Chapter

Accounting Quality and Its Challenges in 21st Century

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Abstract

This paper describes current research to drive future research challenges in accounting quality. The definition of accounting quality is mainly varying depending on the objective that the study pointed. Previous research revealed that many proxies describe the accounting quality but most of them from the financial perspective. Furthermore, this paper tries to expose this research issue in the behavioural approach and drive future research in the mixed method. It concludes that the behavioural issues can be a research model, triggering future research challenges in accounting quality. The authors support these triggers from the perspectives of political hegemony, bureaucracy ratcheting, cognitive distortion, and international accounting standard. Finally, we infer and simultaneously predict that accounting quality would broaden its concepts and lasting impression in the 21st century.

Keywords: accounting quality, usefulness, hegemony, ratcheting, cognitive distortion, international accounting standard

1. Introduction

The quality of financial accounting mainly determined its value. The central concept's accounting quality is that accounting information is better than other accounting information for business communication intended to convey. Accounting quality is very attractive to participants in the financial reporting supply chain for that reason. For example, better quality accounting can result in a lower cost of capital or equity for a reporting entity. For an investor and creditor, better accounting quality can translate into a firm's adaptability, scalability, growth opportunities, a low-risk firm, and a more profitable capital allocation. Meanwhile, this chapter shows that the quality of financial accounting had other areas, which is government accounting. It focuses on the quality of accounting information produced by government units (agents) that political and behavioural aspects dominate this quality.

The quality of accounting is an endurable issue that will never end to be investigated. Many aspects act as proxies for accounting quality, such as earnings quality, audit quality or earning management [1–7]. Those previous studies have investigated the determining factors, both in organisations, governments and politics or its consequences. Until now, the research focuses more on financial issues, specifically in the stock market, price, or return. For example, in the context of earning quality determining factor, more researchers discuss corporate governance mechanism, unsystematic risk, type of ownership or source of investment, managerial ability, and corporate social responsibility [8–15]. The impact of board diligence and audit committee attributes is negative. Foreign ownership contributes to financial reporting quality, but audit quality has a significant effect [16].

Accounting quality following applicable standards is closely related to financial information's usefulness to the users', especially in supporting user decision making. We could highlight this usefulness aspect not only from a financial side but also from a behavioural part. In other words, this paper presents an idea uniqueness that behavioural factors, including political hegemony, bureaucracy ratcheting, cognitive distortion and standard-setting, influence the future accounting quality. Accounting information results from a process involving many parties, either from the preparers (public or private) or parties who can guarantee the quality of the accounting information presented. Thus, the behavioural meaning of accounting quality is an important issue to be researched as well.

2. Brief of the accounting quality

The previous literature has revealed that although the concept of accounting quality is often employed in scientific discussions, that there is no single, widely accepted, or specific definition in terms of "accounting quality." The quality of accounting is a broad concept that has a series of diverse measurable attributes. Practically, definitions of accounting quality vary significantly across individuals, projects, and organisations. Recall from Renata [17] highlights that accounting quality-related research has gained interest until now.

The previous study [1, 18, 19] showed that the qualitative characteristics of financial information (according to US GAAP or IFRS requirements) or quality of financial statements (financial reporting) defines accounting quality. Such as, Hribar et al. [1] defines accounting quality as the extent to which accounting information accurately reflects the company's current operating performance, helps predict future performance, and helps assess firm value. Callen et al. [20] define accounting quality as the precision with which financial reports convey information to equity investors about the firm's expected cash flows. Poor accounting quality is likely associated with uncertainty about stock valuation parameters and incomplete information. It then could lead the users of financial accounting information adversely.

The previous research mostly linked accounting quality with better-earning quality, better earnings management, more timely loss recognition, higher firm value, and a lower cost of capital or cost of equity [2, 3, 14, 18]. Hribar et al. [1] state three broad accounting quality areas related to research are 1) the accounting quality analysis in the context of accounting harmonisation; 2) analysis of firm-specific factors influencing accounting quality and its consequences; 3) assessment of how institutional factors impact changes in accounting quality which is often dedicated to IFRS adoption. Although there are many accounting quality definitions, those all ultimately act the one purpose: to enable people to make value judgments regarding accounting information. Therefore, someone that measures the quality of accounting information will create the value judgments themselves.

3. Constraints and challenges to provide qualified information

Being measure accounting quality, the researcher has used many approaches and developed new methods continually. They are usually determined to expect measures of accounting quality directly from the financial statement or report.

For example, the measurement of accounting quality used to detect the earning management is the Beneish model's "M-Score" [9], computed from eight variables. The quantitative accounting metrics based its measured, that is, sales in receivables days.

Another measurement in terms of earning quality is accrual and deferral manipulations [5, 7, 21]. Meanwhile, the information other than the financial information or an entity report may base the measurement of accounting quality, such as the fee companies should pay to the external auditors or forecasts made by securities analysts to forecast the return. Thus, in most previous research, the accounting quality measurement is based on the history, archival data, or financial approach. Meanwhile, we know that the financial statements or report is the result of the accounting system process. Therefore, many parties are involved in this process to have better accounting quality, which behavioural perspective can also do.

In the current study example, the government's decline in audit quality changes the audit opinion on financial statements due to political hegemony, particularly in the financial statement audit process. From the auditor's side, the cognitive distortion influences the quality of their judgment, representing audit quality. Then, the study predicts that accountability can mitigate this chaotic cognitive [22, 23]. Meanwhile, the quality of government financial reports also was disturbed by the bureaucracy ratcheting. Audit on financial statements is an essential tool to reduce information asymmetry or maintain accounting quality. So, to get or improve financial performance or quality financial reports, it must be supported by audit quality, including the auditors' credibility and reliability.

