

## Research Article

## The Relationship between Self-Efficacy towards Audit Quality with Individualism Culture As Mediates: Evidence from Indonesia

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**ABSTRACT:** This study investigates the effects of individualism culture on audit quality with self-efficacy as mediates. Specifically, it examines the mediating effects of self-efficacy on the relationship between individualism culture to audit quality. Social cognitive theory is employed as a theoretical framework. Using the purposive sampling method, 101 auditors of individualism culture, self-efficacy Indonesian the Supreme Audit were selected as the sample. The results of this study show that self-efficacy has a significant impact on audit quality. This study also finds that individualism culture acts as a mediator variable. This study is for the Supreme Audit Agency, the Inspectorate, Directorate General of Taxes, government internal auditors and independent auditors and academics in the field of accounting education.

**Key words:** The Supreme Audit Agency, Social cognitive theory, Individualism culture acts as a mediator to Audit quality in Indonesia.

### INTRODUCTION

Corruption started to become familiar in people's ears around 1997-1998 in Indonesia, in the era of the New Order downfall which was followed by the long-drawn-out economic crisis. Corruption has become personal culture of a certain person and has covered almost all public sectors, law, economics and business in Indonesia state administration system; however, corruption is often untouchable by law and order. Therefore, Indonesia has become the third rank most corrupted country in the world because of the powerless administration and the increased accrual management in the manufacture industries and BUMN (Indonesian State Owned Enterprises) in Indonesia such as the case of bail out scandal of Century Bank, Hambalang scandal, the corruption of athlete sports facilities, Sumber Waras Hospital that involved the Jakarta Administration and the investigative auditor of BPK (Supreme Audit Agency) and others. While several case examples in America such as Enron case that caused 70 billion bankruptcies lost in a big and significant market capitalization for investors, employees and retirees.

DeAngelo (1981, p. 186) defines audit quality as "the market assessed joint probability that a given auditor will both discover a breach in a client's accounting system, and report the breach". A high-quality auditor will detect errors and enhance the reliability of the financial statements (D. Chan and Wong, 2002; Gul et al, 2002; Chang et al, 2009). Carcello et al (2002) find that audit quality is directly linked to the amount of audit work. Many factors affect the quality of the audit, and these factors come not only from within the auditor but also from the outside. In this study, individualism culture and self-efficacy variables are expected to influence audit quality.

The importance of the cultural characteristics of individual auditors in the audit process has been widely documented. For example, studies by Agacer and Douppnik (1991), Bernardi et al (1997), Cohen et al (1996), Douppnik and Salter (1995), Lampe and Sutton (1994) suggest that cultural differences significantly affect the audit process. Self-efficacy is derived from social cognitive theory (Bandura, 1986). It suggests that most of the knowledge and behaviour of members of an organization is derived from the environment, and thought processes in response to information received are continuous. It affects the motivation, attitudes, and behavior of individuals. Some research suggests that self-efficacy contributes significantly on an individual destination level, i.e., achievement of goals and performance (Lock and Latham, 1990).

Although prior studies have investigated the determinants of audit quality, few studies in the organizational behavior and auditing literature have tested the mediating effects of self-efficacy. The first objective of this study is to examine the effect of individualism culture on audit investigative quality. The second is to investigate whether self-efficacy mediates the relationship between individualism culture and audit investigative quality. This study was carried out because of the importance of audit quality in the decision-making process of stakeholders. By understanding the factors that affect the quality of an audit, auditors can increase their capabilities and thus minimise the occurrence of fraud.

### LITERATURE REVIEW AND HYPOTHESES

Social cognitive theory was used by Bandura in response to dissatisfaction with the principles of behaviorism and psychoanalysis. According to the theory, the role of cognition in motivation and the role of motivation are mostly ignored

(Bandura, 1977). The term "cognitive" comes from the word cognition, which means understanding or understand. The wider definition of cognition is the acquisition, structuring, and use of knowledge. In subsequent developments, this cognitive term, then, became popular as one of the areas of human psychology/a general concept that includes all forms of recognition, which includes any mental behavior related to the problem of understanding or paying attention.

