

The Effect of Power Distance and Individualism on the Reliability of Audit Evidence

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Abstract

Audit evidence is basic information used by an auditor to provide an opinion on the audited financial statements, and this can be achieved supported by the accuracy of the data provided. This study aims to determine the effect of power distance and individualism on the reliability of audit evidence in public and private Universities in North Sulawesi. This research is quantitative research with a descriptive correlation design. The population in this study is finance staff at public and private universities. The results indicated power distance and individualism have a significant relationship with the reliability of audit evidence at public/private universities in North Sulawesi.

Keywords: Reliability of Audit evidence, Individualism, Power distance

INTRODUCTION

The process of accountability includes procedures, control, and regulations on how to achieve results that are accountable and show good performance. This is the procedure that many countries, including Indonesia, use to achieve the best auditing performance. According to Asmara (2016), auditing appears to have influenced Defond et al. (2011) on auditor competence indirectly to audit quality which is related to motivation.

The reliability of audit evidence is one of the indicators used to determine compliance with applicable audit standards, so the reliability of the results of the audit is appropriate. To have a good audit quality will indicate the institution/organization which is follows auditing stands. Cases of financial reporting scandals occur at the international level, which shows that there are still weaknesses. It can be found that there is still a perception of audit failure in private universities (PTS) and state universities (PTN) due to the lack of quality of auditors, and there is still a perception that this is done as a formality in carrying out internal quality (Budi Djatmiko, 2019).

Good audit quality is a guarantee of the quality of financial reporting and adds to the investor's assessment that the financial statements reflect the economy of the organization. Good audit quality describes economic performance (Lee & Lee, 2013). The reliability of the financial reporting system provides information to all users of financial statements that are presented in the public interest, where reliability depends on transparency in financial statements. (Enderle, 2012). The reliability of audit evidence will be good if the auditor follows the scale and characteristics of the sample used in conducting the audit process. A competent auditor will affect the value of the

company by making changes and improving the paradigm that focuses more on internal control and follows applicable regulations (Sri, 2012).

The reliability of audit evidence has a significant effect on audit quality (Mahaputra, 2018). Furthermore, Irawan (2015) stated that the quality of auditor performance in Indonesia needs to increase public accountability, designed by having a good system that can increase productivity and transparency. A clear accountability system will lead to transparency in public governance and especially democratic government.

Statement of the problem

This study aimed to determine the effect of power distance and individualism on the reliability of audit evidence in North Sulawesi, especially in private universities and state universities. This research sought to answer the following questions: What is the extent of power distance and individualism, and what is the level of reliability of audit evidence? There is no significant relationship between power distance and individualism to the reliability of audit evidence.

LITERATURE REVIEW

Power distance

Power distance sometimes happens to less powerful members of the society who feel not equal to the people in power. Power distance can lead to poor organizational enhancement, participation, and empowerment of employees about the overall organizational condition. Empowerment of employees is considered as an important dimension to have better services and empower the employees. High power distance culture can affect the individual employees if empowerment is found to be low (Wells et al. 2010). In these societies, there is a tacit legitimacy of inequality of dominance distribution. Inequalities are expressed in various aspects of society, such as; physical and mental abilities, power, law, rights and rules, wealth and social status, and prestige. Power distance involves subordinates' perceptions of their superiors' decision-making and the extent to which they would be afraid to disagree with those decisions (Hofstede, 2014). Power distance refers to the level of acceptance of an individual's inequality by having a low powerful member in the society (Khlif, 2016). Inequality can occur in areas such as prestige, wealth, and power. Different societies put different weights on status consistency among these areas. For example, in societies where power distance is high, deference to higher levels is expected. Individuals are also more respectful towards elders. In these societies, there is a tacit legitimacy of inequality of power distribution. Individuals in the lower socio-economic positions expect those in higher positions to command and direct them (Hofstede, 2014). Power distance is connected to the individual and group decision to evaluate the audit risk. The extent of audit risk is the way to control how much audit effort should be expanded. The condition of audit risk is controlled by the senior manager, and it means that a high-power distance society will make the auditor have similar ideas on the assessment or evaluation of audit risk. However, having a low power distance can influence the individual and group when exercising their professional judgment undertaken by senior managers. Therefore, high power distance society makes the individual and group have similar ideas on the

assessment regarding audit risk, and low power distance makes the auditors who are well-known with their professional judgment (Yuan & Zhou, 2015). Indonesia society accepts power hierarchy; however, the society/citizen wants thoughtful practices from the people in power. A leader in Indonesia is expected to accept his authority in directive form and have clear decision-making.

Individualism

Hofstede (2014) defines individualism as a tie in the society that is loose, and everyone needs to look after their immediate family. Individualism dimension is related to the relationship between individuals and proves a more powerful opposing force in the relationship in a society. Individualism is related to personal freedom and achievement, which are part of rewards on social status to personal achievement, attainment as well as paying attention to societies status to personal such as innovation and all efforts that make individually noticeable. In reverse, collectivism focus on individuals belonging to a larger entity, such as a group that boosts suitability and depresses individuals from contradicting and leading (Hofstede, 2014).