Audit quality is a critical issue because the auditor's competence, independence, integrity, performance, and reputation are at stake in these auditing activities related to the findings of the audit opinions. As a result of the accounting system process, assessing the accounting system weaknesses found in the audit is an achievement of the auditor's competence. Meanwhile, the disclosure of anomalies in the results of the assessment system is an indicator in measuring the triumph of auditor independence. Thus, audit quality is part of the opinion quality produced by the auditor's consideration as an individual, which is affected by his competence Watkins et al., [24], including the skills and adequacy of the knowledge, experience, education, and cognition of the auditor as a requirement to carry out a professional and qualified audit. A high-quality auditor effectively ensures the credibility of financial information.

3.1 Political hegemony

Political hegemony plays a substantial role in developing countries. However, the role of the government is not vital enough to control all units or agents under it because it does not yet have maturity. In other words, the central government in developing countries are usually annexed by an imperium or superstructure. The process of annexation generally is that superstructure controls governance processes. For example, the superstructure governed the auditing process of the financial statement of government units. This process is conducted by the Audit Supreme Board (ASB) of developing countries until its implementation. However, this process could be on performativity due to superstructure influencing. In other words, the audits carried out and the audit outputs, even though they are processed, still produce low quality because the auditors are annexed. Therefore, the auditor behaves in performativity in the annexed audit process, which is unlikely to produce high-quality audited financial statements. This subsection presents in **Figure 1** as follows.

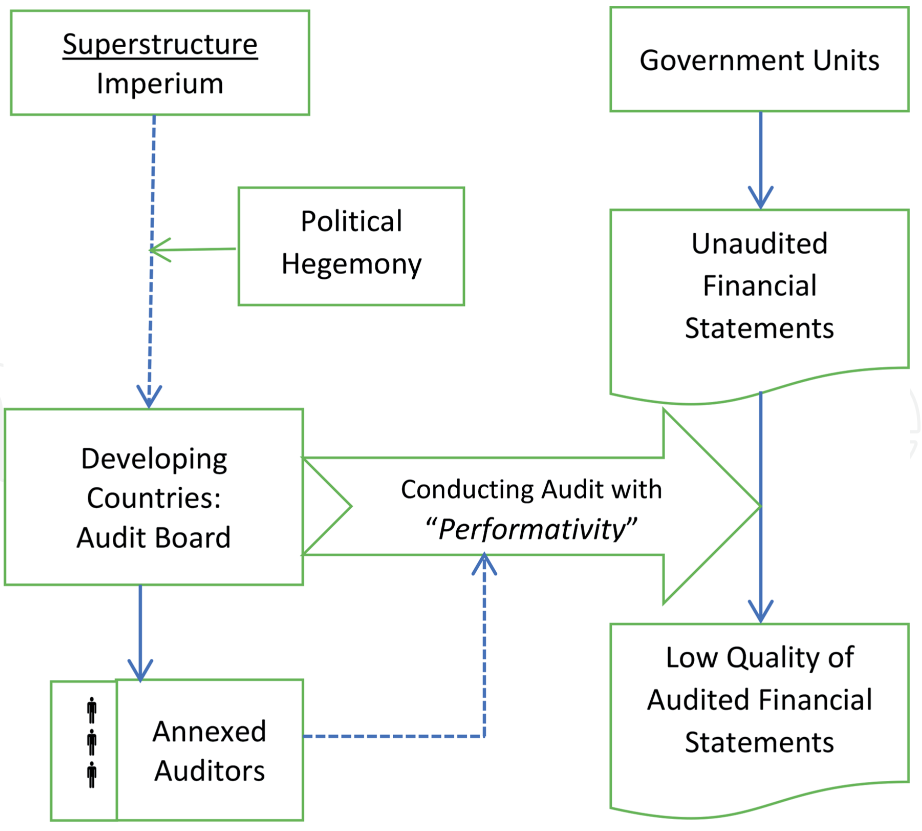

Figure 1.
Role of political hegemony in auditing process.

The term hegemony was first introduced by Gramsci et al. in 1971 [1] in his book "Selection from Prison Notebooks". There are three aspects of Gramsci's theory of hegemony. First, Croce's alleged influence over the latter is rejected, favouring equal concern with the whole generation of Italian intellectuals, not just Croce. Second, philosophy plays an essential role in Gramsci's theory of hegemony because it provides a fundamental critique of common sense and false consciousness. Third, the intellectual needs for a new hegemony are organic and involve traditional intellectuals in complex new formations [2]. Finally, the concept of hegemony is straightforward, which means that political leadership is based on the consent of the led, the agreement guaranteed by the diffusion and popularisation of the worldview of the ruling class [3]. Thus, we can refer to hegemony as the domination of one group over another, often supported by norms and legitimating ideas. Related terms hegemon is used to identify the actor, group, class, or state that exercises hegemonic power or is responsible for spreading hegemonic ideas.

Gramsci had identified the dominant role mode as a ruling class and was interested in explaining how concrete institutional forms and material relations of production became prominent. The supremacy of class and the subsequent reproduction of the associated mode of production can be obtained by brute domination or coercion. However, Gramsci's central observation is that in advanced capitalist societies, the preservation of the ruling class is achieved through consensus, mainly through intellectual and moral leadership. Gramsci also shows how hegemony requires the articulation and distribution of popular ideas beyond narrow class interests through the concept of national popularity.

Regarding audit quality as one of the accounting qualities dimensions, in the recent study, Sumiyana et al. [4] investigated political hegemony as a determinant of audit quality in public accounting. This chapter defined a political hegemony as equivalent to (as if) existed direction from the superstructure. Political hegemony can affect auditor independence and then the quality of audited financial statements. The authors highlighted that research could investigate political hegemony with auditors' organisational and political skills [25–27]. One form of organisational skills is establishing communication and relationships between supervisors and subordinates to achieve and improve performance and organisational capacity [28]. Meanwhile, political skill is defined as a person's ability to understand other parties and, with his skills, can influence the thoughts and actions of others to follow his wishes [26]. Political hegemony applies to the auditor if he acts with direction, and in the context of government auditors, they accept influence by consensus and without coercion [29–31].

