

**DYSFUNCTIONAL AUDIT BEHAVIOUR AMONG ACCOUNTING
UNDERGRADUATES DURING INDUSTRIAL TRAINING: CASE OF *HALATUJU 2*
COHORTS**

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Abstract: This paper examines incidence of dysfunctional audit behavior (DAB) amongst Accounting undergraduate students who have just undergone a six months industrial training attachment with an audit firm as part of the graduation requirement under *Halatuju 2*. Results based on 106 responses show a low correlation between DAB and time budget pressure but a significant relationship between DAB and moral intensity with types of firms for industrial training. Students who underwent industrial training with the Big 4 appear to have higher moral intensity and engage less in DAB acts. Results suggest that exposure to an Ethics course could mitigate propensity to engage in DAB. Additionally a factor to consider is that students' oral communication apprehension could contribute to incidence of DAB among audit trainees.

INTRODUCTION

Auditors in Malaysia have to undergo a relatively long gestation period before they can qualify themselves as a public accountant. There are several alternative routes available to qualify oneself as an accountant, one of which is to enroll in an accounting degree program at one of the local public universities (IPTA's) whose accounting degrees are recognized for purposes of registration, by the Malaysian Institute of Accountants (MIA). The curriculum of the Accounting programme of all IPTA's has been standardized by the Ministry of Higher Education under the *Halatuju 2 Report* (Ministry of Higher Education, 2007). The curriculum mandates accounting undergraduates to undergo an attachment with an audit firm for six months after completing 60 credit hours of courses. One of the learning outcomes of the industrial attachment is that students would be able to demonstrate behavior consistent with professional ethics and social responsibility.

In practicing as public accountants, auditors in Malaysia are required to comply with extant auditing standards and the Code of Ethics approved by MIA to ensure a minimum quality of work is performed. As auditors give assurance to the subject of an audit, the quality of the assurance process can affect the credibility of the audited subject such as financial statements. Prior studies have shown that the quality of audit could be adversely affected by poor quality audit performance because of actions such as not gathering sufficient audit evidence, omitting certain procedures and underreporting of actual time spent on the job. Such actions during the audit evidence accumulation process are termed as dysfunctional audit behavior (DAB) resulting in an ineffective audit and could lead to an inappropriate conclusion and therefore poor audit quality (Kelley and Margheim (1990), Otley and Pierce (1995), Willett and Page (1996). Incidence of DAB has been empirically reported in Ireland among audit trainees (Pierce and Sweeney, 2010), audit supervisors (Hyatt and Taylor (2012) and members of public accounting firms in Mauritius (Soobaroyen and Chengabroyan, 2006). In Malaysia, there are limited published studies on DAB (Nazli et al, 2010, Paino et al., 2010, 2011). Whilst these studies examined managers, supervisors and auditors in full time employment, no published study has examined the incidence and extent of DAB among auditors who are first timers in an audit environment undergoing a compulsory industrial training sandwiched between their academic semesters. Audit trainees have been found to experience a huge time budget pressure (Pierce and Sweeney, 2010) which could increase DAB. Tsui (1996) suggests that the ethical reasoning levels of trainees need to be considered in explaining DAB. Given that the first full cycle of *Halatuju 2* has just been reached and the availability of limited research on DAB among audit trainees from IPTA's, it is timely to consider whether DAB takes place during industrial training or not, the extent of DAB among trainees and possible factors that could be associated with DAB. It is therefore the objective of this paper to examine the type and extent of DAB among audit trainees who have undergone the curriculum designed by MOHE. Specifically the paper aims to examine whether type of audit firm, time budget pressure and personal characteristics of gender and ethical reasoning among accounting undergraduates as trainees doing their industrial training are associated with DAB. The results of the study will not only contribute to the knowledge base of DAB but can also be a timely input to MOHE as a Task Force *Halatuju 3* has been formed to reassess the impact and effectiveness of *Halatuju 2* in producing accounting graduates possessing ethical reasoning abilities associated with being professional accountants. The current study extends prior research on dysfunctional audit behavior by incorporating organizational and personal variables associated with this behavior (Donnelly et al., 2003), as

well as individual characteristics of moral reasoning level and gender as potential predictors of dysfunctional behavior among audit trainees. The rest of the paper is organized as follows: the second section provides a literature review and develops the hypotheses, section three explains the methodology, and the fourth section contains the results and discussion and implications for future research.

