

## CHAPTER 5

### CONCLUSIONS AND DISCUSSIONS

#### 5.1 Introduction

This study has obtained the understanding of how Indonesian external auditors rely on the work of internal auditors. First, it ranked the order of the assessment factors into three categories i.e. the most-moderate-least from the perspective of external auditors in Indonesia. Second, it obtained the weighted figures of assessment factors that could be used by external auditors in Indonesia when adopting decision aid for extent of internal audit reliance model introduced by Schneider (2010). Third, it explored the role of professional judgment for external auditors in Indonesia, and fourth, it discussed the perceived level of importance for objectivity factor for external auditors in Indonesia. This is presented into two sections; first, it presents the conclusion of the study, derived mainly from the findings of the study presented in the previous chapter. Second, discuss the limitations of the present study together with recommending the avenues for future research that could be undertaken.

#### 5.2 Summary of Findings

Based on the result from this research, it is suggested that external auditors in Indonesia should consider the internal auditors' competence, objectivity and work performance as factors that are important in determining their reliance decision. It was found that the work performance was given the highest rank order with 4.24 of mean score (most-important), followed by the objectivity factor with 4.13 of mean score (moderate-important) and the competence factor with 4.09 of mean score (least-important). A possible explanation for the work performance factor as the most important factor in this study might be "while competence and objectivity indicate the potential good audit,

the work performance factor provides information about what has actually happened in the audits” (Schneider, 1985b, p. 300).

As presented in Table 1 (page 13), the findings of this study, to a certain extent, is somewhat similar to those discovered in previous studies such as Al-Tawjri (2004) in Saudi Arabia and Mihret and Admassu (2011) in Ethiopia where the work performance was found to be the most important reliance factor for external auditors. Contrary with this finding, Haron et al. (2004) in Malaysia, Suwaidan & Qasim (2010) in Jordan and Desai et al. (2010b) in US concluded that the work performance is not as important as objectivity and competence. Putting together, these existing researches has showed various conclusions, hence one of the possible explanation for these results should be the variety of preferences due to the sample locations. Therefore, it is expected for external auditors in Indonesia to benefits this study since it represents the preferences of Indonesian external auditors.

In addition, It should be highlighted that the highest mean score from the work performance factors represented by the statement on “conclusion should be supported with adequate working paper documentations” with 4.38 of mean score, the objectivity factors represented by the “top management support” statement with 4.33 of mean score and competence factors represented by the statement on “educational background” with 4.28 of mean score. This suggested that the internal auditing function with top management support and educated staffs that made conclusions with adequate working paper documentation is the most preferred criteria for external auditors.

Further examination on the reliance score studied in this research have resulted a relative importance weights figure of the three reliance factors. It was found that the

work performance reached the highest weight with 0.340 followed by the objectivity factor with 0.332 and the competence factor with 0.328. From the result, it can conclude that the three factors have shared nearly equal relative importance weights, whereas each of the factors approximately equal to one-third of the total weights. The relative importance weighted figure is expected to give contribution by assisting Indonesian external auditors, specifically in adoption of Schneider's decision aid for extent of internal audit reliance model.

The results of this study also revealed the important of professional judgment for external auditors in Indonesia. From the result, it can conclude that professional judgment considered as highly important factor for external auditors. The professional judgment would help external auditors in many aspects, specifically in making estimations and assumptions. It also helps external auditors to understand the client's business and industry. In relation with the current challenge that external auditors encouraged to rely on internal auditors' work, this study suggest preliminary conclusion that external auditors in Indonesia aware about the important role of professional judgment.

Other results from this study suggests that majority of external auditors in Indonesia agreed that internal auditors' objectivity is the most important factors in evaluating the strength of client's internal audit function. The internal auditors' objectivity is required by auditing standards to ensure the effectiveness and efficiency of the companies, whereas the work of internal audit will be futile without objectivity. Recall that there is no consensus on the rank-ordered evaluation factors, this result confirmed that external auditors in Indonesia considered internal auditors' objectivity as the important factor in reliance decision.

### 5.3 Discussions

In this discussion section researcher presents the limitations and recommendation identified in this study. The limitation and recommendation suggested in this study could be distinguished into two groups, data and research limitation and recommendations, as follows:

#### 5.3.1 Data Limitations and Recommendations

This study is not without its limitations, the limitation is due to the number of respondents involved in this study. Although not the lowest, the number of participants in this study is considered low compared with related prior studies from other countries. Whilst many steps have been taken to enhance the response rate, this study only managed to record the 62% response rate. Due to privacy issue practiced by many professionals, including the public accounting firms, this is somewhat a common problem faced by many researchers in administering their questionnaire survey to professionals in practice. Thus, this limits the generalizability of the research findings. Table 11 shows the response rate from prior researches in the area compared with this study.

