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## THE DEVELOPMENT OF PROFESSIONAL JUDGMENT RESEARCH

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**Abstract:**

The auditor's professional judgment quality is essential to maintain and improve. Therefore, careful judgment by an independent third party can assist the company in its operations. The purpose of this research is to see the development of judgment and decision-making (JDM) in Indonesia and its benefits in improving the quality of auditor judgment, especially auditors in the Indonesian supreme audit institution environment. This thinking is based on that (1) there has been a shift in JDM audit research from a normative model to a cognitive process (2) human cognition is limited, so a cognitive strategy is needed to assist humans in making quality judgments. This study guides designing effective empirical research using this conceptual framework. The framework adopted from this research helps improve the auditor's understanding of the appraisal process that can assist the auditor's appraisal performance by providing a practical suggestion through a cognitive strategy. The result of this research is that the personality factor is one of the factors that influence the auditor's assessment. Certain behaviors are more likely to occur if associated with high expectations and motivational reinforcement. Motivation is linearly related to individual expectations. Future researchers are expected to determine which type of character should be displayed higher. When researchers know which characters can stand out in improving performance, providing motivational reinforcement for the whole individual will be effective. Individual motivation will cause human cognition to be better because there is an urge to direct maximum thinking skills to get the best work results.

**Keywords:** Audit, Judgment, Review, Processing, Motivation.

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## INTRODUCTION

The auditor's professional judgment quality is essential to maintain and improve. Stakeholders need an objective client operating risk analysis from a competent auditor to make accurate operating decisions amid the changing pace of the global economy (Solomon and Trotman, 2003; Mala and Chand, 2015; Gao and Zhang, 2017). Errors in making operating decisions can disrupt the viability of the company. Therefore, careful judgment by an independent third-party can assist the company in its operations.

The importance of an auditor's professional judgment makes the JDM audit model continue to shift to get a strategy that can accommodate changes in the global economy and the character of individuals in particular. During the last few decades, audit judgment and decision making (JDM) studies to evaluate auditor judgment have changed, where normative model predictions have shifted to testing cognitive processes (Johnson et al., 1989; Griffith et al., 2016).

The normative model only focuses on the characteristics of the information available for JDM on a few simple tasks. In contrast, for complex audit tasks, it is expected to study the auditor's behavior and the audit working papers that underlie the judgments (Johnson et al., 1989). The shift to testing cognitive processes is also caused by the limited human ability to obtain relevant information in making judgments, as well as the tendency of lazy and stingy individuals to manage thought patterns and rely on the judgment through simple heuristics so that they do not escape making erroneous judgments (Libby and Luft, 1993; Lefa, 2014; Brady and Sniderman, 1985; Payne, 2002).

The development of JDM auditing as a previously studied process in psychology helps develop new ways to improve or enhance professional judgment, but previous research has not utilized this (Griffith et al., 2016). It was recorded that during 2011-2015 there were only two studies on personal effects, namely cognitive style and personality factors (Simnett and Trotman, 2018). The limitations of human abilities need to be investigated further by studying the forms of cognitive strategies that need to be maintained and developed in the cognitive process. Judgment is the highest cognitive level, so the judgments will be qualified if researchers know various essential cognitive strategies (Khadijah, 2016; Gagne et al., 1992).

The shift in the JDM model in the world is also in line with changes in professional judgment, especially for government auditors in Indonesia. This change is indicated by replacing the 2007 financial audit standard with the 2017 standard, emphasizing professional judgment (relying on cognitive abilities). The urgency of changing standards at the Indonesian supreme audit institution is the impact of the global financial crisis, one of which is the slow progress of financial audits (BPK-RI, 2018). The 2007 financial audit standards are binding (the auditor's judgment becomes limited), shifting to a more flexible set of standards that highlight the auditor's ability to formulate a series of information from various sources to find a more accurate set of problem-solving. This research shows that if the implementation of the new standard is successful, the performance of the Indonesian supreme audit institution will be of higher quality. The change in the 2007 financial audit standard to the 2017 financial audit standard requires the auditor to provide accurate professional judgment in assessing operational risk and provide solutions to the problems of the entity being audited.