This study shows that organisational and political skills, as proxies for political hegemony, affect audit quality. These results confirmed that annexed auditors desire quality audits in their work regarding organisational and political skills. This chapter demonstrates that the political hegemony of the highest leadership, implemented through the mass media, affects the auditors' cognition as subordinates. Directions or requests by the highest leadership are followed by attendants obediently. Furthermore, this study concludes that the mass media is a tool the ruling elite can convey their wishes.

If political hegemony is associated with audit quality, which requires the auditor to have competent and independent requirements, the following consequence will be decreased audit quality. This decline in audit quality includes changes in audit opinion on financial statements due to political hegemony, especially in auditing financial statements. This study enhances the understanding of how political hegemony, supported by imperium, the psychological ruling class, and spheres of influence substantially erode the constitutive role of auditors, giving rise to concerns about the value of taxpayers' money and the effectiveness and efficiency of the public sector.

This chapter provides evidence that the audit findings of the Indonesia Audit Supreme Board (IASB) were not followed up with further investigation or by the court. The first example is the land acquisition for the Sumberwaras Hospital, for which IASB identified a loss to the local government of IDR 199 billion [32]. Supposedly, the IASB proceeded with its audit finding to the court, but the case was stalled. This chapter suggests that the imperium influenced this discontinuation because this land acquisition decision-maker was close to the state power. In other words, with its sphere of influence, the imperium affected the termination of further investigations. Another law agency stated that conflicting codes of conduct in Indonesian business law ended this process. In the second example, IASB found evidence of underlying accounting data showing that the Indonesian Ministry of Religion transferred project funds to personal bank accounts of government officials [33]. The IASB stated that the evidence of the audit findings had high validity supported by evidence of transactions it had attached. However, the IASB still issued an unqualified opinion on the financial statements of the Ministry of Religion, which should not have been possible because these transactions violated internal control procedures. Moreover, many personnel in the ministry acknowledged transfers of money into their personal bank accounts for political reasons.

The third example in this subsection shows an absence of follow-up to the IASB audit findings, specifically in the case of the Audit Results Report (ARR) on the Financial Statement (FS) of the Jakarta Provincial Government for the 2013 fiscal year [34, 35]. This ARR recorded a local (provincial) government loss of IDR 85.36 billion, a revenue shortfall of IDR 95.01 billion and wasteful budget spending of IDR 23.13 billion. However, the audit findings indicated the absence of accountability for the province's financial management and issued an adverse opinion for its financial statements. The criminal investigation agency never followed up on this ARR. The IASB report was published, and then there was no follow-up.

This chapter infers that those managerial policies of government bureaucrats involve committing systemic violations of regulations that affect the quality of accounting information. These bureaucratic policies indicate that the quality of government accounting information in developing countries is deficient. The authors complement this evidence with many cases that have been dismissed without continuing the process through the courts. The dismissal of cases without clarity indicates that the influence of the dominant superstructure is most likely regulating and controlling the handling of cases. This study concedes that the superstructure is invisible, but the legal process is always at a standstill at a certain point without a solution. These dismissals of cases are also eliminated from the news later. However, this chapter noted that so many lawsuits being terminated is evidence of how political hegemony works.

3.2 Bureaucrat behaviours in budget ratcheting

Financial statement quality would still be ongoing for 21st because the behaviour of bureaucrats in developing countries is not yet mature, engaged, and ready enough to optimise both individual and organisational self. Budget ratcheting is usually the orientation of bureaucrats' behaviour in developing countries. In short, government bureaucrats in developing countries always choose the maximal budget to measure activity and performance. On the other hand, the central government of developing countries has set the same policy to improve with various blocked grant systems continually. The authors defined that government agents who always choose the maximum and continuously increase cause bureaucrats' ratchet behaviour. Moreover, these agents apply mechanistic regulations from the central government whose budget size must be improved. Furthermore, budget ratcheting dominates the low quality of the governments' financial statements. Shorten the explanation; this subsection presents **Figure 2** as follows.

The qualified financial information depends on the quality of its regulation, standards and procedures applied to the accounting system [33]. However, the accounting system's implementation could be the technical and political practice in the government, which is low on the political agenda because politicians based their decisions primarily on budget. On the other hand, the existing system is deemed appropriate to meet information needs so that there is no strong impetus for further changes [36]. Thus, in governmental accounting, the budget has a central position. Regarding the budget, one of the behavioural problems is ratcheting. Qualified governmental accounting is impossible to achieve when bureaucrats run ratchets. Commonly, ratcheting occurs when over-spending at the last year's expenditures (exceeding those budgeted) lead to more significant absolute changes in current budgeted expenses than underspending with a similar magnitude. Ratcheting refers to the use of past performance to set higher future targets.

The ratchet effect refers to the motivational implications of ratcheting as agents reduce their effort to avoid further raising future targets [37]. With ratchet behaviour as praxis, the accounting information is more of a description of the desires of the bureaucrats rather than solely for public service. Bureaucratic ratchet praxis gets more support than before when there is no underlying to produce quality accounting. In governmental accounting, there is no analysis of profit or the relationship between revenue and expenses. Therefore, rachet praxis can appear both budget-maximising and budget-minimising behaviour and for both self-interest and non-self-interest reasons. The praxis of these bureaucrats is driven by their characteristics and the problems they face: regulatory-wide regimes, organisational expedience, Undecidability, and Commodification [38, 39]. These four components then become the source of performativity for the subsequent bureaucratic praxis behaviour.

