auditors to always maintain auditor independence and skepticism and continue to carry out tasks according to applicable audit procedures and standards, with the aim of being free from the threat of client self-deception. Apart from having to really understand audit procedures, an accountant should always train himself to understand individual behavior psychologically to be able to read and detect self-deception from users of accounting information.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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