

Research Article

Increasing the Credibility of Public Accountants: A Research Framework

Mutiara Rachma Ardhiani^{1*}, Nashrudin Latif²¹Accounting Department, Universitas PGRI Adi Buana Surabaya, 60234, Indonesia²Management Department, Universitas PGRI Adi Buana Surabaya, 60234, Indonesia**ORCID**Mutiara Rachma Ardhiani: <https://orcid.org/0000-0002-6908-8165>**Abstract.**

Numerous financial scandals worldwide have tarnished the public accounting profession. Individuals involved even hailed from reputable public accounting firms. This prompts community inquiries into the performance of the profession. We formulate a research framework to enhance public trust or credibility in the public accounting profession. This article aims to conceptually explore matters that can affect the credibility of public accountants. This article leverages various existing concepts, theories, and research to construct a research framework. Based on this framework, we estimate that professional ethics, audit judgment, and locus of control can affect the credibility of public accountants. We realize the importance of public accountant in carrying out their duties to be (1) adhering to professional ethics, (2) delivering dependable audit judgments, and (3) maintaining a strong locus of control for optimal performance. Researchers can use this framework as a reference in developing studies related to the credibility of public accountants.

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Rachma Ardhiani; email:
mutiara@unipasby.ac.id**Published** 12 March 2024Publishing services provided by
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1. Introduction

Audit services are necessary for companies and legal entities, both private and government. Businesses need auditing services, especially for IPO companies [1]. One of the benefits of public accounting services is providing accurate and reliable information for decision making, financial reports that have been audited by a public accountant are more trustworthy [2]. This shows that the reputation of auditors really depends on the trust of the users of their services [3]. Auditors who are deemed to have made mistakes will result in damage to client trust.

Many audit phenomena are related to auditor failure. This threatens the credibility of financial reports and can influence the assumptions of the public, especially users of financial reports [3]. One of the financial cases that shocked the world was the manipulation of financial statements carried out by Enron in 2001 [4–6]. The cause of

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this problem was that Enron's management played a magic trick by manipulating the numbers. Data in the reports of financial institutions so that their performance looks good [6,7]. Their revenues were marked up by US\$ 600 million, and debts worth US\$ 1.2 billion were hidden using off-balance sheet techniques. Enron's auditor, who at that time was part of The Big Five Accounting Firm, Arthur Andersen, was blamed for helping with the high-level financial engineering process. This manipulation has been going on for years, so Sherron Watskin, one of the Enron executives who could no longer stand being involved in the manipulation, started reporting this dishonourable practice. Another controversy was the resignation of several leading Enron executives and "fired" of several Andersen partners. In addition, the destruction of thousands of emails and other documents related to the Enron audit by top officials at the audit firm Arthur Andersen was also revealed. This problem made Arthur Andersen have to face various accusations and various demands in court. It is estimated that no less than \$32 billion should be provided by Arthur Andersen to be paid to Enron shareholders who felt aggrieved due to improper audits [7].

Financial scandals also occurred in Indonesia. The latest case in early 2023 came from public accounting firm Kantor Akuntan Publik (KAP) Kosasih Nurdiyaman, Mulyadi, Tjahjo, and Rekan (members of Crowe Horwath International). Indonesian financial services authority, Otoritas Jasa Keuangan (OJK), canceled the KAP's registration certificate on February 24 2023. This cancellation resulted from a follow-up investigation following the emergence of a failure to pay Asuransi Jiwa Adisarana Wanaartha or Wanaartha Life Company. For information, Crowe Horwath International is a company that is included in the list of the top 10 KAPs globally [8]. Violations committed by public accountants hurt the profession. The public is questioning the role of public accountants who cannot detect errors and fraud in financial reports [3,9]. The involvement of public accountants in financial scandals also makes the public suspicious of the professionalism of accountants in their work.

A public accountant must be able to implement professional ethics at work [10–12]. The auditor's failure to carry out his duties proves that an auditor's implementation of professional ethics is still not optimal. The performance they provide is also considered not optimal and causes damage to the image of the KAP in general, particularly the image of the KAP where they work. Ethics is closely related to applicable morals and values [3]. Auditors are expected by the public to act honestly, fairly, and impartially and to disclose financial reports following actual conditions [10].

An auditor in the audit process provides an opinion with judgment based on past, present and future events [13]. Audit judgment comes from the ability and efforts to

maintain its viability. It must be based on whether or not there is doubt within the auditor himself regarding the ability of a business entity to maintain its viability within one year from the date of the audited financial report [11,14]. The judgment process depends on the information received as an unfolding process [15]. This information not only influences choices, but also influences the way choices are made. At each step, in the incremental judgment process, if information continues to come, new considerations and new decisions/choices will emerge [16].

