

## Auditors' Behavioral Intention Towards Dysfunctional Audit Behavior Applying Theory of Reasoned Action

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### Abstract

Dysfunctional audit behaviors behind corporate fiascos are a burning issue in today's ever changing globalized business world. After the Enron scandal that saw the demise of Arthur Andersen LLP., a growing research interest in the field of audit quality is being witnessed. With this negative publicity of professional auditing firms, it is pertinent to execute an efficient audit, causes of these dysfunctional audit behaviors should necessarily be identified and eliminated. To help address this issue, the paper attempted to explain an auditor's behavioral intention to engage or not to engage in dysfunctional audit behaviors through the lens of the Theory of Reasoned Action. The study proposed a Theory of Reasoned Action as a guide for a valid prediction of auditors's intention to involve in dysfunctional audit behaviors. This proposed framework is recommended for not only practitioners who engaged in the auditing profession, but also for many other regulators including the board of directors, audit committees, top management, stakeholder, and governing bodies, to enable them take initiatives to enhance the ethics in their work environments.

*Keywords:* Auditing; dysfunctional audit behavior; attitude; auditor(s) intention; Pakistan

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### 1.0 INTRODUCTION

There are plenty of catastrophic business scandals in contemporary trade world most notably the Enron, worldcall or Satyam fraud, which have created a repulsive image of the business world to the public. On a similar note, memories of many disastrous financial problems in Pakistan such as the NDFC, Crescent Standard Bank, or the Taj Company fiasco still haunts organizations top management (Eshai, 2009). The reliability of the auditors' professional codes of conduct in combating such scandals and shielding public interest has been challenged by these scandals (Alleyne, Hudaib, & Pike, 2013; Dart, 2011). The negative effects of dysfunctional audit behaviors that come together are increasingly difficult to handle. Paino *et al.* (2010) mentioned that the auditors who engage in any kind of dysfunctional audit behaviors have caused the most undesirable and serious consequences regarding organization's benefit and social context. The major responsibility for breach of contract, malpractices, breach of fiduciary duty and failure to exercise due professional care are on the shoulder of the audit firm (Suriya, 2009). In view of this titanic responsibility, an audit of financial statements must be *conducted* by skilled, qualified and responsible professionals who handle a risk of their behavioral intention of any negligent or dysfunctional behavior. Any dysfunctional act by the auditor(s) that negatively

affect the audit quality is generally known as dysfunctional audit behavior (Otley & Pierce, 1996).

Gathering of insufficient evidence, failure to adhere to an accounting principle, bypassing of audit procedures, under-reporting of time, a superficial review of documents, agreeing with weak client explanations and premature sign-off are some of the indication of dysfunctional audit behaviors (Agoglia, Hatfield, & Lambert, 2011; Agoglia & Hatfield, 2010; Gundry, 2006; Paino, Ismail, & Smith, 2010; Paino, Thani, Iskandar, & Syid, 2011a; Shapeero, Koh, & Killough, 2010; Soobaroyen & Chengabroyan, 2006; Yuniarti, 2012). With regards to the trustworthiness of audit practices, uncertainties have been observed among common people which negatively affect investors' confidence in the quality and consistency of these professional audit practices (Shah, 2009). In his review, Rezaee (2005) stated three different questions that should precede corporate failure: (1) How intense is corporate malpractices? (2) Are corporate financial statements trustworthy? And (3) How reliable is an auditors' work? Through revitalizing the accounting framework, auditors' behavior and transparent auditing practices proffer the answer to these questions (Suriya, 2009). An extensive literature review of the current study indicates that dysfunctional audit behaviors are widely practiced by auditors ( see: Agoglia *et al.*, 2011; Akers & Qianhua, 2010; Kingori, 2003; Margheim, Tim, & Pattison, 2005; Paino *et al.*,