Although it has shifted to the cognitive model, it was found that some of the auditor's judgments cannot fully guarantee that the auditee is successful in correcting internal control weaknesses. In fact, throughout the 2005-2019 period, the average recommendation value for status 4 was still higher than status 1-3. Status 4 can be caused by an auditor's error in giving judgment (BPK-RI, 2019). The Indonesian supreme audit institution peer review (2019) conducted by the Poland Supreme Audit Institution (SAI) explained that the results of the examination and the recommendations provided by the Indonesian supreme audit institution were not always able to detect and resolve problems in the internal control of the audited entity. In addition, the testing and reporting procedures carried out by the Indonesian supreme audit institution are often not adjusted to the operating risk of the entity, so the audited party has not been able to eliminate these errors in the following year by the recommendations given the Indonesian supreme audit institution. Auditors are asked to systematically focus more (especially on material matters) in conducting studies on audit assignments (BPK-RI, 2019). This audit review evaluates the Indonesian supreme audit institution and for empirical researchers to find and provide research results in contributions to appropriate practice.

This study aims to present a concept/framework that can guide empirical researchers, especially audit experimental research, to more closely examine various audit tasks that can improve the quality of auditor judgment with a focus on government auditors in Indonesia. This study also highlights the importance of a cognitive strategy that can accommodate various individual deficiencies useful in decision making.

## **METHODS**

This study is using conceptual framework method to provides the guidelines of the audit judgment empirical research. Conceptual research is a methodology wherein research is conducted by observing and analyzing already present information on a given topic. This method is used to answer the questions of the audit judgment development, solve real-world problems, and explain the phenomenon.

## RESULT AND DISCUSSION

The information processing model views that the better the information is processed, the longer the information will last in the information storage area ( Craik and Lockhart, 1972). The information processing theory model presents two types of processing: shallow (type 1) and deep (type 2). In shallow processing, information is stored only in its simple form (surface/overview), while deep processing will store information based on meaning in a form that can be paraphrased (notetaking) (Craik and Lockhart, 1972; Bretzing and Kulhavy, 1979).

Individuals will remember things that have meaning for themselves because they are processed more deeply than things that have no meaning or are not a concern in their lives (Craik and Lockhart, 1972). This concept involves a series of hierarchical stages of processing called processing depth, where when the incoming stimuli have been recognized, they will undergo a further process, namely elaboration. A better memory footprint is generated through these steps to make higher quality judgments (Craik and Lockhart, 1972).

Craik and Lockhart (1972) keep reminding us that the theoretical model of information processing through the concept of deeper processing/analysis also involves an extended processing time. It takes a series of optimal efforts to make time-efficient; on the contrary, it takes a long time for shallow processing. Therefore Palmere et al. (1983) stated that the elaboration hypothesis could replace processing time as a predictor of processing depth.

The information processing theory model is one of the psychological theories that can be brought into the realm of auditing. Processing type 2 (deep) in the model of information processing theory is indicated to help auditors manage information well through increasing trust, understanding, and accuracy of information. The information processing theory model shows that storing and disclosing good information is not determined by memory capacity but by how well individuals know the information (Craik and Lockhart, 1972).

Palmere (1983) further tested the information processing process by using the "processing level" model (Craik and Lockhart, 1972). Palmere (1983) predicts that his hypothesis can predict main ideas by manipulating paragraphs and insertion questions. Results Palmere (1983) found that processing time is not always a good predictor of memory. The elaboration process (data encoding) becomes a relevant proposition that provides a lot of information coding that increases memory performance (elaboration determines the level of information processing). Palmere's (1983) experiment with the "processing level" model (Craik and Lockhart, 1972) demonstrated superior information processing performance through accurate memory traces (explained in terms of processing depth or elaboration stimulus level).