The value of this dimension is related to the social structure in which individuals are prospective to control their immediate families. In highly individualistic societies, there is a strong self-orientation with more priority on individual initiative and personal achievement. Commonly, everyone tried to look after his or her personal interest. Otherwise, a collectivistic society is a category with a strong, cohesive character in a group that consists of extended family members with the aim of protecting them. In this group's everyone needs to keep his/her interest in the group and follow its opinion and beliefs (Lee et al., 2017). Sim (2015) found out in his study that individualism among the auditors can affect the revision of their estimates of budgeted audit hours when encountering additional audit evidence. Strong individualism refers to overconfidence, and societies are characterized by having strong individualism decisions that are made by individuals than groups (Chui et al., 2010; Dou & Veeraraghavan, 2016).

The research was conducted among 27,801 firms from 41 countries, and it showed that individualism is positively correlated with firm capital expenditures and repurchase while uncertainty avoidance is negatively associated with it (Chen et al., 2015). Furthermore, Shao et al. (2013) stated that individualism is associated with less investment in R&D (physical assets).

Reliability of audit evidence

The reliability in the financial reporting system is important to give information to all stakeholders about the financial information system, public interest to pay attention and secure proper operation of systems. Reliability relies upon transparency or clarity of financial reporting (Enderle, 2012). Audit reliability indicates the level at which an individual auditor or audit team provides audit reports with accuracy and in agreement with audit standards. The audit report's structure significantly influences the extent to which nonprofessional persons attend to the report's content, and the report must inform the people about the financial statement's reliability and investment decisions (Goodson, 2015). The right financial information needs to support the auditor by having correct audit evidence which can support the audit process. The factors that influence the reliability of audit evidence are when the auditor maintains from independent sources, the audit

evidence is maintained directly by the auditor. The auditor should keep the document to observe the application of control, whether on paper or electronic (Ashfaq, 2018).

Further, Clatworthy and Peel (2013), in their research about the connection between audit and corporate governance and the characteristic of the organization, it was found that there is an impact of organizational characteristics on the reliability of their financial accounting information, especially on an accounting error. Terblanche et al. (2008) mentioned that governance policies would give a contribution to increasing the reliability of financial reporting by having accounting standards that contribute to large participation of all stakeholder's objectives to have financial information follow financial reports standards.

In addition, financial audit missions have a central role in the contribution towards having reliable and useful financial information to have decision-makers have an internal control system that is agreeable with the financial management system (Lenghel & Vlad, 2017).

METHODOLOGY

The study used the descriptive-correlation research method to investigate the effects of power distance and individualism on the reliability of audit evidence. A correlational study was used to answer questions about the relationship among the variables. The researcher used Raosoft SurveyWin 3.2 tool to calculate the minimum sample size. Raosoft is a program that automates an entire survey to look for the sample size (Fridlund, 1993). Regression analysis was used to find out the correlation between each variable. The population of this study was composed of the staff in a private and state university in North Sulawesi.

RESULT AND DISCUSSION

Power distance

The extent of power distance presented in Table 1 indicates the overall verbal interpretation of the respondents that there is a *strong* power distance with an overall Mean (M) of 3.56 and Standard deviation (SD) of 0.40.

Table 1: Descriptive results in terms of Power Distance

	M	Std	SR	VI
The Following are observations made about their internal auditor.....				
All roles are defined by the audit team members.	4.16	.18	Often	Strong
The supervisor makes all the decisions.	3.23	.17	Sometimes	Moderate
The auditors work independently.	3.97	.21	Sometimes	Moderate

The auditors obey my superior's decision.	4.39	.12	Often	Strong
The auditors dine together with my supervisor.	3.16	.24	Sometimes	Moderate
Audit decisions are made only by the lead auditor.	4.23	.14	Often	Strong
The subordinate questions the supervisors' decisions.	3.42	.22	Sometimes	Moderate
The audit team calls their supervisors by their first name.	2.71	1.37	Sometimes	Moderate
The auditors are afraid of my supervisor.	2.81	1.13	Sometimes	Moderate
Grand Mean and SD for Power Distance	3.56	.40	Often	Strong

The result implies that the power distance of internal auditors in the state and the private university had a strong power distance which means that when the internal auditors have power distance, they often practice it or the existence of a strong power distance between the supervisors and the employees is apparent. This is supported by the study of Khlif (2016), who found out that when power distance is strong, there is a more likelihood of employees following what their supervisors and leaders say and practice.

In the organization, when employees have a good relationship with their leader by having strong power distance culture, there is a likelihood that the employees will have a low level of motivation to support the organization's goals (Rafiei et al., 2013). This will affect the employee performance and influence the workplace behavior of the auditor to achieve a good audit result. More specifically, in an organizational context, if the members have a high-power

Individualism

As depicted in Table 2, seven items were used to measure individualism. Five of the items were verbally interpreted as *strong*, while two items were verbally interpreted as *moderate*. The grand mean of the items was $M = 3.98$ ($SD = 0.51$) with a scaled response of *often* and verbally interpreted as *strong*.