**Table 11:** Response rates comparison

Research Study	Years	Questionnaires				Responses Rate	Sample Origin
		Distributed	Received	Useable	Unuseable		
Al-Twajjry et al.	2004	39	33	33 <sup>a</sup>	0	85%	Saudi Arabia
Suwaidan & Qasim	2010	100	76	69	7	69%	Jordan
Mihret & Admassu	2011	250 <sup>b</sup>	126	119	7	48%	Ethiopia
This Study	2011	150 <sup>c</sup>	95	93	2	62%	Indonesia

<sup>a</sup> consisted of 10 audit partners and 23 managers

<sup>b</sup> Distributed to 61 Audit Service Corporation and 58 private audit firms

<sup>c</sup> Distributed to 12 mid-sized private audit firms

All participants in this study were from the mid-sized international audit firms operated in Indonesia. Since no big four of audit firms involved, the findings in this study may be unique to the mid-sized audit firm. However, this was unintentional since researcher had invited the big four to participate in this study, but somehow for the reason of confidentiality some of them had decided not to get involved. The rest of the big four not included in this study due to the time constraints. In order to verify the findings, replication of this research involving the big four is necessary.

The profile figures of the participant characteristics were considered low as the majority of participants in this study were from the degree level with no professional qualification and minimum working experience. Therefore, researcher suspects that most of participants were new-entry auditors that never had experience involved in reliance decision. Rather than responses only based on academics knowledge, to conduct research with higher profile of participant characteristics is an advantage. For example, [Al-Twaijri et al. \(2004\)](#) had specifically selected audit partners and managers as their survey respondents.

With regards to the sampling method used, initially researcher intended to undertake random sampling method in selecting the samples from the list of registered external auditors provided by Indonesian Institute of Certified Public Accountant. Unfortunately, not every sample chosen from the list agreed to involve. As some of the samples declined the researcher's invitation to participate, researcher had to use volunteer technique of non-random selection in a way to ensure sufficient number of sample. This method was criticised by many such as [Black \(1999\)](#) who noted that doing quantitative research in the social sciences with volunteer sample selection "can be highly unrepresentative" (p.118). However, considering that this is an exploratory study in

determining the reliance factors in Indonesia, the respondents involved in this study still belongs to the right population and therefore deemed relevant for the purpose achieving the research objective of this study.

Recall that this study had used drop-off questionnaire to gained responses, it was impossible for researcher to determine whether respondents gave adequate attention to the survey or just simply ticked the questions randomly. Perhaps, future study should consider undertaking in-depth face-to-face interviews in addition to survey questionnaires. These would undoubtedly be beneficial in determining further aspects which may influence the extent of reliance on internal auditors' work by the external auditors.

### **5.3.2 Research Limitations and Recommendations**

Decision aids are intends to improve decision accuracy. [Desai et al. \(2010b\)](#) notes that the major limitation in introducing decision aid is “the lack of empirical evidence available to support the findings of the model” (p.568). Schneider's decision aid model was introduced in 2010 and yet has not been tested. Future research to confirm the ability of features offered in the model is necessary.

This study has rank the order of the assessment factors without specifically distinguish whether the findings applicable for the first year of engagement or for the subsequent years of engagement. Studying the evaluation factors and the effects of relationship between external and internal auditors regarding to the two types of engagements are essential. It should be noted that based on Auditing Standard No.5 ([PCAOB, 2007](#)), for decision-making process in subsequent years' audit, the auditors should incorporate

knowledge obtained from the initial year's audit with information available in subsequent years' audit.

This research has discussed the important role of professional judgment for external auditors in Indonesia. Based on [Desai et al. \(2010b\)](#) who stated that auditors' judgment has a larger role in the performance of the integrated audit, deeper investigation in the issue is significant. For example, to examines the competence of external auditors in Indonesia in making reliance decision and investigate the Indonesian external auditors' confidence level regarding their reliance decision.

Another way to benefits this study is by employing other aspects related with the study as selected subjects. For example, future studies could perhaps further examine the development of internal audit function in Indonesia to discover factors that may encourage external auditors extend their reliance decision on internal audit function.