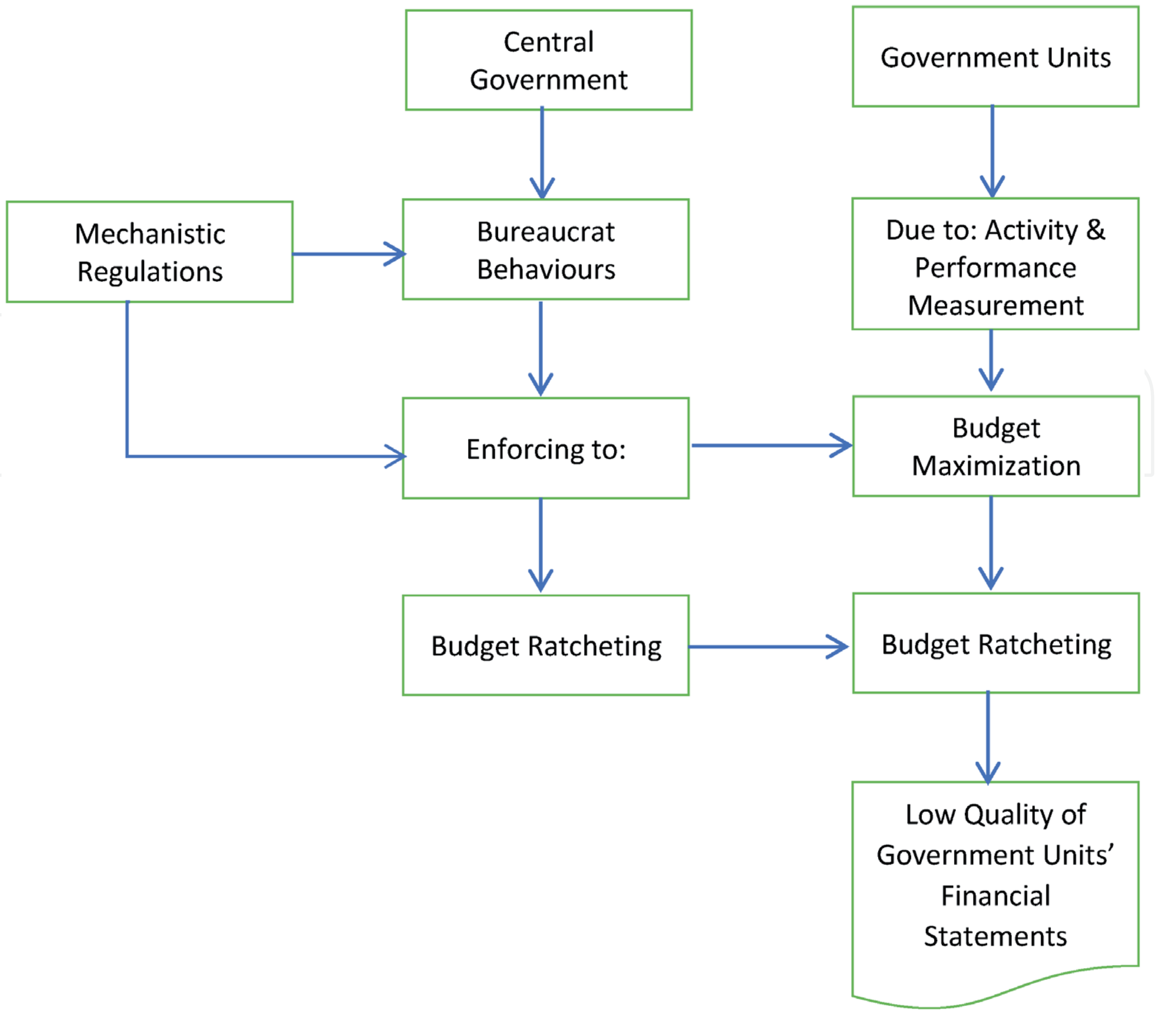

Figure 2.
Flow of budget ratcheting in governmental accounting.

In the public choice literature, bureaucrat ratchets are associated with Niskanen's presumption behaviour of budget maximised. He argues that bureaucrats are self-interested individuals who try to maximise their utility through larger budgets. Economic literature calls it the Leviathan model of government [40, 41]. According to this model, first, the government will grow and increase its power if it is not carefully checked by law [42]. Second, the budget maximiser is pursued because the bureau is a monopoly producer of goods and services demanded by sponsors. Many studies used Niskanen's theory in empirical research [43–47]. However, this presumption of the budget maximiser [48] still received much criticism in recent years. The authors considered that Niskanen's theory is that a bureaucrat oversimplifies behaviour. The motivations of bureaucrats are too varied to be captured under a budget-maximiser straightforward [49].

A study by Bowling et al. [50] uses a typology of bureaucrats [38] to offer a budget manager–budget maximiser continuum. Budget-maximising bureaucrats are more likely to be advocates and aggrandises (Climber) types, while Altruists (Statesman) or Abider (Conserver) types tend not [50]. The presumption of budget maximiser offers a more plausible theoretical basis for budget maximisation than self-interest for bureaucrats in the spirit of Public Service Motivation (PSM) [51]. Budget maximiser relates in part to the characteristics of bureaucrats. For example, Budget-Minimizer behaviour occurs in bureaucrats who are professional or career-oriented [52]. Several surveys in The American State Administrators Project (ASAP) show a preference for the Budget-Minimizer. Budget-Minimizer does not mean lowering the budget but more a tendency not to increase the budget.

Several factors in the emergence of a budget minimiser are the influence of ideology in Partisanship. Partisanship in the republican party will partly use a budget minimiser compared to the democratic party [53]. However, the overall results of the reported survey of agency chiefs [50] using ASAP data still show the behaviour of bureaucrats to increase budgets. Then, why do bureaucrats generally behave to increase the budget?

A recent study was conducted to highlight the phenomenon of ratchet behaviour in public budgeting. This study offers a new insight that budget rachets are bureaucratic praxis. Praxis is the diverting process of bureaucrats' awareness about the constraints they experience and making them explicit in practice [54–56]. This study is in the Indonesian context compared to the American state. There are differences in state tax collection, government spending, and citizens' resistance between the United States and Indonesia. In the United States, society has reached a point where society can no longer bear taxes (tax revolt). Meanwhile, in Indonesia, such conditions have not occurred. However, there is a similarity that the two countries also continue to experience growth in spending.

