

Could Auditor's Personal Characteristics Reduce Audit Quality? A Survey of Government Auditors in Eastern Indonesia

Anis Rachma Utary

Department of Accounting, Faculty of Economics and Business, University of Mulawarman.
Jl. Tanah Grogot No 1. Gunung Kelua, Samarinda, East Kalimantan - Indonesia

Abstract

The objective of this study is to test the effect of State Audit Agency (SAA) auditor's personal character on the reduced audit quality behavior (RAQB), using two moderator variables namely quality control as a variable to strengthen and budget pressure to weaken. The survey method using letters to collect data from SAA auditor in Eastern Indonesia, Kalimantan, Sulawesi and Maluku. The moderation regression analysis (MRA) model is used to answer the hypotheses. The research findings indicate that good auditor's personal character could dramatically lower the chances of the reduced audit quality behavior. Furthermore, the interaction of two variables that strengthen and weaken, do not significantly strengthen quality control variable on the relationship between personal character and RAQB. However, budget pressure can weaken the effect of the personal characters in lowering the reduced audit quality behavior. The implication of this study is, however, the condition of the personal character of auditor, if in the state of time budget pressure, then the chances to the reduced audit quality may still occur.

Keywords: Audit Quality Control, Personal Character, RAQB, Time Budget Pressure

1. Introduction

The qualified audit is the result of the audit that can describe the real situation of the audited object. The audit quality is defined as the probability that the auditor will discover and report irregularities in the client's accounting system. The probability of irregularity findings depends on the technical ability of the auditor such as experience, professionalism and structure of the audit firm. The probability of the auditor reporting the fraud occurs in the client's accounting system depends on the auditor's independence (De Angelo, 1981). The audit quality is related to the expertise qualifications, timeliness of work completion, the adequacy of examining evidences, and the attitude of its independence towards clients.

The objective of this study is to examine the various factors that can lead to the reduced audit quality by SAA's government auditors. The Reduced Audit Quality Behavior is defined as intentional reduction in the quality by auditors (Coram *et al.*, 2004). While Malone and Robert (1996) states that the reduced audit quality is an act done by auditors during audit procedure that can reduce the effectiveness of the evidence collected. Some actions that may lead to lower the audit quality are reducing the number of audit sample, not performing in-depth reviews to client's documents, not expanding the examination if any questionable items and giving opinions when all the required audit procedures have not been fully implemented (Weningtyas *et al.*, 2006).

The effects arising from the Reduced Audit Quality Behaviour are the effects on the auditing profession, the lower of public's trust in the audit profession, it can reduce the credibility of the public accountant to the audit results and can be deadly for the profession itself and will cause overreaction interference from government to the profession (Otley and Pierce, 1996). Enron and Kimia Farma are examples of the auditor behavior dysfunctional resulting in a decreased of public trust in the audit profession.

There are some factors which can encourage the reduced audit quality behavior, such as weak pressure and control systems. Kelley and Margheim (1990) state that there are several factors that cause auditor to perform the reduced audit quality behaviors namely Pressure, Control System and Supervisory Style. Kaplan (1995) states that the reduced audit quality behavior may occur because of the inherent costs in the audit process with the quality faced by auditors in their audit environments.

This research was motivated to find out several factors that encourage the reduced audit quality behavior, whether it comes from internal or external factors. This study uses a survey by mail to a sample of SAA auditors in Eastern Indonesia. This study is expected to contribute to the development of studies related to audit dysfunctional behavior and to SAA in terms of the regulation-making and audit's SOP. The initial phase of this study is mapping the literatures, then compile the research methodology, perform statistical analysis and discussion and finally drawing conclusions and research implications.

2. Theoretical Framework and Hypotheses

Attribution theory

Luthans *et al.* (1987) explains that the attribution theory learns about how a person interprets an event, reason, or their causative behavior. Whether the behavior is caused by dispositional factors (internal factors), or caused by external circumstances. Internal causes tend to refer to aspects of individual behavior. While external causes

refer to circumstances that affect a person's behavior (Lester *et al.* 2009).