2010; Paino & Ismail, 2012; Robins & Wayne, 2004; Soobaroyen & Chengabroyan, 2006; Yuen, Law, Lu, & Guan, 2011; Yuniarti, 2012). Apart from the fact that these behaviors can create pressure within the audit environment, it can also weaken the auditors' control environment (Pierce & Sweeney, 2006). As promising causes of these behaviors, a variety of factors, ranging from time budget pressure to auditors' personality type have been studied (Gundry, 2006). Audit tenure, organizational and professional commitment, prior involvement in client and client importance are the subjects of most recent research related to dysfunctional audit behavior (Paino, Thani, Iskandar, & Syid, 2011b; Peytcheva, 2012; Yuen et al., 2011; Yuniarti, 2012). According to Kelley & Margheim (1990), 33% of the surveyed audit seniors in the United States accepted to be sometimes under-reporting when faced with budget pressures. Furthermore, the study shows that 40% of the audit seniors admitted to unethical conduct at one time or the other. This high percentage reveals that audit quality can be damaged, and ultimately the image of the audit profession impaired. As shown by Braun (2000) auditors may not be vigilant all the time during testifying audit evidence, which suggests the probability of fraudulent transactions. Agoglia (2011) found that managers, unlike audit partners, are more inclined to select a staff as a team member who underreports time for future audit engagements. Rhodes (1978) who reported the findings on dysfunctional audit behavior first time in auditors' commission report, mentioned that 10.9% of Irish auditors had skipped an audit step without actually performing it.

In another study, Otley & Pierce (1996) indicated that in response to a time budget tightness amongst Irish auditors the frequency of premature sign-offs dramatically increased. Shockingly, 55% respondents admitted to underreporting time sometimes. In a similar study in Australia, Willett & Page, (1996) showed that only 22% of the finalists (Chartered Professional Accountants) admitted that they had never been involved in irregular procedures. Two-thirds of the respondents admitted performing dysfunctional behavior 'sometimes' according to Coram et al., (2004). Similarly, 25% of the respondents in Mauritius strongly agreed with sign off on requiring audit steps (Soobaroyen & Chengabroyan, 2006). All of the respondents agreed that premature sign offs behavior could impair audit quality. Among the respondents, 17% believe that this act could end up with long-term debts, 33% pointed out to cash problems, 40% spotted trouble with review and testing of internal control and 37% believe it was going to create problems in expenses (Soobaroyen & Chengabroyan, 2006).

These aforementioned findings indicates that such behaviors generate positive and negative consequences for the audit firm, the individual auditor, and the society in general (Alleyne et al., 2013). However, audit professionals would conduct their work with integrity if the inclusion of professional code of ethics was provided to give them clear guidelines for their professional work. Furthermore, the code of ethic accentuate on reporting of any real and fictitious misconduct or misleading information (Alleyne et al., 2013). In this context, two issues must be considered in order to have a more in-depth discussion, firstly, the factors that lead to dysfunctional audit behaviors, secondly, the potential remedies to handle them so that it will be useful to restore public trust on the auditors work (Kingori, 2003). An auditor who works as an intermediate person, stakeholder or an insurer of financial information must be aware of early signals of any potential business failure (Suriya, 2009). As a matter of fact, the auditor who holds assets in trust for a beneficiary must take responsibility to comply with ethical guidelines to retain

stakeholder trust (Rahman, 2009). By ignoring this trust, occurring of dysfunctional auditor behavior would be inevitable.

The benefit from above mentioned studies are fruitful not only to audit practitioners who engage in the auditing profession but to many other regulators including the board of directors, audit committees, top managements etc., who should consider these researches to enhance the ethical work in their work environments. Eventually, a transparent auditing process can be ensured, and the practices related to dysfunctional audit behaviors could be properly handled by applying certain guidelines for auditor(s).

## ■2.0 THEORY OF REASONED ACTION

In the history of social psychology, the theory of Reasoned Action (Ajzen & Fishbein, 1969, 1980) stands among the prominent theoretical models to examine decision behavior of an individual (Manstead, 2011). Information processing approach to attitude development is the core of this theory. The theory of Reasoned Action is a model which proposes that the prediction of an individual's behavior in a particular situation can be explained. Two self-determining intentions are hypothesized by this theory. Firstly, is the *attitude towards the behavior*, which is either a positive or negative appraisal of the individual's behavior, and secondly, the *subjective norm*; a social factor, which relates to the presumed social demand to perform or not to perform the behavior.

Since this theory entails examination of cognitive self-regulation, which is the most relevant aspect of behavioral inclination (Ajzen & Fishbein, 1969). It is significant in examining auditors' intention towards dysfunctional behaviors. Apart from the fact that this theory includes all behavioral disciplines, it can explain, clarify and persuade individual behavior in applied settings (Ajzen & Fishbein, 1980). For accounting or auditing researchers, particularly for those who wish to explore the factors that influence the auditor's behavioral intention to involve in dysfunctional audit behaviors, this theory serves as a meaningful theoretical framework (Buchan, 2005). The latent factors that might influence the auditors (s) behavioral intention to involve in a given behavior can be identified by this theory (Fishbein & Ajzen, 1975). Based on this theory, behavior is determined by the individual intention to predict the behavior (Figure 1).