Table 2: Descriptive results in terms of Individualism

	M	SD	SR	VI
The following are observations made about their internal auditor.....				
The auditors have freedom of expression				

	4.35	.64	Often	Strong
Each auditor focuses on his/her Objectives	3.23	.16	Sometimes	Moderate
Each auditor is concerned with his/her Duties	3.52	.19	Sometimes	Moderate
The auditors have a collective discussion on audit matters.	4.32	.14	Often	Strong
Each auditor is concerned with his/her personal safety	4.13	.14	Often	Strong
Each auditor works alone	4.06	1.17	Sometimes	Moderate
Each auditor wants an exclusive place to work	4.23	1.14	Sometimes	Moderate
Grand Mean and SD for Individualism	3.98	.51	Often	Strong

In a comprehensive analysis of items, *the auditors who have freedom of expression* scored the highest ($M=4.35$, $SD=0.64$), with a scaled response of *often* and was interpreted as *strong*. The item *Each auditor is concerned with his/her duties* ($M=3.23$, $SD=.16$) has the lowest mean, with a scale of *sometimes*, and is verbally interpreted as *moderate*. The result implies that the individualism of the internal auditor is *strong*, which means that when internal auditors have *strong* individualism, they can reduce the audit quality because the auditor is more careful about personal achievements than organizational goals.

High individualism can have a strong orientation, especially on individual initiative and personal achievement. Usually, a group that has strong individualism must look at the individual interest in the group and follow its opinion and beliefs. Additionally, Zhang et al. (2015), in their study, indicated that the country that had a strong score of individualism signified that individual rights are dominant, and more attention is on individual interest than other people/stakeholders' interests.

Reliability of audit evidence

As depicted in Table 3, seven items were used to measure audit reliability. Seven of the items were verbally interpreted as *good*. The grand mean of the items was $M = 3.89$ ($SD= 0.56$), with a scaled response of *often* and is verbally interpreted as *good*. This implies that state and private universities have good reliability of audit evidence.

Table 3: Descriptive results in term reliability audit evidence

	M	SD	RS	VI
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Our University:				
Applies the correct account standards in the preparation of the accounts	3.52	.66	Often	Good
Prepares financial statement with the same approved budget lines.	3.58	.69	Often	Good
Uses objective information in preparing the accounts	3.71	.64	Often	Good
Has auditors who are capable of detecting material misstatements.	3.39	.76	Often	Good
Present financial statement without material error.	4.06	.73	Often	Good
Has the financial statement document that a trustworthy.	4.52	.74	Often	Good
Has auditors that verify the accounting information.	4.48	.73	Often	Good
Grand Mean and SD for the reliability of audit evidence	3.89	.56	Often	Good

In a comprehensive analysis of items which “*Has the financial statement document that a trustworthy*” with $M= 4.52(SD= 0.74)$ was scaled as *often* and verbally interpreted as *good* and was “*Has auditors who are capable of detecting material misstatements*” with $M= 3.39(SD= .76)$, (the lowest scored which was scaled as *often* and verbally interpreted as *good*). The result implies that the reliability of audit evidence of internal auditors in state and private universities is *good*, which means that when state and the private universities had *good* audit reliability, it showed the transparency and accuracy of financial reports. Audit reliability is necessary to help the stockholder in the financial information system to know the public interest, which shows transparency and accuracy of financial reports (Enderle, 2012).

Audit reliability is one of the factors needed and concerned with the supervisory of stakeholder perceptions on the auditors’ personal reliability, where reliability refers to dependability and accuracy of the service (Watkin et al., 2004; Terblanche et al., 2008). Akgün (2016) also mentioned that the reliability of financial reporting within corporate governance has an influence on the condition of management.

Result of linear regression analysis of the reliability of evidence in terms of power distance and individualism

Table 4 shows the result of the regression liner for the reliability of audit evidence among independent variables. According to the result of SPSS 20, found the proposed applied model based on the unstandardized coefficients beta for this study is $Y = 7.12 + .33PD + .708IN$, the first entered variable is power distance with an unstandardized coefficient of .337, t-value 2.186, and significant value of .037. The second entered variable is individualism with an unstandardized coefficient of .708, t value 4.475, and a significant value of .000. Therefore to answer the question hypothesis, “there is no significant relationship between power distance and individualism to the reliability of audit evidence” is rejected. This result showed that power distance and individualism are among the cores of organizational exercise that have an impact on the organization’s effectiveness.

Table 4: Result of Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	7.123	.761		2.162	.002
Power distance	.337	.154	.294	2.186	.037
Individualism	.708	.158	.601	4.475	.000

a. Dependent Variable: Reliability

CONCLUSION

Power distance and individualism influence the reliability of audit evidence, and the result of this study can improve the performance of internal auditors in private and state universities in North Sulawesi.

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