The connection of this theory with the study is that the reduced audit quality behavior caused by individual factors, how does one interpret an event, reason, or his causative behaviors, internal causes tend to refer to aspects of individual behavior.

Personal Characteristics and Reduced Audit Quality Behavior

Auditors with good personal characteristics will have lower tendency level of doing Reduced Audit Quality Behavior. Auditors with good personal characteristics will have higher confidence level of their own business and higher competitive attitude in carrying out audits, they will have belief that success can only be achieved with hard work and high competitive attitude (Fisher, 2001). They also believe conversely that low effort will bring them into failure. This kind of attitude makes auditors have lower tendency to do Reduced Audit Quality Behavior.

As we know, personal characteristics associated with ethical audits in a variety of business literature is measured with some pattern, Type A and Type B (Eysenck and Fullker, 1983). The pattern of type A is measured by a variety of attributes such as aggression, ambition, competitive and express the high levels of stress, and the pattern of type B is as opposed to type A. Auditors with good personal characteristics will also have high level of self-esteem. So, it the following hypothesis can be suggested:

H₁: The better the Individual Personal Character, the smaller the chance of reduced audit quality behavior.

Quality Control and Reduced Audit Quality Behavior

Control over audit quality is a mechanism to make sure the audit process runs as it should. The main function of Quality Control is to ensure that the audit process has been run in accordance with auditing standards. However, the process of reviewing the auditor's work to ensure that all work carried out in accordance with auditing principles and application of Quality Control elements such as assignments of personnel, consultation, supervision and inspection.

Research of Rayburn and Rayburn (1996) examined the effect of individual ethical orientation towards Reduced Audit Quality Behavior, by placing control over quality, which suggests that the existence of control has lowered the Reduced Audit Quality Behavior. So, the following hypothesis can be suggested:

H₂: The existence of control over audit quality is strengthen the effect of Personal Character Individuals in minimizing chances of reduced audit quality.

Time Budget pressures and Reduced Audit Quality Behavior

Auditors with good personal characteristics will also have high level of self-esteem, the level of need for achievement and level of confidence so that they have shared view that action of Reduced Audit Quality Behavior will not only be detrimental to the users of financial statements but also can be detrimental to themselves. However, this confidence needs to be tested when auditors are under pressure, one those is budget pressure. Coram *et al.* (2004) states that budget pressure increases tendency of auditors in conducting Reduced Audit Quality Behavior, especially in the form of accepting doubtful proof, not conducting tests for all samples and not accepting odd proof from samples on auditors, because of the limited time and budget owned by auditors in completing the audit assignment. So it the following hypothesis can be suggested:

H₃: Time Budget Pressure can weaken the effects of Individual Personal Character in minimizing chances of reduced audit quality.

3. Methodology

The objective of the study is to analyze the Individual Personal Character that affects Reduced Audit Quality Behavior moderated by several variables including Quality Control and Time Budget Pressure. The samples used were SAA auditors who are in charge in Local Government in Kalimantan, Sulawesi, Maluku and Papua during 2016 period. All variables were measured with a five-point Likert scale, ranging from strongly agree "5" and strongly disagree "1". Before sending questioner to the respondents, pilot test for the instrument had been carried out on 40 people of accounting students with Cronbach Alpha score of < 0.754, some items removed because they were below the threshold of Cronbach Alpha. To collect the data, 96 units of questionnaires were submitted with mail survey to the Office of SAA Representative given to Auditors, of 96 questionnaires sent there were 75 returned to us and 73 were used. To test the hypotheses moderation regression were used.

4. Results and Discussion

In these descriptive statistics, demographic data of respondents will be presented, related to gender, age, duration of employment at the current position, then the duration of employment since appointed as civil servants and the duration of employment on Functional Auditor position.