In the context of dysfunctional audit behavior, the theory hypothesizes that dysfunctional audit behaviors can be determined by auditors' behavioral intention to accept these dysfunctional behaviors. It can be followed by focal constructs in this theory, the attitude toward behavior to perform, and subjective norm. Thus, the Theory of Reasoned Action establishes these causal relationships existing between attitudes, intentions, and behaviors (Karen, Barbara, & Viswanath, 2008). This theory has been applied successfully in the accounting profession such as ethical decision making in the medical profession (Randall & Gibson, 1991); unethical behavior in creating unauthorized software copies (Chang, 1998); environmental ethical decision intentions of managers in metal-finishing industry (Flannery & May, 2000); falsification in psychology (Richardson et al., 2012); and in business decision making (Southey & Gregory, 2011). It is worth noting that this theory has also been applied in the accounting profession such as behavioral intention for fraudulent reporting behavior (Noor & Mohd, 2008); unethical and fraudulent financial reporting (Carpenter & Reimers, 2005); attitudes of accounting students towards becoming a chartered accountant (Felton, Tonny, & Northey, 1995); accounting students' career choice (Law, 2010).

Law (2010) in his study stressed the application of the Theory of Reasoned Action in other accounting fields. Basically, in order to better understand the intention of accepting dysfunctional audit behaviors by the auditor latest research encourages the application of this theory in the auditing environment. Other behavioral studies such as cyber-production deviant behavior (Mahatanankoon & Pruthikrai, 2006); counterproductive behavior (Vardi & Weitz, 2002); internet banking behavior (Yousafzai & Shumaila, 2010); television viewing behavior (Loken, 1983); self care behavior among women (Didarloo *et al.*, 2011) are quite similar and comparable to study of auditor(s) behaviors and intentions. Therefore, there is sufficient evidence on the strength of the Theory of Reasoned Action and application of this theory in understanding the auditor's intention to report dysfunctional audit behaviors.

In this theory, there is an assumption that dictates changes in *attitude* and *subjective norm* are related to changes in auditors' intention to accept or not to accept dysfunctional behavior. Thus, current study tries to show how the behavioral factors including *attitude* toward the behavior and *subjective norm* drawn from the Theory of Reasoned Action can be applied to explain the auditors' intention to perform or not to perform a dysfunctional audit behavior. This theory is depicted in Figure 1, with *behavioral intentions* shown as the product of two: *attitude* and *subjective norm*. Each of these variables is briefly illustrated in the next section.

### 2.1 Attitude

The attitude toward behavior is under the influence of the individual's general feelings about performing the behavior. Beliefs of an individual are the source of attitudes (Ajzen, 1991). This Attitude could be a positive or negative perception of performing or not performing the behavior of interest (Ajzen, 2002, 2005). Fishbein & Ajzen (1975) showed that an individual who has strong beliefs followed by positive outcomes as a result of performing the behavior and will have a positive attitude toward that behavior. By contrast, an individual who keeps strong beliefs followed by a negative outcome from the behavior will have a negative attitude toward that behavior (Karen *et al.*, 2008). In general, people(s) beliefs are the source of their evaluation process about the outcome of performing the behavior of interest which is called behavioral beliefs. Different beliefs (positive/negative) can link the behavior to a certain outcome (Ajzen, 1991). These beliefs are available beliefs that are generated through learning, experience, and individual social life pattern (Karen *et al.*, 2008).

In another study of factors leading to user's decision making style Aisyah (2004) cited the Law of Effect (Thorndike, 1905). The Law of Effect states that "when a matter is followed by a state of self-satisfaction, strength will increase and the possibility of the repeat is large while when an item is accompanied by unfavorable conditions, strength decreases and weak".... (p. 75). The greater the satisfaction or discomfort, the greater the strengthening or weakening of the bond (Thorndike, 1911, p. 244). This law of Effect can also be connected with the auditor(s) habit of performing dysfunctional audit behaviors. By focusing on the central principles of 'Effect of Law' and 'Theory of Reasoned Action' in auditor(s) attitude context, which states that if the auditor keeps a strong belief that acceptance of dysfunctional audit behaviors will bring him a positive result, such as completion of the audit within time and budget or good performance evaluations; he/she will have positive belief towards performing a dysfunctional behavior and will intend to repeat dysfunctional audit behaviors in future

audit willingly. In contrast, if the auditor believes that the evaluation will lead to negative results, such as expulsion from the audit engagement or negative appraisal report, they will evaluate it negatively and will keep a negative attitudes toward dysfunctional audit behaviors.