In some cases, public accountants cannot find fraud in financial reports, or the fraud is discovered but not reported [6]. Financial reports examined by public accountants as external auditors often contain errors or fraud, and it is not uncommon for financial statement fraud to be supported by them [6,12,17]. Auditors are indicated to be collaborating with management to manipulate audit results [6,9]. Public accountants must be able to control various factors within themselves that could influence their performance. This control is known as locus of control, specifically internal locus of control [18,19].

Individuals with a good internal locus of control have a high work ethic and are diligent and persistent in facing all kinds of difficulties, both in life and at work [18–20]. Public accountants really need this to maintain and increase their credibility. This article discusses the importance of locus of control in increasing the credibility of public accountants. This article also examines how professional ethics and audit judgment influence the credibility of public accountants.

2. Method

We studied several articles regarding factors that can influence the credibility of public accountants. We also study theoretically what things can increase public confidence in this profession. Based on these activities, in this article, we focus on professional ethics, audit judgment, and locus of control as variables that increase public accountants' credibility [16,21–28].

First, we define professional ethics as a series of principles or moral values that public accountants must adhere to and apply in their actions [29]. Second, audit judgment is a way for public accountants to view and respond to information related to the judgments they made [13]. Third, locus of control is how an individual views good or bad results caused by the individual's internal factors [30]. Lastly, the credibility of public accountants is the level of expertise and suitability of a profession to be trusted [31].

3. Result and Discussion

Credibility is the ability that a person has that is able to make other people believe in his abilities, for example his work ability, competence, experience, intelligence and skills [3,6,16]. The trust of the public and users of financial reports will decrease when the opinions given do not reflect the actual situation [3]. The expectations placed on this profession by the public make credibility a psychological pressure that companies exert on auditors to provide positive opinions on the financial reports they examine [9,16].

Credibility consists of two components: expertise and trustworthiness of the source conveying information [2,15]. Furthermore, the credibility of the source conveying information is divided into high and low [10]. Sources with high credibility will be more convincing than those with low credibility. The higher the expertise or competence of a source, the higher the confidence in that source [15].

Credibility will influence the evaluation of existing evidence [15]. When credibility is operated as a form of competence, objectivity, and integrity, the final results obtained indicate that the auditor will feel that audit evidence obtained from a reliable source will be reliable, more logical, and provide a higher diagnostic value than information. The same thing is obtained from sources whose credibility is less reliable [3,15,16]. The credibility of an auditor does not only depend on independence and integrity but is based on the objectivity and competence that must be possessed to increase public trust in the profession as an auditor [3].

3.1. Professional Ethics and Credibility of Public Accountants

The public accounting profession is known to the public for the audit services provided to users of financial information [32,33]. Parties outside the company need information about the company to make decisions about their relationship with the company. Their decisions are based on the financial reports presented by management. Management will make financial reports in such a way as to attract investors [10]. Thus, there are two opposing interests between company owners or investors and company managers that public accountants face.

Public accountants in carrying out their duties as auditors are often faced with conflict situations which will force the auditor to make decisions that involve ethical values [27]. This can be overcome by carrying out their duties following established professional ethics. Ethics is a set of rules/norms/guidelines that regulate human behavior, both what must be done and what must be abandoned, which are adhered to by a group of

people/society/profession [12,34]. Ethics provides a kind of boundaries and standards that will regulate human interactions within their social groups. Ethics is a critical and rational reflection regarding (1) values and norms concerning how humans should live well as humans and regarding (2) problems of human life by basing themselves on generally accepted moral values and norms [3].

The conceptual framework for the influence of these variables is in Figure 1. Public accountants need to understand the self-concept and personal behavior related to the individual within themselves. This will help them adopt a view when faced with problem situations that require ethical resolution and resolution or ethical dilemmas. The way public accountants behave in ethical dilemma situations has a positive relationship with ethical decision-making behavior which will increase their credibility [2,3].

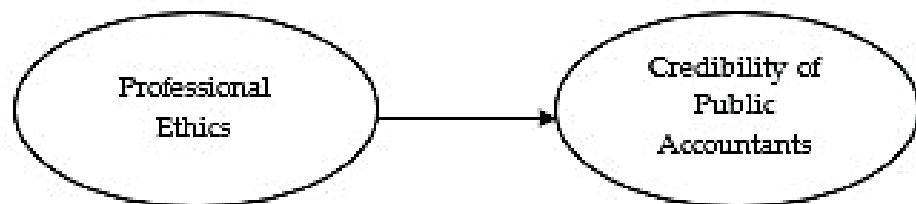


Figure 1: Conceptual Framework Model for The Influence of Professional Ethics on Credibility of Public Accountants.

