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2LOCUS OF CONTROL AND REDUCED AUDIT QUALITY BEHAVIOR

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20ABSTRACT The purpose of this study is to examine the effect of audit time
budget pressure and

2locus of control on reduced audit quality behavior. This

study also examines the role of the auditor's locus of control in

9moderating the relationship between time budget pressure and

reduced audit quality behavior.m240 respondents for current study where auditors in Indonesia served as
the sample. Research instruments are developed and managed by site visits or mail services. Multivariate
technique was deployed to data analysis using AMOS - structural equation modeling and Ping method used

to estimate moderating effects estimation. The results of this study indicate that the reduced audit quality behavior occurs in the audit assignment practices and this is becoming a concern in audit profession. Research finding statistically highlighted that

3there is a positive and significant relationship between time budget pressure and

19reduced audit quality behavior. Locus of control is not directly related to

reduced audit quality behavior.

26The interaction between the locus of control and the audit

3time budget pressure has a significant effect on the

reduced audit quality behavior. Participated auditors in this research are categorized the as auditors performed in small and medium scale public accounting firms. Yet, present study has not covered all the characteristics of the auditor's work environment and other natures that may have an impact on the auditor's acceptance of the reduced audit quality behavior. Future research is expected to expand the research area on large-scale public accounting firms This study has deployed locus of control as a moderating variable in terms of

4time budget pressure and reduced audit quality

behavior. Key words:

4Audit Quality, Time budget pressure, Locus of

control, Reduced Audit Quality Behavior. Cite this Article: Manatap Berliana Lumban Gaol, Imam Ghozali, Fuad, Time Budget Pressure, Auditor

2Locus of Control and Reduced Audit Quality Behavior. International Journal of

Civil Engineering and Technology, 8(12), 2017, pp. 268–277. <http://www.iaeme.com/IJCIET/issues.asp?JType=IJCIET&VType=8&IType=12> 1. INTRODUCTION TO RESEARCH Audit is basically categorized as a double agency relationship (1). The first agency relationship was linked among those concerned with the financial statements and the public accounting firm (1). Users of financial statements (principal) highly depend their expectations and rely on generated public accounting firm (agent) opinion. They absolutely have no access to the accounting information system neither of the company to audit working performance (2). The second agency relationship involved the public accountant firm (partner) and the employee or

auditor (1) . This second relationship is involved in audit offerings and the creation of audit work within the company, it could be stated that partners and auditors have a specific role in the settlement of audit engagements. These situations led to create serious conflicts for audit firms such as, competition and legal issues(1). Similar to other business organizations, public accountant also managed

9costs and maximize efficiency in order to remain competitive

and

6the potential for conflict between the need to reinforce high professional standards and maintain the

survival of public accountant (3) . Previous research has been highlighted the difficulties to attain the right equivalency between

6audit cost control and maintaining a high level of quality in

public accountant(4) .

6Previous research has also shown that auditors sometimes respond to conflicts between cost and quality by engaging in

behaviors that threaten audit quality such as manipulating time to reduce quality of work

27(Pierce & Sweeney, 2004; Gundry & Liyanarachchi, 2007) Audit functions as a

corporate governance system and therefore, the audit quality must be maintained (7). Audit quality is a fundamental element that explains the demand of audit services . Meanwhile, audit quality cannot be verified by

18users of other financial information so any consideration regarding the value of the audit is based on the

auditor's perception (2) .However, previous research results on the accounting profession indicated that the work performed by the auditor was not always in the right standards, which is a threat to the quality of audit (Coram, P. & Woodliff, 2003 ;Soobaroyen & Chengabroyan, 2006 ; Ling & Akers, 2010). Any behaviors or actions of auditors that are not always in the right standards during the course of the audit program will

10threaten the quality of the audit, the validity of the opinion

and the behavior is categorized as reduced audit quality behavior (Pierce & Sweeney, 2004 ; Ling & Akers, 2010).. Reduced audit quality behavior is auditor's actions taken to reduce the effectiveness of gathering evidence during the involvement in the audit process (Coram, P. & Woodliff, 2003 ;Shapeero, Koh, & Killough, 2003;McNamara & Liyanarachchi, 2008) . The main factors that resulted in auditor acceptance

29of reduced audit quality behavior were time budget pressure

(Kelley & Margheim, 1990 ;Coram, P. & Woodliff, 2003 ;Pierce & Sweeney, 2004 ;Soobaroyen & Chengabroyan, 2006 ;McNamara & Liyanarachchi, 2008 ;Kelley & Margheim, 1990). They stated that the audit time budget had a potential effect in creating pressure (10) . This, due to the audit time budget is

4not only a control mechanism but also as a performance

appraisal tool for public accountant .(Pierce & Sweeney, 2004 ;McNamara & Liyanarachchi, 2008) Time budget pressure had the potential effect of increasing the stress of individual auditors (12). The stress experienced by individual auditors will have an impact on behavior individuals (13). Individual auditors will fall into the choice of dysfunctional behavior when under stress conditions resulting from time budget pressure (12) . Previous studies have been documenting that high

3time budget pressure has a positive and significant effect on

reduced audit quality behavior such as premature sign off (Paino, Smith, & Ismail, 2012 ;Yuen Desmond, K.F, Chan, & Jie, 2013). In contrast to previous studies, auditors in Australia found that the high time budget pressures perceived by auditors were negatively and significantly related to reduced audit quality behavior performed by auditors (7). Other