**Type 2 Processing in Performing Audit Tasks.** Deep processing or type 2 has the disadvantage of using more time but has the advantage of having a lot of documented evidence and increasing confidence in memory accuracy. When a task is presented in more detail, and the amount of attention paid is more significant, or when individuals read more additional sentences that provide several examples that illustrate the essence of the story, then the individual's memory of important information will increase (Palmere et al., 1983). The information processing theory model (Craik and Lockhart, 1972) has provided awareness and insight into cognitive strategies through repetition and meaning processes to produce more accurate and essential information in making judgments. In the information processing theory model, the information received must go through some processing. The product of this processing is the memory footprint. Processing with more profound stimuli will result in a more robust memory trail to remember. The more information coded and trained through meaning analysis, the stronger the information is remembered in making accurate judgments and decisions. In contrast to superficial processing / not carried out in-depth, the stored memory is only in the form of characters. Although the information is repeated several times, the individual will not find the meaning or importance in an individual task, so the memory will forget it (Kopp, 2000).

Palmere et al. (1983) proved that the elaboration hypothesis in his research is one of the measurements of processing depth, which improves individual memory in making judgments and

decision-making. Processing time is not always a good predictor of memory accuracy, according to Palmere et al. (1983). The elaboration hypothesis with the addition of several sentences that reflect the main idea in the text proved to be a predictor of the level of processing depth compared to information that was not paraphrased or without additional sentences. Caverly supports research from Payne (2002) et al. (2000), who also revealed that writing separate notes will affect individual judgment (improve comprehension of sentences read), as well as help with depth of information processing and result in better memory. Therefore, deep processing becomes an important strategy that must be utilized in an audit/audit task.

One of the critical audit tasks as quality control is tiered review. The hierarchical nature of a review usually results in a sequential process interaction between the reviewer and the drafter (team member) that focuses on the prepared working papers and then culminates in the reviewing auditor's judgment (Agoglia et al., 2009; Kaya and Yayla, 2007). The review process shows that the main task of the reviewer is to ensure adequacy during preparation and draw his conclusions based on the documentary evidence in the working paper (Tan and Libby, 1997; Agoglia et al., 2009).

One of the functions of the audit review process is performance evaluation. Performance evaluation systems affect effort and job satisfaction (Payne, 2002). It is also essential to examine how different review methods affect auditor satisfaction and the perceived usefulness of their performance (Payne, 2002).

Audit reviews are a driving force for improving performance through increasing knowledge (Fedor and Ramsay, 2007; Libby and Luft, 1993) and increasing motivation (Ambrose and Kulik, 1999). Payne (2002) sees that it is essential to examine how different reviews through in-depth (paraphrased in the exception memo) and non-in-depth documentation influence auditors' judgments and decisions. Payne (2002) suggests that it is essential to examine how different reviews through in-depth and non-depth documentation affect auditor judgments and decisions. In addition, Kopp (2000) also shows the importance of senior auditors to make their internal control criteria to better understand the entity's condition (in-depth process), compared to checking the checklist on internal control prepared by juniors.

Potentially serious problems arise if the auditor puts faith in inaccurate memories and then uses unsupported conclusions or inaccurate memory details to make audit judgments (Moeckel, 1990; Payne, 2002). The amount of documented evidence can affect the auditor's memory of that evidence and performance on the audit task. Memory and reliance on the evidence evaluated the impact of the overall effectiveness and efficiency of the auditor's work. Therefore, it is essential to examine the effect of documentation level on memory, memory confidence, and performance (Payne, 2002).