Table 1. Respondents' Demographic Data

| | | | | |
|--|-------------|-----------|------------|------------|
| Sex: Male 44 (60,27%), Female 29 (39,72%) | | | | |
| | Mean | SD | Min | Max |
| Age | 32,12 | 4,12 | 24 | 49 |
| Duration of employment at the current position | 4,17 | 2,32 | 0,89 | 16,1 |
| Duration of employment since appointed as civil servants | 6,27 | 3,17 | 2,2 | 18,1 |

In general, most of the respondents are male (60.27%), then the average age of 32.12 years, the youngest participant was 24 years old and the oldest participant was 49 years old. Then the average duration of employment in Audit of 4.17 years, the lowest was 0.89 years and the longest was 16.1 years.

The model is built on the development of the above hypotheses by using MRA combined with PLS structural equation as follows:

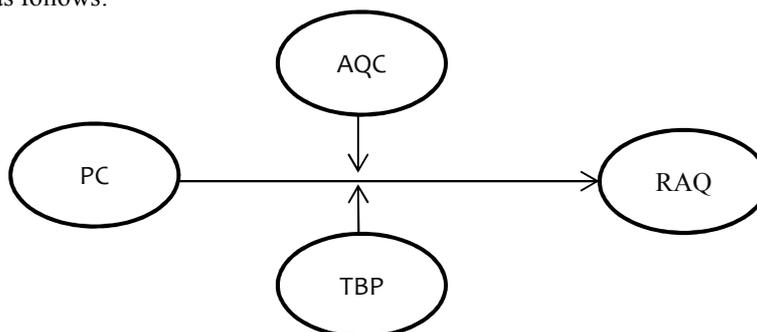


Figure 1. Research Model

$$RAQB = \lambda_1 PC + \lambda_2 AQC + \lambda_3 TBP + \lambda_4 PC * AQC + \lambda_5 AQC * TBP$$

where:

- RAQB = Reduced Audit Quality Behavior
- PC = Personal Character
- AQC = Audit Quality Control
- TBP = Time Budget Pressure

Each construct was tested for its internal validity consistency using Cronbach's alpha and construct reliability. In line with lists in Table 1, the coefficient of Cronbach's alpha are Personal Character (0.767), and Audit Quality Control (0.815) variables, Time Budget Pressure (0.802) variable and RAQB dependent variable of (0.784), in succession greater than limit of 0.70 in accordance with the opinion of Nunnally (1978). All the construct reliability is greater than 0.7, above the limit of 0.60 in accordance with opinions of Fornell and Larcker (1981). Overall, the results suggest high internal validity of measurement indicators; therefore, the reliability of each construct is valid.

Table 2. Validity and Reliability

| Construct | Cronbach' Alpha |
|-----------|-----------------|
| PC | 0.767 |
| AQC | 0.815 |
| TBP | 0.802 |
| RAQB | 0.784 |

Outer Model or the Measurement Model are assessment for the reliability and validity of the study variables. There are three criteria for assessing the outer model: convergent validity, discriminant validity and composite reliability. Table 3 shows the results of reliability and validity testing for each variable, Discriminant validity of the measurement model with reflexive indicators can be seen from the correlation between scores of indicators with scores of its construct.

Table 3. Results of Reliability and Validity Testing

| Variable | AVE | Composite Reliability | R Square |
|----------|-------|-----------------------|----------|
| PC | 0.793 | 0.712 | 0.653 |
| AQC | 0.779 | 0.672 | – |
| TBP | 0.828 | 0.722 | – |
| RAQB | 0.719 | 0.791 | – |

Source: Results of SmartPLS Analysis Output

The variables will be considered reliable if the correlation is above 0.50 (Ghozali, 2006). Results of outer loadings testing in the Table 3 show that all loading factor is above 0.50 and it can be stated that all of the study variables are reliable and meet the rules of validity for all AVE outer loadings above 0.50.

Inner model or structural model testings were performed to determine the relationship between constructs, the significant value and R-square of the research model. The following shows the value of regression weight, the relationship between constructs, significance value and R-square of the research model.