Hofstede (1991) and Hofstede (2001) identified five dimensions along which national cultures could be compared and contrasted: individualism versus collectivism, large versus small power distance, strong versus weak uncertainty avoidance, masculinity versus femininity, and short-term versus long-term orientation. One cultural dimension (individualism) is identified as a dimension that is closely related to factors affecting errors detected in auditing.

#### **The effects of Individualism culture to audit quality.**

Members of an individualist culture are expected to act according to their own interest, and they champion individual achievement. Management in an individualist organization is management of individuals, and the relationship between employer and employee is conceived as a business transaction based on mutual benefit. From a control perspective, this cultural dimension relates to the behavioral aspects of the internal control system and the inherent risks. There is a growing recognition of the importance of personnel policies and practices in implementing effective controls to prevent and detect errors or irregularities in financial statements (Glover and Aono, 1995). K. H. Chan et al (2003) argue that based on cultural characteristics, individualist companies have more reliance on accounting numbers for individual performance evaluation. H1: Individualism culture is related to audit quality.

#### **The effects of Individualism culture to self-efficacy.**

Social cognitive theory suggests that self-efficacy is a dynamic judgment that changes with organizational context, and it can be affected by individuals' forethought of the trade-offs between effort and payoff (He and Freeman, 2010). Organizational culture is one type of environmental influence that impacts the way people (employees) think, perform tasks, and communicate/interact with each other. The culture of an organization provides a corporate framework, which provides guidance on issues like how work is done, the use of technology, how people think, and standards for interaction and communication. It then impacts and can be influenced by people's behavior with respect to various things, such as how to solve problems, how to perform a job, and how to communicate. These, in turn, affect an individual's job performance and satisfaction, impacting firm performance.

H2: Individualism culture is related to self-efficacy.

#### **The effects of self-efficacy to audit quality.**

Self-efficacy refers to the belief in one's capabilities to successfully perform a specific task (Bandura, 1986).

Perceived self-efficacy is concerned with judgments of how well one can execute courses of action that are required to deal with prospective situations (Bandura, 1986, p. 122), and 'beliefs in one's capabilities to mobilize the motivation, cognitive resources, and courses of action needed to meet given situational demands' (Wood et al, 2000). Self-efficacy is concerned with whether a person believes he can use his skills in specific circumstances (Stajkovic and Luthans, 1998; Snyder and Lopez, 2009). Self-efficacy has been regarded as a version of self-esteem (Lunenburg, 2011). The basic principle of self-efficacy is assessment, which is generally measured by three basic scales: scale, strength, and general. (Bandura, 1997) contend that performance and motivation are partly determined by the degree to which people believe. Cybinski and Windsor (2005) found that the relationship between self-efficacy and independent auditor's work may offer a different insight into the domain of the internal auditor and audit quality. (Shih et al, 2009) concluded that there was a significant and positive relationship between the self-efficacy of the auditor and the performance of internal auditors. Previous studies demonstrate that high self-efficacy improves performance in a wide range of work settings, including education, training, sports and management (Shea and Howell, 2000). An individual's belief that he or she has the ability to execute certain tasks contributes to better performance. Individuals with high self-efficacy tend to perform well on a variety of tasks (Bandura, 1997; Stajkovic and Luthans, 1998). In contrast, low self-efficacy individuals tend to avoid tasks and situations that they believe exceed their capabilities. Highly motivated auditors only demonstrate a better audit judgment performance when the audit tasks are simple.

H3: Self-efficacy is related to audit quality.

Many studies have demonstrated that level of self-efficacy can predict work attitude, job training, work performance, job satisfaction, educational development, and knowledge sharing ((Randhawa, 2004; Cabrera et al, 2006). Therefore, self-efficacy is widely perceived as one critical factor in determining how much effort and resources a person invests when confronting challenges. Auditors with higher self-efficacy are more likely to continue investing in goal achievement behavior. Therefore, self-efficacy influences behavior by affecting the motivation and confidence to overcome difficulties and improve performance.

H4: Self-efficacy mediates the relationship between individualism culture and audit quality.

