

MORAL INTENSITY AND DYSFUNCTIONAL AUDIT BEHAVIOR: EVIDENCE FROM INDONESIAN PUBLIC SECTOR AUDIT

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Abstract: *Studies regarding auditor behavior in the area of private sector audit have been well documented. However, unlike its private sector counterpart, there has been limited literatures discussing auditor behavior within the context of public sector audit. This study fills this gap in literatures. This study aims at investigating the practices of dysfunctional audit behavior among government's auditor in Indonesia. This is a survey research. Data for this study were gathered form questioners. Respondents for this study were government's auditors at three provinces in Indonesia. This study used three dimensions of moral intensity developed by Jones (1991) in investigating the practices of reduced audit quality behavior. The dimensions are social consensus, probability of effect and magnitude of consequences. Descriptive statistics for reduced audit quality behaviors showed that among six types of reduced audit quality behavior, relying on client explanations as substitutes for certain evidence was the most prevalent among respondents. At the other hand, failing to research a technical issue become the least common types of misbehavior committed by respondents during the course of audit. Result of regression analysis for hypothesis testing showed that perceived probability of effect toward financial statement users is negatively associated with reduced audit quality behaviors.*

Keywords: *Moral Intensity, Dysfunctional Behavior, Public Sector, Auditor*

Introduction

DeAngelo (1981) refers audit quality as an ability of auditor to detect and report any breach in client financial reporting. There are many factors that contributes to failure of auditors to detect misstatements or error in audited financial statements. Role overload and the resulting time pressure is one of source of problem that might hinders auditor ability to maintain high quality audit. Fogarty (1996) identified time pressure as one of contributing factor to audit failure. Coping with such pressure some auditors might behave functionally, by working harder and more efficient. Meanwhile other auditors might be motivated to behave dysfunctional. Given,

its widespread, dysfunctional audit behaviour has become a serious concern in the auditing profession.

In addition to systematic problem occur at audit office level as documented in Francis and Michas (2013), Li et al (2017) argue that at the level of individual auditor, low quality work performed during an audit have contagion effect on others audit he/she engaged in. Thus, investigating individual characteristics of audit personals and its impact on audit quality is crucial. Previous studies (e.g. Dukerich et al. (1993); Singer et al (1998); Coram et al (2004) and Aris et al 2012,) evidenced the effect of moral intensity in the process of ethical decision making. Since the choice to engage in either dysfunctional or function behaviour is matter ethics, this study seeks to examine the effect of moral intensity toward auditor behaviour.

Studies examining the practice of dysfunctional audit behaviour among auditors has been well documented. This study expands previous literature regarding dysfunctional auditor behaviour by examining the effect of moral intensity toward auditor behaviour. Given the unique nature of public sector audit, this study tries to shed light on dysfunctional audit literature within the context of public sector institution.

The rest of this paper is organized as follows. Next section will describe theoretical foundation for hypothesis development. Methodology and discussion about research finding will be discussed in the other next section. The last section discussed conclusion and limitation of this research.

Theory and Hypotheses Development

Dysfunctional Audit behavior has become a serious concern in the auditing profession. Herrbach (2001) suggest that reduced audit quality behavior might “threaten the outcome of the engagement and the validity of the audit opinion”. Dysfunctional audit behaviors include auditors' acts which directly or indirectly lead to reduced audit quality (Kelley and Margheim, 1990; Otley and Pierce, 1996). Dysfunctional behaviors such as premature sign-off, gathering of insufficient evidence, altering or replacing audit procedures, and underreporting of time have negative effects on the auditing profession (Donnelly et al, 2003).

Due to competitive nature of auditing profession, in order to achieve favourable outcome for his/her performance, in addition to pressure to accomplish an audit engagement within budgeted time, some auditors may under report actual time spent to accomplished their tasks. This practice will be carrying forward to the next years' time budget (Fleming, 1980) thereby placing additional pressure on auditors who perform the same tasks in the future, thus leading to reduced audit quality acts in future audit (Pierce and Sweeney, 2004; Ponemon, 1982; Otley and Pierce, 1996) the practice of underreporting of time is not uncommon among auditors in public accounting firm. However, due to different setting of auditing in public sector such practices are rarely found (if any) in public sector audit. Thus, for that reason, in this study, investigating toward dysfunctional audit behavior will be focused on any behavior which are directly threaten audit quality which referred as reduced audit quality act.

Jones' Moral Intensity Model

Auditors frequently expose to situations involving an ethical consideration. Reduced audit quality acts involves moral issues. Due to tight time budgets and complex nature of audit task, in order to meet the budget, some auditor might engage in dysfunctional act such as altering audit procedure; accepting client explanations at face value; not further pursuing inconsistencies

in evidence; and so forth. Such acts have the potential to harm financial statement users as invalid audit opinions may be issued. Unfortunately, such behaviours might go undetected.