This study has interviewed 24 local government officials and internal government auditors. This study found at least four reasons related to the bureaucrats' characteristics for what bureaucrats carry out ratchet praxis. First, the applicable regulatory-wide regime may shape the bureaucratic cognition of decentralised regulatory practices in Indonesia. Second, local governments can get discretionary grants such as block grants. They are a dominant source of regional income but result in chaotic or confusing performance [57]. They also design blurs discretion and creates pseudo accountability. Third, local governments face a mismatch between revenue and expenditure responsibilities to local governments [58].
The Indonesian Government practices covering regional budgets when there are regional fiscal difficulties. This policy means that the government has a low commitment to local bureaucrats. This study notes that these two conditions encourage district and provincial governments to get budgetary slack [59].

Second, organisational expedience causes officials to focus too much on achieving goals at the expense of established rules or norms [60]. In dealing with regional problems, regional heads may make expenditure budgets, not under central regulations. This study shows that the policy actions of district and provincial bureaucrats in the regulatory regime can be called selective attention syndrome [61]. Third, the undecidability budget, which is a local government budget that certainty cannot determine. This study defines that the budget amount determines what can be decided in a specific form. Many local governments face budget undecidability by creating budget slacks to pursue security in their budget execution [62]. Fourth, Commodification means that after autonomy and decentralisation, the budget executor initiates regional economic development. People demand fiscal independence and decentralise physical infrastructures such as roads, bridges, markets, and tourist attractions. This study notes a change in the role of local government from administration to business management [63–65]. As a result, local governments rely on funds from the Government of Indonesia and always ask for additional budgets.

At the central government level, this study identifies a continuous increase in the central government budget. This condition means that government budget growth always occurs in national scope budgeting for government agencies, not a zero-sum game [66–68]. The bureaucrats are more focused on their respective institutions. However, it becomes a zero-sum game at the national level in a centralised country. An increase in budget revenues at one ministry, agency, or regional government will reduce the budget or hinder budget increases at other ones. Bureaucrats have different characteristics than their private counterparts. The disconnection between bureaucrats' efforts and the rewards they receive makes researching bureaucratic behaviour a challenge. It seems complicated to generalise the behaviour of bureaucrats in increasing budgeting.

The government budget is a viewpoint of allocated funds contested by most of the existing government agencies. So at least, it can be concluded. First, the practices of the tendency of budget-maximiser and self-interest behaviour are not as strong a motivator as they have been believed. Previous studies on federal officials have also shown similar results [69]; second, budgets keep moving up. The opinion that is still valid regarding the budget ratchet is that the growth in government spending is stable although relatively small compared to the increase in budgets during the Great Depression, World War I and World War II [70]. According to Holcombe, the best estimate for the twenty-first century is probably the steady growth of government, but not shrinking. Thus, the era of excellent governance will still be ongoing [70]. Instead of bureaucrats' practices as budget maximisers driven by self-interest, this article suggests that budget ratcheting is related to bureaucratic praxis. It will reflect politics, budgeting institutions, program implementations and different budget control systems in each country and performativity for bureaucrats to behave.

This chapter provides evidence that bureaucrats always choose ratchet budgeting in an emerging country, Indonesia. The first example: the preference for adding more local government programs with only 30 regional apparatus organisations running between 150 and 600 programs, so they do not focus on regional priorities [71]. Second, local government bureaucrats also often create budgetary programs that are not directly related to their performance. For example, awards night events are budgeted more than two billion for the prizes and the event itself [72]. The third is unimagined budgetary programs, such as recruiting social-media influencers, disbursing IDR 5 billion more than the COVID-19 research budget [73]. The latest is that expenses for official travel by bureaucrats are also expenditures for target fulfilment of budgetary ratcheting. This chapter noted that the official travel budget for a local government unit could spend more than IDR 514 billion [74].

The four examples show that the accounting activities of local governments in an emerging country are frequently out of control. Consequently, local governments' accounting information can never reflect the reality of their budgetary programs. A further consequence is that many expenditures and disguised activity targets burden the quality of accounting information. Therefore, this chapter infers that the quality of (local and central) governments' accounting information does not display the causality of effort-accomplishment. Furthermore, the authors show that, in all budgetary processes for government activities, accomplishments are in the budgetary rachets that are not deterministically related to actual output. Meanwhile, the efforts continually increase to maintain the safety margin of budgetary programs. Moreover, the motives of state civil officials' behaviour support these disguised efforts in all objectives. Finally, the relationship between the efforts and accomplishments implies the low quality of government accounting information.

3.3 Auditors' and users' cognitive distortion

This section explains that financial statements are hard to achieve in high quality. We show that preparers, auditors, and users have embedded cognitive distortions, such as parataxic distortion, denial, psychological projection, and transference. As a result, even high-quality financial statements can be perceived as low by users and vice versa. Likewise, financial statement preparers who treat standards strictly have believed that the prepared financial statements are of high quality but is quiet and vice versa. Consequently, high-quality financial statements produce poor quality because the preparers, auditors, and users are in cognitive distortions. This cognitive condition results in the quality of accounting information being never-ending and durable for the 21st century. Shorten the explanation; this subsection presents **Figure 3** as follows.

A cognitive distortion is a deviated thought that occurs due to the reversal of a fact during information evaluation activities. For example, individuals with an initial preference weigh minor negative (disagreement) than positive (agreement) that has the desired impact on supporting their choice. In addition, individuals tend to be more optimistic when assessing the character of relevant information, whether it is favourable or unfavourable information, related to decisions [75]. Regarding the audit process, the affirmative process in auditor cognitive distortion occurs during evaluating evidence [76, 77]. Meanwhile, the auditor's judgment on decision-making (JDM) depends on the individual situational conditions [78]. This chapter also argues that the financial statement users did what auditors were on JDM.