Table 4. The Results of Structural Model Testing

| The Effect of Variable | R Square (R ²) | Original Sample Estimate | T Statistic |
|------------------------|----------------------------|--------------------------|-------------|
| PC→RAQB | 0.432 | -0.254 | 3.236* |
| AQC→RAQB | 0.432 | -0.221 | 0.914 |
| TBP→RAQB | 0.432 | 0.045 | 0.345 |
| PC*AQC→RAQB | 0.432 | -0.074 | 1.081 |
| PC*TBP→RAQB | 0.432 | 0.059 | 2.723* |

Note : *Significant on t-table value 1.960

Source : SmartPLS Output

Based on the analysis above the obtained R-square value (R²) is 0.432 for the RAQB variable where in this research is the dependent variable. Based on the value of R square of 0.432 it can be interpreted that the individual character variable and the interaction between the two variables of AQC and Time Budget Pressure on RAQB can explain the variance of RAQB change of 43.2 percent.

Statistical analysis above shows that the first hypothesis can be supported which states that the better the Individual Personal Character, the smaller the potential to Reduced Audits Quality Behavior (RAQB). This finding is consistent with research conducted by Widjowati (2013) which states that auditor with a good personal characteristic will have a lower tendency to do Reduced Audit Quality Behavior. This study shows that the high level of Auditor Personal characteristics have negative and significant effect on the Reduced Audit Quality Behavior. Auditors' Personal characteristic is the quality within auditors themselves which will affect auditors to respond to all conditions they encountered. Auditors with good personal characteristics will have tendency to do lower Reduced Audit Quality Behavior. Auditors with good personal characteristics will have high levels of self-esteem and need for high achievement. In carrying out their work, they focused not only on the financial need but also on the achievement need. This has led to the belief that doing Reduced Audit Quality Behavior can not only harm others but also harm themselves. Associated with the attribution theory that reduced audit quality behavior caused by individual factors, how one interprets an event or his causative behavior, internal causes tend to refer to aspects of individual behavior (Luthans, 1987), means that individual characters are very dominant in doing Reduced Audit Quality Behavior.

The second hypothesis analyzes the existence of quality control interaction for the effect of Individual Personal Characters in minimizing chances of reduced audit quality can not be supported. This study shows that QC does not give interaction effect or moderation on the effect of Individual Personal Character in minimizing the chance of Reduced Audit Quality Behavior. Quality control is defined as a procedure performed by SAA auditors to ensure that audit process has been conducted in accordance with auditing standards. Application of QC elements effectively detect Reduced Audit Quality Behaviors that may be made by auditors. It is believed that their quality control can affect individual's intention to lower the chances of Reduced Quality Audit Behavior by auditors, but these findings do not support that opinion. Research conducted by Weningtyas *et al.* (2006) reports that auditors working on public accounting firm with an effective quality control will have a smaller tendency to conduct Reduced Audit Quality Behavior particularly in the form which very often carried out by auditors, namely premature sign-off on audit procedures.

Then, the last hypothesis uses moderating variable of time budget pressure can weaken the effect of the Individual Personal Character in minimizing chances of reduced audit quality can be supported. This research is supported by the opinion of Gundry (2006) who states that auditors will have higher tendency to do Reduced Audit Quality Behavior when feeling higher Time Budget Pressure, then it is associated with individual characters, although a personal have good character but under pressure, tendency to do Reduced Audit Quality can still occur. Previous research suggests that auditors' responses to budget pressure is various at different positions (Raghunathan, 1991; Otley and Pierce, 1996). A New Zealand study showed that responses of senior auditors under time budget pressure conditions are different from their senior auditors (McNamara and Liyanarachchi, 2005).

5. Conclusions and Limitations

This study examined the effects of individual characters of the SAA auditor on reduced audit quality behavior (RAQB), by placing the variable of quality control as a variable that strengthen and the variable of budget pressures as a variable that weaken. The findings indicate that good individual characters or a higher degree of personal character of auditors can significantly lower the chances of reduced audit quality behavior. On the interaction of two variables that strengthen and weaken, the variable of quality control has no significant effect but the variable of budget pressure can weaken the effect of the individual characters in lowering reduced audit

quality behavior.