The decision to engage in reduced audit quality acts is an ethical decision by the auditor. Lightner et al (1982) suggest that auditor’s personal belief will influence his/her willingness to engage in any dysfunctional behaviors. Jones (1991) describes moral issues as those “where a person’s actions, when freely performed, may harm or benefit others”. There were limited empirical literatures pertaining to the Jones model. Among others, Dukecrich et al (1993) and Singer et al (1998) use this moral intensity framework in their studies. Dukerich et al. (1993 cited in Singer et al, 1998) employed applied the framework within the context of group decision making. Singer et al (1998) used moral intensity framework in assessing the ethicality judgment in regard to whistle blowing decision.

There is ample of study examining ethical decision making of in auditing literatures. Yet, only few studies that used Jone’s model of moral intensity as their framework. Coram et al (2004) argues that reduced audit quality act as a moral issue since the acts involve judgment or choice; has consequences for others, as well as it deals with direct and indirect violation committed by the auditor. Arel et al (2012) find that auditor with higher moral intensity are less likely to book questionable journal entry.

In this study we employed the theoretical framework of the moral intensity model of ethical decision making proposed by Jones (1991). Jones (1991) proposed an issue-contingent model of ethical decision making by individuals in organizations. The framework identified six different constructs of moral intensity

The magnitude of consequences	the aggregate harm done to victims or aggregate benefits accruing to beneficiaries
Social consensus	the level of agreement about the goodness or evil of a proposed act
The probability of effect	the likelihood of the act occurring and the expected consequences of the act
Temporal immediacy	the length of time between the act and its ethical consequences
Proximity	the degree to which the individual can identify with potential victims or beneficiaries
Concentration of effect	an inverse function of the number of people affected by an act of given magnitude

Jones (1991) argues that moral issues of high intensity are more salient and more vivid than those of low intensity. As the intensity or severity of a component increases, the perceived total “ethical heat” of the issue increases (Frey 2000). Reviews of numerous literature regarding moral intensity suggest that social consensus, magnitude of consequences (Barnett, 2001; Frey, 2000; Singhapakdi et al., 1996), and probability of effect (Frey, 2000) are strong indicator of moral intention. Therefore, this study will examine how those three dimensions of moral intensity influence auditor’s likelihood to engage in reduced audit quality acts.

Social Consensus

Jones (1991) defines social consensus as “the degree of social agreement that a proposed act is evil (or good)”. Jones (1991) argues that it will be harder to be ethical if he/she does not know what constitutes of ethical conducts in certain condition. Higher degree of social consensus can reduce level of ambiguities (Jones, 1991). Laczniak and Inderrieden (1987) suggest that an

individual is more likely to avoid illegal decisions compare unethical ones. Behavior of an individual will be influenced by his/her peers or superior. In the context of auditor behaviors, it can be predicted that auditor's behavior will be influenced by auditing standards as well as individual or group with whom he/she interact. Thus, we predict that:

H1. There Is A Significant Association Between Perceived Social Consensus Among Auditors and Reduced Audit Quality Acts

Probability of Effect

Probability of effect refer to predicted benefit or harm generated form certain action. Singhapakdi et al. (1996) suggest that probability of effect of an action involving ethical issues is positively associated with individual perception of an ethics. Regarding with the practice of reduced audit quality acts probability of effect of such behaviors can be classified into effect toward auditor (as an actor) and effect toward financial statement users (potential victims). Thus, we predict

H2a. There Is A Significant Association Between Perceived Probability of Effect Toward Auditor and Reduced Audit Quality Acts

H2b. There Is A Significant Association Between Perceived Probability of Effect Toward Finance Statement Users and Reduced Audit Quality Acts

Magnitude of Consequences

Jones (1991) describes magnitude of consequences as amount of harm (or benefit) suffered from (received by) doing certain action. In the context of the practice of reduce audit quality behavior, amount of harm suffered by auditor as he/she decides to engage in dysfunctional behavior refers to maximum penalty imposed on the auditor if his/her action detected. Before deciding to engage in any of dysfunctional behaviors, auditor would calculate the extent to which such action might be detected and punished accordingly. Thus, we predict

H3. There Is A Significant Association Between Perceived Magnitude Of Consequence And Reduced Audit Quality Acts.