Literature review

Dysfunctional Audit Behavior

Certain actions of auditors that allow for the opportunity for a substandard audit have been termed dysfunctional auditor behaviors, DAB (Donnelly et al., 2003). It is also referred to as reduced audit quality behavior (Coram et al., 2003), reduced audit quality practices (RAQP), (Malone and Roberts, 1996) or irregular auditing practices (Willett and Page (1996). These dysfunctional audit behaviors has been summarized by Gundry (2006) as comprising the actions of prematurely signing off an audit program step, making a superficial review of client's documents, failing to properly research an accounting principle, failing to pursue a questionable item in the audit, rejecting an awkward item in a sample and accepting weak client explanations. As a result of DAB, the audit process fails to accumulate adequate and reliable audit evidence. This in turn could lead to an ineffective audit as the auditor may reach a wrong conclusion without adequate and reliable audit evidence. Prior studies have documented the types and extent of DAB among auditors at various levels and in several countries for example Herrbach (2001), Coram et al. (2003), Gundry (2006) and Paino et al. (2011). Nazli et al. (2010) found that more than 70% of auditors surveyed committed at least once DAB acts throughout their career.

Otley and Pierce (1996) define premature sign off as the act of declaring that the required audit procedures were performed when it was not performed completely or omitting the procedure altogether. Margheim et al. (1986) disclosed that approximately 60% of responding CPA's did admit premature signing off as a result of time constraints. Willett and Page (1996) found that only 22 percent of the finalists taking the Institute of Chartered Accountants test in England and Wales stated that they had never participated in speeding up of audit testing by irregular methods and Coram et al. (2003) found that almost two-thirds of Australian respondents had "sometimes" performed reduced audit quality practices.

Time budget pressure

Ability to meet budgeted time has been considered a very important factor in evaluating performance and affecting promotion prospects of auditors (Otley and Pierce, 1996; Soobaroyen and Chengabroyan, 2006). These studies have shown that time budget pressure has been increasing over time. Otley and Pierce (1996) found a link between pressures created by audit control systems and dysfunctional audit behavior. They provided evidence that contextual variable, such as budget attainability led to dysfunctional audit behavior, as opposed to just pressure to meet budget. Audit is a business and the audit business has been facing sustained audit fee pressures. Audit therefore has to be tightly controlled to ensure that resources spent on the job are adequate to meet planned level of audit risk making audit time budget more stringent. Hence it is hypothesized that:

H1: there is a positive relationship between time budget pressure and DAB.

Auditors and Ethics

DAB could vary because of different levels of moral intensity of auditors (Coram et al., 2004). Jones (1991) defines ethical decisions as one that is both legally and morally acceptable to the larger community. Jones (1991) describes the phenomenon as moral intensity. For auditors the higher the moral intensity about an issue, the less likely is DAB acts likely to be enacted. Moral intensity comprises the elements of magnitude of consequences, social consequences and probability of effects (Jones, 1991). Since De Angelo (1981) has argued that big 4 audit firms proved better quality audit than non- big 4, it is hypothesized that:

H2: Moral intensity is significantly related to type of audit firm.