3.2. Professional Ethics, Audit Judgment, and Credibility of Public Accountants

Audit judgment is a consideration that influences the documentation of evidence and opinion decisions made by the auditor [9,16]. While making a judgment, the auditor is aware that accountability is quite an essential factor because his judgment will be reviewed and questioned. Judgment refers to the cognitive aspect of the decision-making process and reflects changes in evaluations, opinions, and attitudes [13,15]. The quality of this judgment shows how well an auditor performs in carrying out their duties.

The conceptual framework for the influence of these variables is in Figure 2. An auditor in the audit process provides an opinion with judgment based on past, present, and future events [13]. Audit judgment can be influenced by several factors, one of which is auditor ethics. Previous research regarding audit judgment has been carried out by several researchers [9–12,15,16,33,35,36]. This research reviews the ethics of decision-making based on a moral approach [9,11,12]. There is a correlation between understanding ethical values and audit decision-making [9,35,36]. The more the auditor understands the code of ethics, the closer the decisions taken will be to fairness, justice,

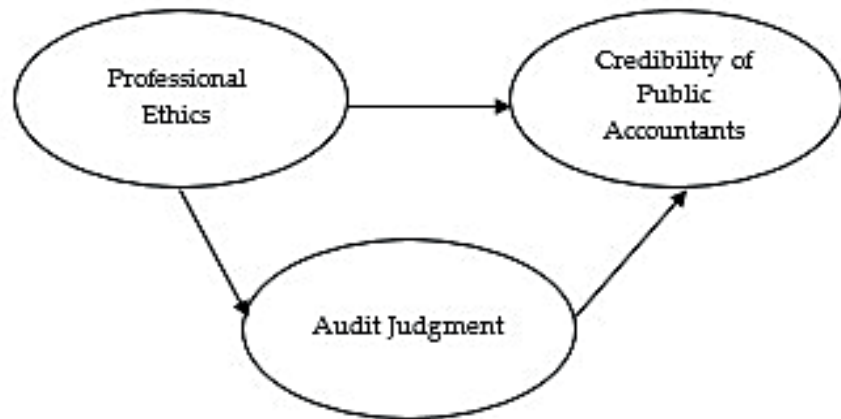


Figure 2: Conceptual Framework Model for The Influence of Professional Ethics on Credibility of Public Accountants through Audit Judgment.

and morals [12,15,16]. Implementing good ethics will create quality audit decisions [10,12]. This is because the decision is based on applicable principles and standards.

3.3. Professional Ethics, Audit Judgment, Locus of Control, and Credibility of Public Accountants

A public accountant's duties include conducting audits of an entity's financial reports and providing an opinion on whether the financial reports have been presented relatively following financial accounting standards [21,24]. The public accounting profession is a profession that is very dependent on public trust. The public expects a free and impartial assessment of the information presented by company management in financial reports [9,37]. The public accounting profession is responsible for increasing the reliability of company financial reports so that the public obtains reliable financial information as a basis for decision-making. This causes the public accounting profession to be required to maintain the trust it has received from clients and parties outside the company [9].

In the audit process, public accountants will be faced with the interests of two opposing parties. Company management and parties outside the company each have interests, giving rise to conflicts between them [3,19]. The conflicts that arise include: firstly, management's desire to increase its welfare conflicts with the shareholders' desire to increase their wealth. Secondly, management's desire to obtain as much credit as possible at low interest conflicts with the wishes of creditors who only want to provide credit according to the company's capabilities, and thirdly there is a desire management to pay as little tax as possible is contrary to the government's desire to collect as much tax as possible. The existence of conflicting interests is what ultimately triggered the

emergence of the public accounting profession which is trusted by parties with an interest in financial reports to provide an assessment of the fairness of a financial report that has been prepared by company management [16,38].