## **METHODS**

This study uses primary data. The purposive sampling method is used to select the sample. The sample in this study consists of 69 investigative auditors from Indonesian Supreme Audit. The sample selection is presented in Table 1. In 2017, the total number of auditors at Indonesian Audit Supreme was 288. Of the respondents, 166 are not investigative auditors. Of the 122 investigative auditors who sent the questionnaire, 21 were not responsive. Thus, the final sample was 101 can be described in table 1 below:

**Table 1 – Sample Selection**

Description	N
Total auditors	288
Auditor who doesn't include as investigative auditor	(166)
Available sample	122
Respondents didn't respon the questionnaire	(21)
Final sample	101

In this study, the variable of individualism culture is proxied as local culture. The dimensions consist of attitudes, behavior, and symbols. The normative approach views local culture as habits that are common or normatively agreed upon by a particular group. The second independent variable is self-efficacy, which is measured by five dimensions: loyalty to profession, social obligations, independence, confidence, relationship. The instrument was adapted from (Bandura, 1977). The dependent variable of this study is audit quality. It is measured by six indicators: accuracy, skepticism, recommendation, audit benefits, and audit follow-up. Using a 1-5 Likert scale, the respondents are asked to answer the questions. Data analysis was based on variance or the component approach of Structural Equation Modeling (SEM) with WarpPLS Program 6.0. The model of this study is as follows:

$$Y = \beta_1 X + \beta_2 X * \beta_{3M} + \epsilon$$

$$Z = \beta_1 X + \epsilon$$

Notation :

- Y = Audit quality
- X = Self-efficacy
- Z = Individualism culture
- $\beta_{1, 2}$  = Coefficient
- $\epsilon$  = Error

**RESULTS AND DISCUSSION**

**Descriptive statistics**

In table 2 the descriptive statistics describes the general description of each variable totaling 101 research samples consisting of (self efficacy, individual culture auditor, and audit quality investigative) can be described in table 2 below:

**Tabel 2 Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
SEPA	101	28	60	54,08	6,622
BIA	101	12	31	17,16	3,602
KAI	101	18	46	31,97	3,713
Valid N (listwise) 101					

Self efficacy (SE) variable with minimum score 28 and maximum 60 and mean 54,08 mean that from auditor auditor counted 101 auditor average 54,08 auditor (rounded 50 auditor) have ability self qualified as investigative auditor and standard deviation of 6,622 (rounded 7 unqualified auditors) as investigative auditor to improve audit quality.

The individual cultural variable of the auditor (BIA) (with a

minimum score of 12 and maximum 31 and averaging 17.16 means that of the total number of investigative auditors of 101 auditors averaging 17.16 auditors (rounded 17 auditors) has a cultural background of individual auditors heterogeneous as investigative auditor and deviation standard 3,602 (rounded 4 uncultured auditors) as investigative auditor to improve audit quality. The investigative auditor quality (KAI) quality variable (with a minimum score of 18 and maximum 46 and an average of 31.97 means that of the total number of investigative auditors 101 auditors an average of 31.97 auditors (rounded 32 auditors) has a quality investigative audit background and standard deviation 3,713 (rounded 4 auditors not qualified as investigative auditor) as investigative auditor to improve audit quality.

Table 2 presents the result of the correlation test. Based on the table, it can be seen that individualism culture is negatively correlated with self-efficacy and positively related with audit quality. This result also shows that self-efficacy is positively correlated with audit quality. The Correlation of variable study is as follows:

Table – 2 Correlation of variables

Variables	Individualism culture	Self-efficacy	Audit quality
Individualism culture	1.000	-0.219	0.141
Self-efficacy	-0.219	1.000	0.372
Audit quality	0.141	0.372	1.000

Table 3 exhibits the result of reliability testing of variables. The result shows that all variables have a Cronbach's alpha score higher than 0.60. It suggests that all variables can be reliably analysed. The Coefficient and reliability test of latent variable study is as follows:

Table 3 – Coefficient and reliability test of latent variable

Indicator	Individualism culture (X)	Self-efficacy (Z)	Audit quality (Y)
R-squared		0.167	0.288
Adj.R-squared		0.154	0.267
Composite reliable.	1.000	1.000	1.000
Cronbach's alpha	1.000	1.000	1.000
Avg.var.extrac.	1.000	1.000	1.000
Full collin.VIF	1.118	1.272	1.235
Q-squared		0.152	0.290

Table 4 presents the result of WarpPLS for full model testing. Based on the table, it can be shown that all indicators fulfilled the criteria of a fit model. The score for Average Path Coefficient is 0.373 with p-value less than 0.001. The Average R-Squared is 0.228, and the p-value is 0.003. Table 4 also shows the regression results. The path coefficient of individualism culture to audit quality is 0.379, and the p-value is less than 0.001. It can be concluded that individualism positively affects audit quality. Thus, H1 is accepted. The

second hypothesis (H2) stated that individualism culture is related to self-efficacy. The regression result shows that the coefficient of individualism culture to self-efficacy is -0.408 with a p-value less than 0.001. Therefore, the H2 is also accepted. The positive relationship between self-efficacy and audit quality is also supported. The path coefficient self-efficacy to audit quality is 0.331 (p-value = <0.001). Finally, the mediation effect of self-efficacy in the relationship between individualism culture and audit quality is shown by the fact that the path coefficient of the indirect effect is positively significant. Thus, H4 is accepted. The Full Model testing of this study is as follows:

**Full Model Testing**

The results of the full model research with WARPPLS 6.0 are presented with Figure 1, table 3. Based on the model output of fit and quality indices model has value of APC = 0.338, P <0.001, ARS = 0.260, P = 0.002, AARS = 0.250, P = 0.002, AVIF = 1.019, (acceptable if <= 5, ideally <= 3.3, AFVIF = 1.580, acceptable if <= 5, ideally <= 3.3, GoF = 0.510, small >= 0.1, medium >= 0.25, large >= 0.36). The provision for WarpPLS states that the p values for APC and ARS should be less than 0.05 (significant). The AVIF and AFVIF values as multicollinearity indicators should be less than 5 and the terms for GoF values are small >= 0.1, medium >= 0.25, large >= 0.36. Referring to these provisions, it can be concluded that this research model is fit. The full model test in this study can be described in Figure 1.

The variable used is a variable that has one reflective

construct. The purpose of this study was to examine the cultural mediation effect of individual auditors on the relationship between self-efficacy to audit quality investigative. Testing is done with the following WarpPLS 6.0 program:

Figure1 Full Model Testing

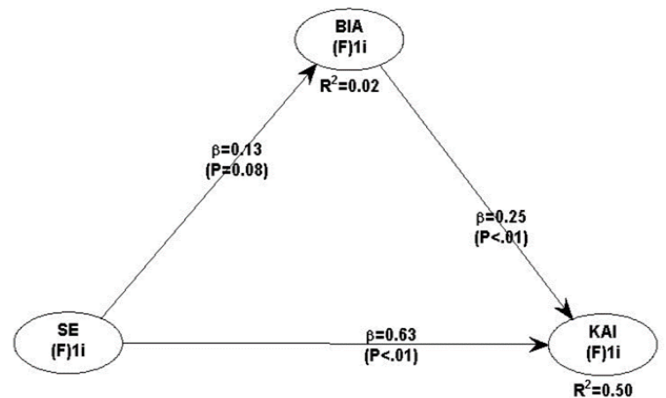


Figure 1 show the path and p coefficients of each direct effect, indirect effect, total effect and effect size in the research model. The individualism culture (BIA) on the self-efficacy (SE) line shows the coefficient value of 0.13 and significant with p value 0.08 < 0.10. The self-efficacy (SE) to audit quality (KAI) line shows a coefficient value of 0.63 and significant with p value <0.01. Individualism culture (BIA) to audit quality (KAI) path shows coefficient value 0.25 and significant with p value <0.01. Model Fit and Quality Indices, Path Coefficients and p-Values, Indirect, Total Effects, Effect Size. Full Model of this study is as follows:

Table 4 – Model Fit and Quality Indices, Path Coefficients and p-Values, Indirect, Total Effects, Effect Size - Full Model

Model Fit and Quality Indices		
Average Path Coefficient:	0.338, p < 0.001	
Average R-Squared:	0.260, p = 0.002	
Average Adjusted R-Squared:	0.250, p = 0.002	
Average Block VIF:	1.019, acceptable if <= 5, deally <= 3.3	
Average Full VIF:	1.580, acceptable if <= 5, ideally <= 3.3	
Tenenhaus GoF:	0.510, small >= 0.1, medium >= 0.25, large >= 0.36	
Direct (Path)	Coefficient	P-Value
Self-efficacy → Individualism Cultur	0.13	0.08
Self-efficacy → Audit Quality	0.63	<0.01
Individualism culture → Audit quality	0.25	<0.01
Indirect Effect		
Self-efficacy → Individualism Culture → Audit quality	0.034	0.314
Total Effect		
Self-efficacy → Individualism culture	0.133	0.084
Self-efficacy → Audit Quality	0.661	<0.001
Individualism culture → Audit quality	0.255	0.004
Effect Size		
	Coefficient	
Self-efficacy → Individualism Culture	0.018	
Self-efficacy → Audit Quality	0.438	
Individualism Culture → Audit Quality	0.087	

Table 5 presents R-Squared, Q-Squared and Full Collinearity VIF. R-Squared can be used to explain the effect of exogenous variables on endogenous latent variables whether they have substantive influence. Q-Squared is used to find out whether the model has predictive relevance while the value of Q-Squared <0 indicates the model lacks predictive relevance. While the Full Collinearity VIF is the result of full collinearity testing which includes vertical and literal multicollinearity.

The test results showed that R-Squared value of each endogenous variable was 50 % (KAI) and 2 % (BIA). This research model has predictive relevance because it has value of Q-Squared above 0 (nul). Based on the value of Full Collinearity VIF which is below 3 shows in the research model there is no multikolinieritas can be explained in table 5 of this study is as follows:

Table 5 – R-Squared, Q-Squared and Full Colinearity VIFs

	R-Squared
Audit quality	0.50
Culture of individual auditors	0.02
	Q-Squared
Audit quality	0.023
Culture of individual auditors	0.498
	Full Colinearity VIFs
Audit quality	1.890
Culture of individual auditors	1.162
Self Efficacy	1.688

Notation:

SE : *Self Efficacy*

KAI: *Audit quality*

BIA: *Individualism culture*

The strengthening of individualism culture positively affects audit quality. This suggests that the culture of the individual auditor improved audit quality; the culture of the individual auditor is based on local wisdom. The result of this study is consistent with the characteristics of cognitive theory. Cognitive learning theory is more concerned with the learning process rather than the result of learning itself. Learning does not just involve the relationship between stimulus and response; learning involves a complex thinking process. Learning is a change in perception and understanding. Changes in perception and understanding are not always a change in behavior that can be observed.

A change in individualism auditor culture is a learning process that changes the perception and understanding of the ethical audit process, improving the quality of the investigative audit. This study supports a previous study suggesting that the culture of individual auditors is reflected in the audit process of Indonesian Audit Supreme. It influences the quality of the audit (e.g. completion of the audit process at an early stage without improvement of audit procedures).

The culture of individualism auditor negatively affects self-

efficacy. Therefore, the diverse acculturation of the individual auditor applied further lowers self-efficacy. The results of this study are not consistent with social cognitive theory. According to the theory, a person believes he/she is able to use his/her skills in specific circumstances (Snyder and Lopez, 2009). Self-efficacy has been regarded as a version of self-esteem (Lunenburg, 2011).

Self-efficacy positively and significantly impacts audit quality, meaning that self-efficacy is an individual performance that is determined by the effectiveness of the trust audited, including the state. Self-efficacy has been regarded as self-actualization (Lunenburg, 2011). Proving that self-efficacy positively and significantly impacts the quality of the audit is necessary for the the potential of science and knowledge in the field of investigative audits; an audit process can be created based on the suitability standard of good governance (transparency, accountability, responsibility, independence and fairness), producing a quality audit that stakeholders expect.