Method and Procedures

Questionnaires were distributed to government auditors in three provinces in Indonesia by using purposive sampling method. We add professional commitment (affective, continue and normative) as control variables. We adopt instruments used in previous studies. Reduced Audit Quality Acts variable adopts instrument used in Silaban (2009). Moral intensity adopts instruments used in Coram et al. (2004) and Professional Commitment adopts Aranya & Ferris (1984). All indicators were measured using a 7-point liker scale. Hypothesis were tested by using multiple regression analysis.

Results

Response and Respondents

106 questionnaires, which represent 53% of response rate, were used in this research. The majority of respondents were male (67.9%). 84 respondents (79.2%) were less than 30. Majority of respondents hold Diploma in Accounting (62.3%). Most respondent work as government auditors for less than five years (67,9%). See table 1

Table. 1 Demographic Information

	Amount	Percentage (%)
Gender		
Male	72	67.9
Female	34	32.1
Total	106	100
Age		
< 25	7	6.6
25-30	77	72.6
31-40	1	0.9
>40	21	19.8
Total	106	100
Education		
DIII	66	62.3
S1	38	35.8
S2/S3	2	1.9
Total	106	100
Tenure		
< 5 Years	72	67.9
5-10 Years	12	11.3
10-15 Years	2	1.9
>15 Years	20	18.9
Total	106	100

Descriptive Statistics for Reduced Audit Quality Acts

Among six types of reduced audit quality acts, relying on client explanations as substitutes for certain evidence was the most common types of dysfunctional behavior among respondents. Approximately half of respondent involved in such activity form sometimes to always. At the other hand, failing to research a technical issue become the least common types of dysfunctional behavior committed by respondents during the course of audit.

Premature Sign Off

Varying result regarding the practice of premature sign off occurred among respondents. 12, 3 % respondent stated that they never and 32% almost never deals with premature sign off of audit procedures. 30% of respondents stated that they sometimes engage in such activities and only less than 6% respondent stated that they always prematurely finish certain audit procedures (see table 2).

Table 2 Premature Sign off

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	13	12.3	12.3	12.3
Almost Never	34	32.1	32.1	44.3
Seldom	14	13.2	13.2	57.5
sometimes	30	28.3	28.3	85.8
Often	7	6.6	6.6	92.5
Almost always	2	1.9	1.9	94.3
Always	6	5.7	5.7	100.0
Total	106	100.0	100.0	

Superficial Review of Client Documents

The practices of superficial review of client’s documents among respondents were not too prevalent. More than 70% of respondent stated they never to seldom deal with superficial review of client documents. Yet, it was found that 7 respondents (6.6%) stated that they often do such practice during the course of audit (see table 3)

Table 3 Superficial Review of Client Documents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	23	21.7	21.7	21.7
Almost Never	32	30.2	30.2	51.9
Seldom	23	21.7	21.7	73.6
Sometimes	21	19.8	19.8	93.4
Often	7	6.6	6.6	100.0
Total	106	100.0	100.0	

Failure to Pursue Questionable Items

Most respondents seem to be reluctant to out more efforts as they notice something unusual or questionable. 76.4 percent of respond showed little or no additional efforts such as further in-depth examination, including expanding audit procedure or gathering more samples as respond to his/her finding or susceptible items. Only 3 respondents showed adequate response toward susceptible items he/she found during the course of audit (see table 4).

Table 4 Failure to Pursue Questionable Items

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	21	19.8	19.8	19.8
Almost Never	38	35.8	35.8	55.7
Seldom	22	20.8	20.8	76.4
Sometimes	13	12.3	12.3	88.7
Often	9	8.5	8.5	97.2
Almost Always	1	.9	.9	98.1
Always	2	1.9	1.9	100.0
Total	106	100.0	100.0	

Relying on Client Explanations as Substitutes for Certain Evidence

Relying on client explanation as substitute for hard-to-get evidence or evidence that cannot be found during audit may lead to inaccurate findings or at worst such practice may lead to audit failure. Yet, such practices were not uncommon among respondents. 83 percent of respondents stated that they always engage in such practice during audit (see table 5)

Table 5 Relying On Client Explanations As Substitutes for Certain evidence

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	6	5.7	5.7	5.7
Almost Never	28	26.4	26.4	32.1
Seldom	19	17.9	17.9	50.0
Sometimes	35	33.0	33.0	83.0
Often	11	10.4	10.4	93.4
Almost always	5	4.7	4.7	98.1
Always	2	1.9	1.9	100.0
Total	106	100.0	100.0	

Failing to Research Technical Issues

Most respondents believed that they already equipped with adequate technical skill and knowledge prior or during audit process (87.7%). Only less than 10 respondents that stated that they ignored any issues of certain technical knowledge (see table 6)

Table 6 Failing to Research a Technical Issue

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	33	31.1	31.1	31.1
Almost Never	43	40.6	40.6	71.7
Seldom	17	16.0	16.0	87.7
Sometimes	5	4.7	4.7	92.5
Often	6	5.7	5.7	98.1
Almost Always	1	.9	.9	99.1
Always	1	.9	.9	100.0
Total	106	100.0	100.0	

Altering or Replacing Audit Procedures

Altering or replacing audit procedures were not common practices among respondents. 93,4 percent of respondents reported that they never to seldom engages in such misbehavior. Only less than 6 percent of respondents reported that they often to always alter or replace audit procedures (see table 7).