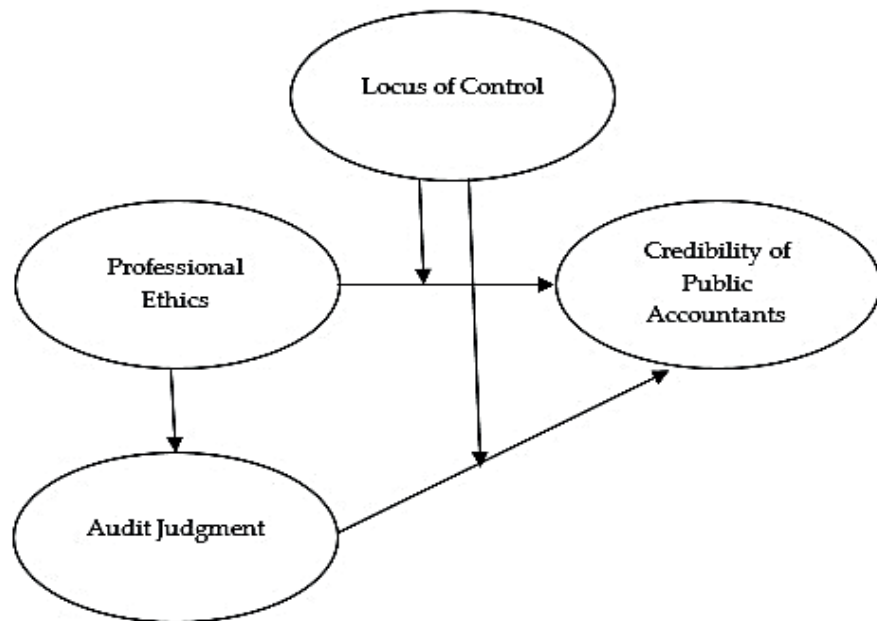


Figure 3: Conceptual Framework Model for The Influence of Professional Ethics on Credibility of Public Accountants through Audit Judgment with Locus of Control.

The conceptual framework for the influence of these variables is in Figure 3. An auditor will evaluate the available evidence. Clients want specific audit results, such as trying to get an unqualified opinion so that the company's performance can be said to be good, and for companies that go public, they can increase the value of their shares in the capital market [6,39]. To achieve this goal, clients often desire a certain result or accounting treatment so that the financial statements look good [6,19]. The client will try to persuade the auditor to accept the client's explanation. The evidence that the client has provided for the auditing process is an implicit persuasive effort, while the client's preference is an explicit effort [10,40].

Auditors rarely make objective decisions, so the judgments taken by auditors can differ from one auditor to another [9,16,35]. The main factor that influences it is materiality and what we believe to be the truth [10]. In audit work, judgment is an activity that auditors always use in every audit process. Whether or not the auditor's judgment is correct will significantly determine the quality of the audit results and also the opinion that the auditor will issue. Audit judgments depend on the perception of a situation. Judgment, which is the basis of professional attitude, results from several factors such as education, culture, and so on. The most significant and seemingly controlling element is

the auditor's feelings in facing the situation by remembering the success of the previous situation [19,36].

Individual internal factors can also influence the auditor's decisions in decision-making in audit tasks [2]. Individuals, as humans, have a critical role as decision-makers in organizations. However, individuals are active figures in determining the values developed in an organization. This is supported by research that states that ethical considerations can be partially explained by the personal and professional values of the individual concerned [12]. Individual factors play an important role in knowing what factors influence individual behavior to take action when faced with situations involving ethics [19,20,41]. Attribution theory explains that a person's behavior in acting can be influenced by internal factors (behavior that is believed to be under the personal control of the individual concerned) [42]. Internal factors can influence auditor behaviour in producing quality audits, so auditors must manage this well, known as locus of control, especially internal locus of control.[20,41].

Auditors with an internal locus of control tend to perform better [18,43]. They tend to like challenging work, demanding creativity and complexity, focusing on problems, and being highly motivated to complete the work [30,36,44]. Locus of control tendencies can influence audit quality, where the more internal the auditor's locus of control tendencies are, the more quality audits can be produced [41,44]. The auditor's ability to respond to ethical dilemmas will help him produce ethical decisions, thereby improving the quality of the auditor's judgment [38,44]. An auditor with high idealism will be able to control himself to avoid actions that can deviate from ethical standards so that it can affect their judgment [38,45] and will further encourage public trust in the public accounting profession.

4. Conclusion

The public accounting profession is a profession that is very dependent on public trust. The audit results (opinions) they provide can influence the decision-making of various parties interested in an entity. In the audit process, public accountants, as auditors, will be faced with the interests of two opposing parties. Company management that wants specific audit results will use various methods to influence the auditor's assessment. This causes them to make objective decisions rarely so that the judgment can differ from other auditors. Individual internal factors can prevent this condition and influence the auditor's decision-making decisions. Individuals with an excellent internal locus of control have a high work ethic and are diligent and persistent in facing all kinds of

life and work difficulties. Public accountants need this to maintain and increase their credibility.

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