H3: Moral intensity is significantly related to DAB

Gender and Dysfunctional Audit Behavior

Several studies have suggested that women in public accounting may be assigned lower ratings for advancement (Anderson et al., 1994) and judged more severely (Fogarty et al., 1998) than men. Maupin and Lehman (1994) found that a high “stereotypic masculine” orientation was positively related to job satisfaction, advancement, and tenure in Big 6 accounting firms. Additionally, Collins (1993) found that female accountants feel higher levels of job related tension than males and that this stress is a major factor in deciding to leave public accounting. In two studies involving accounting students, alumni, and managers, Eaton and Giacomino (2001) and Giacomino and Eaton (2003) found that females were more oriented toward using moral means and serving others than males. Thus, evidence suggests that women’s experiences in the public accounting domain differ from men’s on many aspects: women possess some personal values that differ from men and women are sometimes treated differently in the public accounting workplace and feel greater levels of stress and tension. These findings suggest that gender may be a factor that impacts decision making in some areas of accounting, although the direction of the proposed effect is uncertain. Thus,

H4: Female and male auditors are likely to vary with respect to engaging in dysfunctional audit behavior.

METHODOLOGY

Respondents

The respondents for this study are Accounting undergraduates at Universiti Putra Malaysia, who have undergone a six months industrial training attachment with an audit firm. The study of ethical values among pre-auditors is necessary for both the academic institutions as well as the profession because if DAB does occur at this stage early intervention could help mitigate the problem earlier. Using a purposive sampling approach where a specific predefined group is

targeted as the subjects of the study, 200 students were identified as appropriate student sample. A questionnaire was distributed to the 200 respondents.

Questionnaire

Each questionnaire consisted of three sections. The first section required respondents to indicate the frequency of each type of DAB encountered during their industrial training. Frequency is measured by a five-point Likert scale of 1 (Never) to 5 (Always). Following Otley and Pierce (1996), six types of DAB were listed:-prematurely signing off an audit program step, making a superficial review of client documents, failing to properly research an accounting principle, failing to pursue a questionable item in the audit, rejecting an awkward item from a sample and accepting weak client explanations. The second section required respondents to rate the likelihood of engaging in DAB under a high time budget pressure, based on scenarios created following Gundry (2006). The third section posed questions relating to moral intensity following Coram et al. (2003). Moral intensity is measured by social consensus, probability of consequences and magnitude of consequences . Data was analysed using several statistical tests of t-test, correlation and ANOVA.

RESULTS

Out of 200 questionnaires distributed 106 usable questionnaires were analysed. 81% of respondents are female and 19% male reflecting the preponderance of females in almost every programme in the university campus. 72% of respondents are Chinese, 23% Malays and 5% Indians making Accounting a programme very much sought after by Chinese students. In Malaysia audit firms are classified into three tiers based on size: Big 4, Tier 2 and Tier 3 of small practitioners. Only 14.2 % chose to do their industrial training with the Big 4, 52% in Tier 2 audit firms and the remaining 33% with small audit firms. .

Type and extent of DAB

The computed mean score for each of the six types of DAB are shown in Table 1 below:

Table 1: Mean score of DAB Acts

| DAB ACTS | Mean | Ranking |
|--|------|---------|
| Premature sign-off | 2.61 | 6 |
| Superficial review of clients' documents | 3.5 | 1 |
| Failed to research an accounting principle | 2.75 | 4 |
| Failed to pursue questionable items | 2.8 | 3 |
| Rejecting complex/time consuming items from a sample | 2.73 | 5 |
| Accepting weak client explanations | 3.03 | 2 |

| | | |
|--------------|------|--|
| Overall mean | 2.89 | |
|--------------|------|--|