The study also provides empirical evidence that the self-efficacy directly influences to audit quality, and individual culture of auditors indirectly influences it. The results of this study partially support previous research; it is possible that the self-efficacy in gathering audit evidence was inadequate, there was inaccuracies in the audit process, or certain audit measures were eliminated. The culture of individual auditors reflected in the behavior at the time of the audit process influences the quality of the investigative audit and includes the completion of the audit process at an early stage without improvement to audit procedures.

The individual culture of the auditor reflected in the behavior during the audit process influences the quality of the investigative audit including completion of the audit process at an early stage without improvement of audit procedures (Otley and Pierce, 1995; Rhode, 1978; Alderman and Deitrick, 1978; Donnelly et al., 2003. : 88) proves that the role of self-efficacy mediates the relationship between the culture of individual auditors positively affecting the quality of investigative audit, whereas this study differs from previous research which proves that the culture of individual auditors acts as a partial mediation between the influence of self-efficacy on the quality of investigative audit. So the relationship of self-efficacy to audit investigative quality has significant effect and there are still other mediation besides individual auditor culture, such as; Auditor's behavior, Audit process and conformity with IFRS-based financial accounting standards and ISA-based audit standards.

Theoretically, this study contributes to the organizational behavior and accounting literature. Practically, the results of this study can be used as a reference for various parties regarding the individual culture of the auditor. Specifically, this study is for the Supreme Audit Agency, the Inspectorate, Directorate General of Taxes, government internal auditors and independent auditors and academics in the field of accounting education. Future study may consider other variables which are expected to affect audit quality, such as

competence, independence, experience in auditing, integrity, quality control, client industry specialization, and audit quality benchmarks.

## CONCLUSIONS, IMPLICATIONS OF RESEARCH AND FUTURE RESEARCH

The results are consistent with the characteristics of social cognitive theory. Cognitive learning theory is concerned with the learning process rather than the results of learning. The self-efficacy of the auditor positively affects and significant to the individualism culture. The result is consistent with social cognitive theory. Self-efficacy positively affects the quality of the audit. That is, the individualism culture is the performance and motivation of auditors and is determined by the confidence of the auditor, which will improve the quality of the audit. the culture mediates the relationship between Self-efficacy to audit quality. This study provides empirical evidence that individualism culture influences to audit quality directly or indirectly through individualism culture.

Self efficacy positively affect the culture of individual auditors. meaning that the diverse culture of individual auditors applied in BPK is increasing Self-efficacy. The results of this study in line with the theory of Self-efficacy is someone believes he can achieve using his skills in certain circumstances (Snyder & Lopez, 2007). Self-efficacy has been regarded as a self-esteem version (Lunenburg, 2011).

The self-efficacy of the auditor positively affects and significant to the quality of audit. The meaning of Self-Efficacy is that the high performance and motivation of the auditor is determined by the effectiveness of the auditee's trust will improve the quality of the investigative audit. The results of this study proves that self-efficacy has a positive and significant effect on the quality of investigative audit.

The individual culture of the auditor mediates the relationship between self-efficacy and the quality of the investigative audit. The results of this study provide empirical evidence that self-efficacy directly influence the quality of investigative audit or indirectly through the culture of individual auditors. The individual culture of the auditor reflected in the behavior during the audit process influences the quality of the investigative audit including completion of the audit process at an early stage without improvement of audit procedures (Otley and Pierce, 1995; Rhode, 1978; Alderman and Deitrick, 1978; Donnelly et al., 2003. : 88) proves that the cultural role of individual auditors mediating the relationship between self-efficacy has an effect on the quality of investigative audit.

We recommend the upcoming survey of *The Supreme Audit Agency* auditors throughout Indonesia in addition to Jakarta and West Java. We recommend that future survey research can also be conducted on independent auditors, Government auditors at the Inspectorate, and the Directorate General of Taxes. It is recommended that the sample size be extended to all government auditors to improve the quality of international standardized investigative audits throughout Indonesia.

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