Bonner [79] suggests that predispositions influence JDM in individuals, including knowledge, skills, emotions, cognition, and other psychological dispositions. To carry out audit considerations, the auditor needs and sorts out information following his preferences and assignments. Bedard & Biggs [80] exemplify protocol analysis (verbal reports) in analytical review studies. When the auditor reviews analytically, a sequential and interactive diagnostic process involves representing mental models, formulating hypotheses, searching for information, and evaluating hypotheses before assessing the client's internal control is made [81–85]. Furthermore, Rybowiak et al. [86] stated that cognitive and attitudinal predispositions influence current behaviour to be easily controlled in various situations. So, the predisposition to auditor cognitive distortion can be controlled by situational factors. Finally, the authors show that the users of financial statements utilise information on the financial statements with cognitive and attitudinal predispositions that influence their current behaviour.

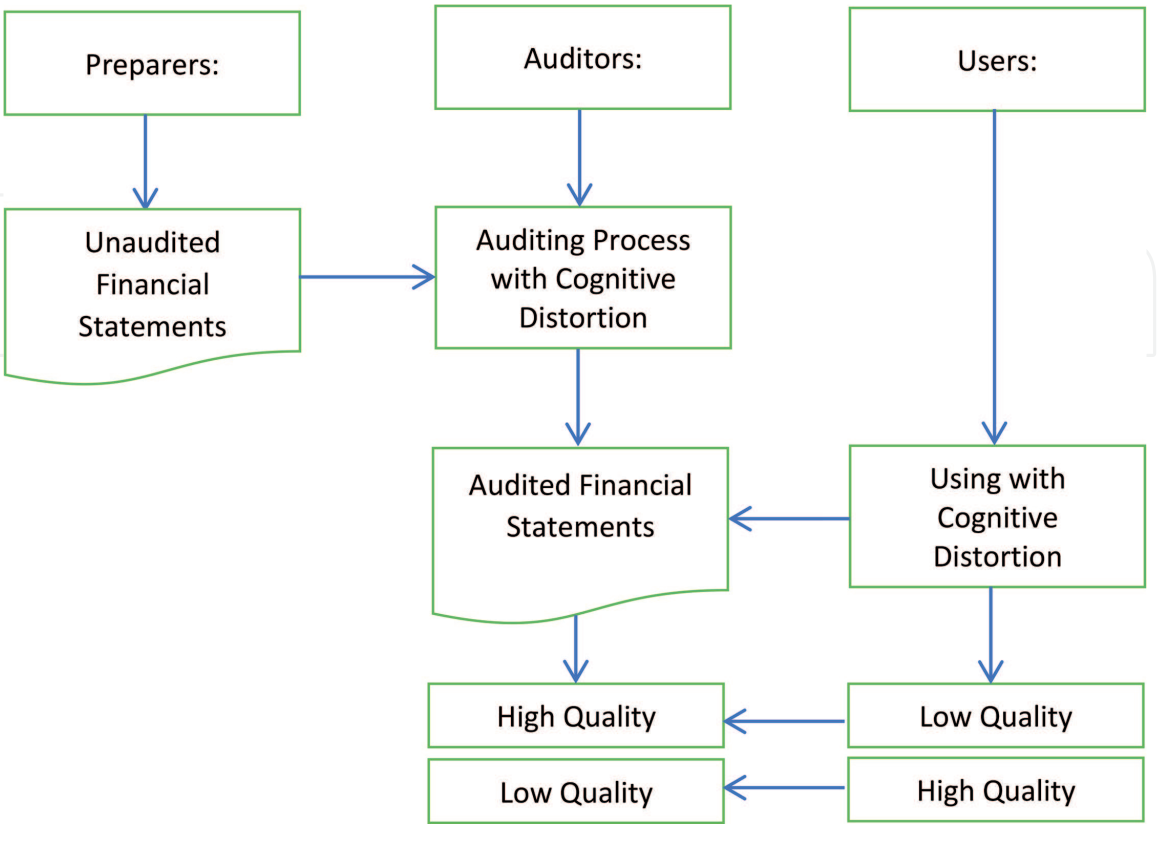

Figure 3.
The problem of auditors' & users' cognitive distortion.

Previous auditing research found distorted judgment and decision making based on the human tendency to generate systematic errors due to cognitive factors rather than evidence. Distortions tend to arise in auditors who already understand and are familiar with assignments because of individual self-protection mechanisms based on their experience [87]. When auditors are psychologically committed to a given position, they selectively select information and seek evidence supporting previous predispositions [77]. Information seeking helps auditors' preferences [80, 88], and they tend to search excessively for information that supports their initial beliefs or predispositions [89]. This chapter also argues that the users of financial statements did too. The authors comprehend that the users of financial statements in utilising financial statements in their successively previous predisposition.

A study has investigated the relationship between auditors' cognitive distortion and their decision quality as an indicator of audit quality. Previous research revealed the ties between cognitive distortions and individual behaviour from the aspect of psychological [90], in the context of Auditing [91] and accounting [92]. Rybowiak et al. [86] explained that the predisposition of cognitive and attitudinal distortions affects auditor behaviour in various situations. Thus, cognitive distortion becomes an antecedent that influences and is relevant to dysfunctional behaviour. In this chapter, cognitive distortion is defined as when the auditor's interests unconsciously lead to a systematic process of making wrong decisions. As a result, auditors predispose to cognitive distortions that result in dysfunctional behaviour [93–105]. We argue that the users of financial statements having their leading process in utilising the contents of financial statements.

Defence mechanisms are the auditor's strategy in maintaining self-image and reputation. In this study, four predisposing indicators of cognitive distortion were identified as psychological deviations in the taxonomy of defence mechanisms, namely: parataxic distortion, denial, psychological projection, and transference [87, 106–109] refers to the research of Nelson et al., [110]; Pickerd et al., [111]; and Sweeney et al., [112] related to the audit process. Defence mechanisms reflect the existence of cognitive control outside of the awareness of the function of defence mechanisms as protection of one's integrity from excessive fear [106]. Parataxic distortion as the attachment of a false perception of others based on delusions [87, 109, 113, 114]. Auditors experience cognitive distortions in the form of attachment distortion due to long [115–117] and tied [118] engagements. We show that the users of financial statements were probably in parataxic distortion, denial, psychological projection, and transference due to their defence mechanism.