Nevertheless, the assumption of this theory is that in some situations the acquired beliefs might not be absolute. This might direct the auditor into believing that behaviors would lead to positive results. Hence, he or she will support the belief of performing dysfunctional audit behavior. Therefore, it becomes important that auditors must evaluate the consequences of dysfunctional behaviors positively before engaging in those behaviors. Another view is that due to the change in surroundings, the positive or negative evaluation of the possible results of performing the behavior can change due to sudden change in event or surrounding or when new information becomes accessible, which offer changes to the individual's beliefs (Ajzen, 1988).

### 2.2 Subjective Norm

A social component for the Theory of Reasoned Action is the subjective norm. According to Ajzen (1991) subjective norm is a referent group(s) approval or disapproval of their engagement in a given behavior. Usually, a referent group keeps a close relation with individuals, for example, family members, friends, peers or others that are close to the individual. If an individual's important referent keeps strong influence or demand to perform a given behavior then individual will perform the behavior accordingly, this pattern is predicted by this theory (Ajzen & Madden, 1986; King & Dennis, 2003). In the context of dysfunctional audit behaviors, if an auditor works under direct supervision of an audit manager, and if he/she perceives that the audit manager will allow him to complete the audit within time and budget without spending an extra hour, he/she will keep a positive normative belief, and will most likely perform dysfunctional audit behavior.

However, if the auditor has clear and defined guidelines or instruction that the managers will discourage the involvement in dysfunctional audit behaviors, they will keep a negative normative belief, hence, they will not perform that behavior. To give the matter emphasis, auditor(s) or referent group must have a clear understanding of the serious consequences of dysfunctional audit behavior. Therefore, important referent will discourage the positive attitude towards acceptance of dysfunctional audit behavior. Eventually, the auditor will also consider the serious or negative outcome of the acceptance of dysfunctional audit behavior.

### 2.3 Behavioral Intention

The attitude toward behavior and subjective norm can be applied as an indicator of behavioral intention to accept dysfunctional audit behavior (Figure 1). Behavioral intention, based on the theory is a determinant of behavior and helps in explaining the performance or non performance of that behavior (Fishbein & Ajzen, 1975). In fact, the given behavior is under influence of behavioral intention (Beck & Ajzen, 1991). As this theory postulates the individual(s) motive as an independent or intentional plan to perform a behavior (Beck & Ajzen, 1991). This aspect of intention is most relevant to the auditor(s) intention to perform a dysfunctional audit behavior. For example, when an auditor continues to show strong consent to perform the behavior at a specific time and opportunity, he/she will engage in dysfunctional behavior regardless of its negative consequences or outcomes (Ajzen, 1988).

To state the matter differently, auditors might feel familiar with the client financial system when they conduct an audit of the previous client for many years, they may accept whatever information is available or provided by the client. They might intend to repeat the same behavior every year. In this context, it is very difficult to observe the auditors' intention towards dysfunctional audit behavior over the entire audit engagement. This theory established meaningful links that will help the auditing researcher in measuring behavioral intentions irrespective of behavior itself. To give emphasis to the matter, the Theory of Reasoned Action only works for behavior which is intentional (Ajzen & Fishbein, 1980; Ajzen & Madden, 1986). The auditor's attitude toward a dysfunctional behavior and subjective norm can be used to show behavioral intention to accept dysfunctional audit behavior (Figure 1).