Based on Table 1 above it can be seen that respondents do engage in all types of DAB acts, the most often being a superficial review of clients' documents followed by accepting weak clients' explanations. However the extent to which DAB is practiced is relatively low with scores ranging from "rarely" to "sometimes" only. As trainees still lack exposure to audit risk environment, it is expected that their job scope is limited to low audit risk areas well within their capacity to complete the job on time. The results are also consistent with earlier findings by Otley and Pierce (1996), Herrbach (2001) and Nazli et al (2010). One possible reason why trainees engage in superficial review of clients' documents has been identified as oral communication apprehension when talking to their supervisors or team members. Fear of being told off could result in students taking refuge by not asking too many questions whilst on the job despite knowing that the issues encountered need to be further investigated. (Borzi et al. 2001). Report that interviews with a small sample of students confirmed this view that trainees are not confident to challenge evidence which they see as doubtful. They would rather keep quiet than pursue the matter. Another possible reason could be that too much document review results in boredom. At audit trainee level reading, examining and verification client documents form a big amount of their job routine. This is confirmed and supported by the reports students submit on what they did daily during industrial training whereby a large portion of their job scope as trainees are very mechanical and repetitive in nature.

Test of hypotheses

A t-test was done on gender differences and DAB. With a p value of .086, the gender factor is not significantly related to DAB. One possible reason could be the overwhelming majority of female population in the respondents of the study, in the faculty and in the university. A one way ANOVA test was carried out to test for relationship between type of audit firm and DAB. Table 2 below shows the results of the analysis:

Table 2: DAB and Audit firm type

| Audit firm | DAB Mean score | SD | F | P value |
|------------------|----------------|--------|-------|---------|
| Big four | 2.5333 | .58146 | 3.862 | .024 |
| Medium tier 2 | 2.9939 | .62687 | | |
| Small audit firm | 2.9028 | .5844 | | |

Based on Table 2 the p-value indicates a significant difference between DAB in Big 4 and non-big-4 firms. Hence the hypothesis of no difference is not accepted. The significant difference could be attributed to the environment in the firms being different. This result is similar to that of the study by Pierce and Sweeney (2010) who found that medium sized firms' interns report a higher intention of engaging in DAB acts compared to big firms' interns. We also tested for the

relationship between moral intensity and type of audit firm. Big 4 firm respondents showed the highest level of moral intensity and the small firms the lowest. The hypothesis of no difference is rejected. According to Pratt and Beaulieu (1992), the ethical environment of audit firms is affected by audit firm type and this finding is also consistent with DeAngelo's (1981) argument that Big4 firms provide better quality audit than the non- big four firms.

In testing for the relationship between time budget pressure and DAB, the study finds that the relationship is not significant based on the Pearson correlation coefficient with r found to be only -0.157. It is possible that the nature of tasks entrusted to trainees is routine matters such as journal vouching, casting and verification. Hence the pressure to complete work on time is not felt or encountered by respondents. In sum the results of data analysis show no significant relationship between DAB and time budget pressure, between gender and DAB. However the relationship between DAB and audit firm type and DAB and moral intensity are significant and supported.

CONCLUSION

This paper reports on a study of DAB among undergraduates who have undergone industrial training for six months in an audit firm to fulfill the graduation requirement of the Accounting degree programme at Universiti Putra Malaysia. The results of the study show that DAB does take place rarely or sometime but never frequently. DAB acts is significantly associated with type of audit firm and level of moral intensity but not significantly related to time budget pressure or gender. Results of this study should be interpreted with caution due to several limitations. First, each subject's reporting of DAB may be under reported as students might not want to be seen doing things considered professionally unethical. Second only one student cohort was selected for the study and later cohorts may exhibit different behavior patterns. The study is based on responses from students at one university only hence future studies may consider extending it to other IPTA's as well as private institutions.

Despite these limitations, this study represents continued efforts into understanding the phenomenon of auditors' dysfunctional behavior. Future studies could build upon this foundation to incorporate additional factors that may affect auditors' dysfunctional behavior such as professional commitments, religiosity and intention to leave employment. Additional research could attempt to link auditors' dysfunctional behaviors with the culture of the firm and the potential pressures that can be exerted on auditors, both internal and external to the firm. Lastly, analyzing potential dysfunctional behaviors in other accounting areas such as tax, managerial, and financial accounting could extend the stream of research while broadening the generalizability of the results, as dysfunctional behaviors are not limited to the auditing realm alone.

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