Review is one of the essential procedures in the quality control system to increase stakeholder confidence in the examination results (BPK-RI, 2017). The Indonesian supreme audit institution's auditor conducts a tiered review of (1) examination working papers to provide an adequate understanding of the procedures, evidence, and conclusions; (2) the report on the results of the inspection to comply with quality control standards (BPK-RI, 2017). Examination working papers contain various forms of documentation. If the information is appropriate, it will generate an accurate memory for making audit judgments as a proxy for the depth of information processing. The Indonesian supreme audit institution peer review (2019) conducted by the Poland Supreme Audit Institution explained that the recommendations given by the Indonesian supreme audit institution were not always able to detect errors in the internal control of the entity being examined. In addition, the testing procedures carried out by the Indonesian supreme audit institution are often not adjusted to the entity's operating risks, so the audited party has not been able to eliminate these errors in the following year by the recommendations given by the Indonesian supreme audit institution. The problems that continue to exist within the Indonesian supreme audit institution indicate that there is still an inspection system that must be improved. Payne (2002), in his research, shows that a more accurate judgment of internal control and identification of errors is obtained from

studying audit work papers properly. This research can be essential for the Indonesian supreme audit institution to improve the existing system.

## CONCLUSION

Shifting the view from normative to cognitive processes is very useful in audit tasks that require a variety of complex but accurate information. A set of binding norms cannot limit judgments in an audit as in general and straightforward situations. The audit process requires good thinking skills (analysis) because it has many uncertain situations and complex investigative activities.

The benefits of accounting research are brought to psychology; namely, cognitive processes can help solve problems surrounding auditor behavior in making judgments and decisions. However, the lack of interest in this shift has seen research on cognitive processes decline in recent decades. Therefore, the results of this study provide an evaluation of regulatory changes that occurred at the Indonesian supreme audit institution (2017 financial audit standards) to develop or improve actual audit tasks.

Previous research is aware of the lack of psychological theory to make predictions about decision-making. Therefore, this study uses theories in psychology to explain decision-making to produce an effective tool for judgment.

Payne (2002) shows that in-depth processing of the information received will result in a better long-term memory footprint in forming a more accurate judgment of internal control. Moeckel (1990), as quoted by Payne (2002), suggests that "the potential for serious problems will arise if the auditor puts faith in inaccurate memories and then uses conclusions from that memory to make audit judgments." Therefore, a quality of audit judgment results from in-depth accounting information obtained during the audit task. The review process is believed to have many functions, including providing evaluations and influencing performance. Payne's research (2002) examines the effect of the review process on audit assignments. According to Payne (2002), as Moeckel (1990) quoted, deeper processes improve performance through more accurate memory in integrating information. The results of Payne's (2002) research show that auditors with more accurate audit memory will have a better performance in identifying exceptions and trends and integrating evidence that will also affect making better internal controls.

Big data technology is one of the cognitive strategies to improve the quality of judgment. Auditors can easily access information systems from the accounting field and other relevant and credible fields for their audit tasks. The more processed information can be compared, the better the judgment is given.

Consistent with research from Payne (2002) and Kopp (2000), this study also shows that belief in memory can be a proxy for processing depth, especially in identifying exceptions. Payne (2002) and Kopp (2000) suggest that further research can investigate documentation procedures through various audit tasks. More empirical evidence generalizes the results of memory studies in auditing.

Researchers want future researchers to be encouraged to research by actual audit tasks. This suggestion arose because of seeing a significant decrease in JDM audit experimental research on the review process in 2011-2015 due to the difficulty of obtaining auditor participants (Simnett and Trotman, 2018). At the same time, cognition as a critical element of JDM audit can be improved by learning how to train the mindset and supported by appropriate motivational interventions (Griffith et al., 2016; Griffith et al., 2018). The researcher believes that the shift of JDM to cognitive processes must be studied further to contribute to auditing practice.

In addition, the researcher believes that the personality factor is one of the factors that influence the auditor's assessment. Certain behaviors are more likely to occur if associated with high expectations and motivational reinforcement. Motivation is linearly related to individual expectations. Future researchers are expected to determine which type of character should be displayed higher. When researchers know which characters can stand out in improving performance, providing motivational reinforcement for the whole individual will be effective.

Individual motivation will cause human cognition to be better because there is an urge to direct maximum thinking skills to get the best work results.

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