Table 7 Altering or Replacing Audit Procedures

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never	25	23.6	23.6	23.6
Almost Never	32	30.2	30.2	53.8
Seldom	21	19.8	19.8	73.6
Sometimes	21	19.8	19.8	93.4
Often	6	5.7	5.7	99.1
Almost Always	1	.9	.9	100.0
Total	106	100.0	100.0	

Regression Results

We conduct validity and reliability test for our instruments. All items are valid. Cronbach's Alpha score for all variables are greater than 0.75. All variables met the criteria of best linear and unbiased estimate of regression model based on normality, Multicollinearity, and Heteroscedasticity test. Except, we exclude social consensus in our model as it cannot meet the criteria of normality assumption.

The ability of our model to explain variation in dependent variable is relatively low as shown by the R Square score for only 0.119 (table 8). This indicates that only 11.9 percent of variation on reduced audit quality acts can be explained by independent variables used in this study. F score show value of sig of 0.047 (<0.05) This indicates there is significant association between independent variables and dependent variable simultaneously

Table 8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.344 ^a	.119	.065	6.17480

Table 9 ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	507.950	3	84.658	2.220	.047 ^a
Residual	3774.692	99	38.128		
Total	4282.642	105			

Results for Hypothesis Testing

Table 10 reported that the score for t-test for each independent variable (perceived effect toward auditor; perceived effect toward financial statement users and perceived magnitude of consequence) are 0.02; 0.315 and .529 respectively. Therefore, within confidence level of 95%, significant association can only be found between perceived probability of effect toward financial statements users and reduced audit quality acts. Thus, hypothesis H2b that predicts there is significant association between perceived probabilities of effects toward financial statement users and reduce audit quality acts can be supported. Since coefficient score is negative. It is concluded that negative significant association exist between perceived effect toward auditor and reduced audit quality behaviour. This finding suggest that auditors adhered to their professional role to protect the interest of financial statement users.

Yet, this study fails to find evidence to support other hypotheses. Hypothesis H2a that predicts a significant association between perceived probability of effect toward auditor and reduced audit quality acts cannot be supported. Hypothesis H3 that predicts There is a significant association between perceived magnitude of consequence and reduced audit quality acts also cannot be supported. There might be two alternatives justification for these unexpected findings. First, auditors might perceive that their nonprofessional conduct will not be detected. Alternatively, they believe that even if their misconduct detected (by their superior or co-worker), there will be no or little punishment imposed on them.

Tabel 17 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	29.709	4.704		6.316	.000
AFEC	-.069	.148	-.062	-.465	.643
CON	.207	.191	.169	1.084	.281
NORM	-.045	.165	-.044	-.271	.787
EFS	-.344	.108	-.323	-3.183	.002
EAUD	.062	.061	.107	1.011	.315
CONCQ	-.046	.073	-.068	-.631	.529

a. Dependent Variable: RAQ

AFEC= affective professional commitment

EFS= effect of RAQ toward financial statement user

COG= continuance professional commitment

EAUD= effect of RAQ toward auditor

NORM= normative professional commitment

CONCQ= magnitude of consequences of RAQ

RAQ = reduced audit Quality Acts

Conclusion, Limitation and Direction for Future Research

Finding of this study shows that among six types of reduced audit quality acts, relying on client explanations as substitutes for certain evidence was the most prevalent practice among respondents. At the other hand, failing to research a technical issue become the least common types of misbehavior committed by respondent during the course of audit. Result of regression analysis for hypothesis testing shows that perceived probability of effect toward financial statement significantly affects reduced audit quality acts. There are no significant association between other dimensions of moral intensity (social consensus and magnitude of consequences and probability of effect for auditors) and reduced audit quality acts.

This study is subject to several limitations. This study only conducted in three provinces in Indonesia and sample size is relatively small. The use of self-reported data in any survey, to some extent, is subject to response bias. In order to better capture causal relationship between each dimension of moral intensity future research can use experimental approach. Future research might further explore this area by investigating other dimension of moral intensity or by exploring any factors that may enhance individual moral intensity in ethical decision making.

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