Furthermore, denial is a habit of dealing with problems interpreted as threats even though they are trivial [119–121]. There are incidents when auditors have difficulty forecasting, experience challenging uncertainties, complex, subjective, and estimative material misstatements that open opportunities for errors to occur, then they avoid them. The habit of avoiding this problem makes the auditor perform non-optimal analyses, such as estimation errors and assessments of materiality, risk, internal control, and audit evidence that impact inappropriate decision-making considerations [93]. Moreover, Buckner & Carroll [122], Harms et al. [123]; and Payne [124] defines psychological projection as thoughts, motivations, needs, and feelings that cannot be accepted as they are because they do not match the attributes of others. Psychological projection tends to make someone look down on others. This projection is a way to maintain a self-image because of the perceived threat or fear. According to their cognitive distortions, the auditors prefer client management preferences to senior choices due to economic factors [117, 125]. The authors inferred that the users, such as auditors, of financial statements have the psychological projection used to avoid threat and fear and maintain their self-preferences.

Lastly, transference is a person's current feelings, impulses, fantasies, and defences that are not by the truth [109, 126–128]. Andersen & Berk [129] describe transference as the activation and application of representations of others, leading to inference and memory representations, evaluations, affect, motivation, expectations and self-change. For example, auditors who identify with clients are distorted and oriented to act in their interests [130, 131]. This variation in defence mechanisms depends on the interaction between developing a person's level of cognitive maturity and the characteristics of the situation at hand [132]. Thus, this research analyses the different levels of cognitive distortion from denial to parataxic distortion related to cognitive complexity defence in dysfunctional auditor decisions. Moreover, this chapter revealed that the users of financial statements were on transference because of their complexity in distorted cognition. Then, this research showed that accountability could mitigate this auditor's cognitive distortion based on the cognitive-behavioural theory.

This chapter finally presents an argumentation that could reduce auditors' and users' cognitive distortions. We raise accountability when it means the pressure to anticipate because of the justification of one's judgments and decisions against other parties [133, 134]. Accountability pressure is the ability to respond to other parties. Accountability is a mechanism to show that the previously established standards are relevant to fulfilling obligations, duties, expectations, and additional burdens. Organisations can use and condition accountability pressures as situational factors to mitigate cognitive distortions that support dysfunctional considerations that impact audit outcome decisions. Accountability pressure is a mechanism organisations use to control and direct employees [133–135]. Previous research has shown the effect of accountability pressures on decision considerations in various professions, including professional accountants, tax practitioners, the medical work and corporate accountants [112, 135–139].

This section provides evidence of the cognitive distortions of executive officers that probably affect the quality of accounting information. Accounting policies and discretionaries follow adverse hazards because of the defence mechanism to carry out the executive officers' agenda. First, two members of the board of directors of Garuda Indonesia refused to sign the 2018 annual report, which is a parataxic distortion. This refusal was due to irregularities in the Annual Income Statement. The discrepancy lies in the cooperation between Garuda Indonesia and PT Mahata Aero Teknologi (a subsidiary firm) worth USD 239.94 million, which is a long-term receivable but was recorded by Garuda Indonesia executive officers as realised revenue. This designation resulted in Garuda Indonesia recording a profit of USD 809,850 in the 2018 annual report. Therefore, Garuda Indonesia would have recorded a loss if this long-term contract operation was not included [140]. The second example is the executive officers' defence mechanism with a transference. PLN Co., Ltd. (the leading electricity company in Indonesia) recorded a loss due to the difference in the dollar exchange rate on the date of the financial statement issued, which was December 31, 2019. PLN published its financial statements and used the dollar exchange rate used on March 31, 2020, without recognising foreign exchange losses [141].

In the third example, Jiwasraya Insurance Company published errors and irregularities in recognising profits in its Financial Statements. Since 2006, the company had consistently recorded a profit. However, the accounting earnings were false due to accounting engineering or window dressing, where in fact, the company had suffered losses. These losses arose from a managerial error in making an investment decision recorded the losses as deferred charges at the end of the year. In addition, Jiwasraya Insurance Company in 2017 realised a profit of IDR 360.3 billion and got the auditor's adverse opinion because an existing fraud of IDR

7.7 trillion was treated without adjustment for that current year [142]. The fourth example is the psychological projection distortion occurring in Pertamina with the COVID-19 pandemic. This company experienced real impacts: a decrease in oil demand, Indonesian rupiah depreciation, and very sharp fluctuations in crude oil prices in the first semester of 2020 and recorded losses of IDR 11.13 trillion. These losses greatly affected Pertamina's financial performance, impacting executive officers who did not recognise these losses in the first semester. These CEOs published firms' profits with optimistic behaviours as the year ended (the second semester), although changing swiftly to double or triple net income was an impossibility [143].

3.4 International accounting standard (IAS) and accounting quality

Ideally, accounting quality could increase because of changes in the financial reporting system contemporaneous with firms' adoption of IAS, for example, more rigorous enforcement. Thus, we can predict that accounting values or amounts based on IAS are higher than those found on domestic standards. In addition, the worldwide adoption of IFRS (as one of IAS) by public interest companies drives accounting harmonisation. There have also been considerable efforts to achieve international convergence of accounting standards by reducing cross-country differences in accounting practice.

Ebaid [144] investigated the implementation of IAS and its relationship to the accounting quality in code-law countries in Egypt. This study reveals that accounting quality, as measured by earnings management, has decreased in the post-adoption period compared to the pre-adoption period. IFRS is set up to provide high-quality financial reporting. However, this cannot be achieved solely by a regulatory requirement to follow. Even if IFRS are higher quality standards, the institutional features of the Egyptian market could eliminate any improvement in accounting quality arising from adopting IFRS. Firms are applying IAS exhibit less earning smoothing, less managing earnings towards a target, more timely recognition of losses, and a higher association of accounting numbers with share prices and returns. IAS firms have a higher accounting quality between the pre-and post-adoption periods [145].