Some of the limitations in this study and must be considered when conducting a follow-up study: First, the instrument partially has not been used as a whole, which can cause some validity problems because of the research objects in the area of public sector audit. However, the pilot test can overcome this problem. Second, in an effort to define and measure the variable of time budget pressure in Likert scale will have implications on the findings, it can be said in the future that budget pressure is more likely to be a binary variable by measuring high or low pressure.

References

- Coram, P., Ng, J. and Woodliff, D.R. (2004). The effect of risk of misstatement on the propensity to commit reduced audit quality acts under time budget pressure. *Auditing: A Journal of Practice and Theory*, Vol. 23, pp. 159-67.
- De Angelo, L.E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, Vol. 3.
- Eysenck, H. and Fulker, D. (1983). The components of Type A behaviour and its genetic determinants. *Personality and Individual Differences*, Vol. 4, pp. 499-505.
- Fisher, R. (2001). Role stress, the type a behavior pattern, and external auditor job satisfaction and performance. *Behavioral Research in Accounting*, Vol. 12:143-170.
- Fornel, C. and D.F. Larcker. (1981). Evaluating Structural Equation Models with Unobserved Variable and Measurement Error. *Journal of Marketing*, Vol. 1.
- Ghozali, I. (2006). *Structural Equation Modeling, Metode Alternatif dengan Partial Least Square PLS*. Badan Penerbitan Universitas Diponegoro.
- Gundry, Leanne C. (2006). *The Effect of Time Budget Pressure And Auditor's Personality Type on Reduced Audit Quality Practices*. University of Otago.
- Kaplan, Steven E. (1995). An Examination of Auditors' Reporting Intentions upon Discovery of Procedures Prematurely Signed-Off. *Auditing: A Journal of Practice and Theory*.
- Kelley, T. and Margheim, L. (1990). The impact of time budget pressure, personality and leadership variables on dysfunctional auditor behaviour. *Auditing: A Journal of Practice and Theory*, Vol. 9, pp. 21-42.
- Lester, P. B., Vogelgesang, G., Hannah, S. T., and Kimmey, T. (2009). Developing courage in followers: Theoretical and applied perspectives. In C. Pury & S. Lopez (Eds.), *The psychology of courage: Modern research on an ancient virtue*: 210-245. Washington, DC: American Psychological Association.
- Luthans, F., D. Bacack, and L. Taylor (1987). Organizational Commitment: Analysis of Antecedents. *Human Relations*, 40(4): 219-236.
- Malone, C.F. and Roberts, R.W. (1996). Factors associated with the incidence of reduced audit quality behaviours. *Auditing: A Journal of Practice and Theory*, Vol. 15, pp. 49-64.
- McNamara, S. and Liyanarachchi, G. (2005). Time budget pressure and auditor dysfunctional behaviour within an occupational stress model. *Working paper series*. Department of Accountancy and Business Law, University of Otago, Dunedin.
- Nunnally, J.C. (1978). *Psychometric Theory*, 2nd edition. New York: McGraw-Hill Book.
- Otley, D.T. and Pierce, B.J. (1996). Auditor time budget pressure: consequence and antecedents. *Accounting, Auditing & Accountability Journal*, Vol. 9, pp. 31-58.
- Raghunathan, B. (1991). Premature signing-off of audit procedures: an analysis. *Accounting Horizons*, Vol. 5, pp. 71-9.
- Rayburn, J.M. and Rayburn, L.G. (1996). Relationship between Machiavellianism and Type A and ethical-orientation. *Journal of Business Ethics*, Vol. 15, pp. 1209-1219.
- Weningtyas, Suryanita., Doddy Setiawan, and Hanung Triatmoko. (2006). *Penghentian Prematur Atas Prosedur Audit*. Padang: Simposium Nasional Akuntansi 9.
- Widyowati, Mutiara Puspa. (2013). *Analisis Pengaruh Karakteristik Internal Pada Auditor Eksternal Terhadap Praktik Pengurangan Kualitas Audit*. Penelitian Mandiri Universitas Jember, unpublished.