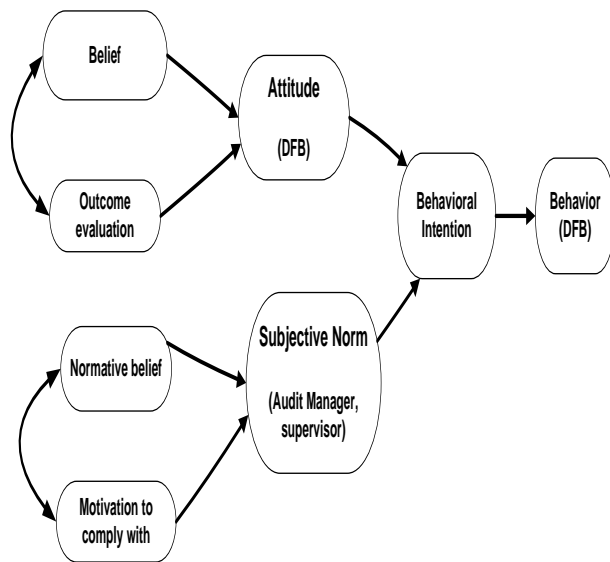


Figure 1 Theory of reasoned action adapted from Icek Ajzen, 1975

### 3.0 DISCUSSION

Much argument has been covered in this article. This article has introduced a Theory of Reasoned Action that has important implications for understanding auditor(s) intention to accept or not to accept dysfunctional audit behaviors. This paper also attempted to demonstrate how a framework derived from Theory of Reason Action can help us better understand why auditors do and do not accept dysfunctional audit behaviors. In spite of this, it is still too early to provide empirical findings to show the usefulness of the application of Theory of Reasoned Action (TRA) in auditing context. The author has used this theory to understand and combine the findings of a number of previous studies which has applied this theory in different organizational setting. According to this theory, an underlying foundation of beliefs about the behavior, behavioral beliefs and normative beliefs can be provided by the Theory of Reasoned Action.

Since behavioral realization depends on intention rather than in relation to actual performance, studying auditor (s) beliefs (behavioral and normative), which are deep-rooted in cognition of the individual, helps explain how these beliefs drive the behavioral intention of auditor to accept dysfunctional audit behaviors, ultimately damage audit quality and firm prestige. Fishbein and Ajzen (1975) affirmed that when these two main beliefs are adhered to, the attitude–behavior

association becomes stronger, if the attitude that led the auditors' to have behavioral intention to engage in dysfunctional audit behavior is identified. Also, once the relative importance of the attitude and normative beliefs have been located, remedial steps or safeguards can be placed to bring change in these beliefs into a negative attitude or negative normative belief.

Hence, subsequent changes in the behavior will be inevitable when changes in these beliefs occur (Noor & Mohd, 2008). For instance, it is relatively important to encourage auditor(s) to change positive beliefs to negative beliefs about dysfunctional audit behavior. Aisyah (2004) mentioned that beliefs, evaluation process, and existing attitudes are stored in the human brain. The individual can alter or change all three aspects by evaluating alternatives available to them, and by following the appropriate action to reach at a satisfactory level. This satisfaction will reinforce the belief and attitude towards making a choice to buy a specific product... (p. 80). Therefore, it is worth noting that auditors can modify or adjust their positive beliefs to negative belief towards dysfunctional audit behavior. In the same vein, an auditor who is more tempted toward a particular behavior by his focus group or referent (e.g., audit partners, supervisor or manager) 'attention' should be given to them.

### 4.0 CONCLUSION AND RECOMMENDATION

It is evident, based on the discussions presented in this article, that there is a need for further research in auditing environment as shown by our literature review and some cited real case examples where the theory has been applied. Basically, this study tried to open a new frontier in the field of auditing as it relates to dysfunctional audit behavior from a behavioral intention perspective. The proposed theory has been shown to be of great benefit to auditing researchers who wish to understand and examine the auditor (s) intentions to engage in various types of dysfunctional audit behavior. In addition, this theory also aids auditing researcher or practitioners to predict the causes of the existence of such behaviors in audit setting. Although previous research and empirical studies affirm to the existence of these dysfunctional audit behaviors, most of them were concerned with environmental factors such as time budget pressure, leadership influence, audit tenure, and client familiarity. None of the studies looked into behavioral intention of auditor (s) to perform in dysfunctional way.

The ultimate goal of this article is that the dysfunctional audit behaviors might be properly handled by ensuring an unbiased and fair type of auditing process. It is pertinent to provide auditor(s) with new information and guidelines, or ethical code of conduct in order to influence a change in their behavioral beliefs by the estimate of their own future behavior. The paper recommends that auditors should be educated on the negative consequences of dysfunctional audit behaviors and be clearly made to understand how these actions do not only affect their professional behavior but also the goodwill of the audit profession.

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