Accounting standards also are expected to act as a mediator of conflicts of interest between investors and managers. As the role of the mediator, this mediation must be able to reconcile financial reports and the role of efficient contracts from accounting information or how to determine the amount of socially correct information (right). This paper referred to the genuine motivation of the International Accounting Standards Committee (IASC). International accounting standards and the International Accounting Standards Board (IASB) aims to produce high-quality financial reporting. Thus the IASC and IASB issue principles-based standards and take steps that provide alternative accounting opportunities and require a better measure reflecting the economic position and performance [145]. However, differences in accounting quality would remain lasting due to IFRS adoption. Meanwhile, accounting quality is an influential function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides [19]. In the end, this paper inferred that the objectives of international standard-setting could not be achieved due to differences in each country's context and regulations.

4. Conclusions

The purpose of presenting the financial reports is to provide how general-purpose financial information must be compared with the entity's previous financial statements and other entities' financial statements. The general-purpose financial statements provide information about the entities' financial position, income statement, and cash flow statement. These statements are then useful for various users in making and evaluating decisions about resource allocation. General-purpose financial reporting aims to provide valuable information for decision making and demonstrate the entities' managerial accountability and responsibility for the resources entrusted to these firms.

Users of financial reports vary widely, such as shareholders, creditors, suppliers, the media, or the public. The demands of the report users mainly drive the presentation of financial reports that are useful for decision making. However, the challenge to produce quality financial reports is quite heavy many factors determining it. The users, especially the public, generally do not utilise financial statement information to make decisions. For example, in the public sector, people tend to use information about the government services they receive. The implication is that the auditor's role in assessing the fairness of the presentation of financial statements is also less than optimal.

Moreover, the audit report on financial statements can also be distorted by the auditor's cognition and political hegemony, reducing audit quality. Another weakness is the attitude of the legislators, who tend to use budget information rather than financial reports as a medium for oversight of the government. Meanwhile, the budget discussed by the top executive officers and legislative is made to be carried out by ratcheting. In this case, finally, financial reports are more of a means of control from the central government to its subordinate agencies rather than presenting quality information to other users. This condition will vary significantly in each government, depending on the government system, budgeting system, demands for public accountability. The implication is the diversity of the application of accounting standards.

Finally, in the spirit of ease to compare the financial report among entities across countries, the facts revealed that accounting harmonisation is not easy to realise. Instead of this phenomenon, the financial statement among entities across countries must adapt to their condition. The other aspect, as an endurable issue in accounting research, the following study can investigate the accounting quality in various aspects. For example, to determine the earnings management activities carried out by managers, a mixed-method subsequent can carry out. It can predict using archival data related to management abilities or a behavioural perspective related to moral ethics or a manager's cognitive bias.

5. Future research

The audit should be held as a contract by engaging external auditors to further research government financial statements. This method is expected to exclude the ongoing political hegemony. The IASB's auditors are part of the state civil apparatus immune from being fired, constantly under political hegemony and performativity. The state civil apparatus staffing system makes them behave in a "take it easy" way. Furthermore, this chapter raises the issue of terminating political hegemony if the IASB could implement an artificial intelligent-based auditing system. Indonesia must build an autonomous system, i.e., by applying machine learning, artificial neural networks, etc. In line with this system, an AI (artificial intelligence)-based audit [146, 147] frames all computer systems-based audit procedures and analyses so that auditors are not influenced and affected by subjective norms [148]. With AI-compliant results, in the end, the results are communicated, and there is no longer any chance for justification due to political hegemony.

As for the budgetary ratchet perspective, future research should associate with performance measurements, and what applies is likely the relationship between administrative law and business administration. Furthermore, future research should emphasise bureaucrat behavioural orientation that lets the budgetary rachet become a defence mechanism. The related concepts that could be examined for future research are the transformation of controller behaviours whose efforts and accomplishments are not directly associated with bureaucrat performance. Such a study could also focus on the budgetary system used with a multi-year perspective, not an annual cut-off system. Furthermore, the bureaucrat performance measurement would be based on a managerial-based process rather than an output-based process.

As for future research on cognitive distortion, a motive described in positive accounting theory will affect the cognitive distortion of defence mechanisms. Moral hazards such as altruism, self-interest, selfishness, and political will are dominant and support executive officers' cognitive distortion. This chapter noted that research related to dysfunctional behaviour and cognitive distortions are extensive. Many previous studies have investigated the characteristics illustrating the deficiency of Positive Accounting Theory (PAT) as a comprehensive, contextual, and holistic analysis of accounting policy in organisations. Positive research is blamed for failing to recognise the socially constitutive character of academic knowledge and its underlying value predispositions. In devising an alternative, Chabrak [149] introduces hermeneutic phenomenology. It is a new framework that offers the possibility of exploring and constructing a new understanding of an organisation's accounting policy to preserve its holistic and casuistic character on the epistemological level.

Kahneman et al. [150] state that there are biases in managerial decision making. Heuristics can often lead to systematic bias [151]. Bias judgment and decision-making are human tendencies to make systematic errors based on cognitive factors rather than evidence. For example, people make predictable irrational choices when choosing between alternatives, often producing the same repeatedly deviations. According to Bazerman and Moore [152], general bias can be attributed to and categorised in their radiating heuristics. Furthermore, Kahneman et al. [150] explain that the human brain's irrationality often influences individuals' decisions that they and others around them fail to anticipate. Thus, errors and irregularities resulting from the cognitive bias prevent the making of sound decisions. What is more, even when executive officers have accumulated a lot of work experience and knowledge, they are still subject to that bias and, in some instances, even more so than inexperienced executives.

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Conflict of interest

The authors declare no conflict of interest.

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