9studies have also shown that time budget pressure is not related to

reduced audit quality behavior (16). Behavior is also not only influenced by standards, accountability, cognitive moral development and moral issues but also by differences in individual characteristics . Transactional process theory claimed that individual behavior should be understood by evaluating the interaction between individual factors and certain stressful situations (McNamara & Liyanarachchi, 2008 ;Lazarus, 2006). This perspective reveals that the relationship between individuals and their environment is not static but dynamic, depending on the particular situation and personal context in interpreting the situation (17) . Referring to accounting research in the field of audit, some researchers have linked the nature of individual locus of control to the behavior of auditors and how they perceived the situation (Spector E, 1988 ;Paino et al., 2012 ;Donnelly, Quirin, & O'Bryan, 2003)1) argued

5that locus of control is an important attribute to determine the attitude of individual auditors in an

audit work environment. Individual's

7 locus of control played an important role in the performance of tasks in

the workplace (20). The focus of control has been defined as

21 the extent to which individuals believe they have control over their own

destiny (20). Spector E (1988) defined locus of control as an individual's belief in his control over the environment e.g.; whether appreciation, strength or success in life is controlled by actions that come from themselves or derived from individual outside factors.

4 The purpose of current study is to examine the relationship of budget time pressure audit

on reduced audit quality behavior and the affect of locus of control served as moderating on the relationship. The model used Ivancevich and Matteson's Organizational Stress Model models. Present study, the variable of budget time audit has been selected to represent one of several causes of stress within the organization in accordance with the belief in the profession in the field of accounting. Current study does not discuss the causes of organizational outside stress.

2. LITERATURE REVIEW AND HYPOTHESES

2.1. Reduced Audit Quality Behavior

Reduced audit quality behavior is defined as a deliberate act by the auditor during his involvement in the audit process which reduces the effectiveness of gathering audit evidence (7) so that the evidence collected is unreliable, false or inadequate both quantitatively and qualitatively (1) even affected overall company performance and economic user decisions (21). In this study the reduced audit quality behavior examined as a premature sign off audit procedures, reduced audit work from what should be done, not investigating the suitability of the client's accounting treatment, a poor review of client documents, accepting an inadequate or poor client explanation. The reduced audit quality behavior is also identified as the most unethical behavior (8). Where such actions were not aligned with the provisions and rules of the professional auditing standards and applicable policies, lack of honesty and integrity by presenting false data, and manipulating performance report assignments, which affected audit quality degradation (22). Reduced audit quality behavior is considered a coping mechanism and a method to adapt certain situations perceived by auditors in their work (1). Several previous studies on reduced audit quality behavior were directly related to auditors' perceived perceptions related to time budget constraints in completing audit work (Kelley & Margheim, 1990 ;Otley & Pierce, 1996 ;Soobaroyen & Chengabroyan, 2006). Furthermore, given that the public accounting encountered an increasingly competitive environment in which the audit efficiency is demanded, the constraint of audit time budget led to the possibility of reduced audit quality behavior still remained a problematic. Furthermore, Yuen Desmond et al.(2013) said that the practice of reduced audit quality behavior arisen from the nature of stress on auditors' duties which affected the auditor self-efficacy. Malone & Robbin, (1996) stated that individual behavior reflected individual personality factors of auditors and situational factors. Thus, the tendency of auditors to engage in reduced audit quality behavior could be attributed to the auditor's personality characteristics(11).

2.2. Time Budget Pressure and Reduced Audit Quality Behavior

Auditor involvement in auditing tasks is often subject to time constraints. Time constraints often affected the accountant behavior. Accounting profession seeks to control audit quality through standards and guidelines. However, audits were conducted within the time constraints and the public accountant firm applied them through the audit time budget. The audit time budget is estimated time allocated for audit tasks performance in an audit assignment (12). Time budgets are arranged in detail for each stage of audit procedures (10). Fee from clients and budget realization of previous year audit time is

the basis used by public accountant firm in setting the budget time (5). The time budget is the basis for estimating or estimating audit fees, allocating audit personnel and evaluating the performance of personal auditors (9). Since the time budget is likely to be based on the type and extent of audit procedures required, lower audit costs could lead to the tension between cost and audit quality(10) . If the tension is translated into the tightness of the time budget, it will direct the personnel who performed investigation under pressure to meet the budget, thus jeopardizing the auditor freedom level in performing standard audit procedures (10) (7)(5), Yuen Desmond et al. (2013)Yuen found

25a positive and significant influence between time budget pressure and reduced audit quality

behavior. It showed that the higher time budget pressure perceived by auditor would impact on the high acceptance of auditors for reduced audit quality behavior as a form of coping (coping) conducted. Thus, based on the theoretical studies and earlier empirical findings above, the proposed hypothesis is as follows: H1:

3Time budget pressure has a positive effect on

reduced audit quality behavior 2.3.

12Locus of Control and Reduced Audit Quality Behavior

12The role of personal characteristics in

the workplace is very important, due to that all workers have their own personality type and personality help to predict and explain behavior in the workplace (Lopez, D & Peters, 2012 ;Robbins, 2003). The individual personality was greatly determined how well he or she adapted with the demands and needs of the environment (17). Factors that affected personality according to Robbins, (2003) namely heredity, environment, and the latter is situational conditions. Therefore, each individual could have different views in tackling events, pressures and work environment situations (13). The previous study proved that the strongest individual character factor for predicting / explaining individual behavior in organizational settings was the locus of control (Robbins, 2003 ;Donnelly et al., 2003) (Robbins, 2003; Donnelly et al., 2011). Locus of control was predicted to characterize individual personalities that contribute to achieving better work performance . Locus of Control was firstly developed by Rotter in 1966. However, Rotter's locus of control measurements was not generally applicable. Rotter focused more on political domains, social relations, and life in general rather than work-oriented instruments. On the other hand, (18) tried to develop a locus of control scale called WLCS where he used locus of control measurements with 16 question items and had been shown to have a strong size and matches work-related stress results

14(Donnelly et al., 2003 ;Shapeero et al., 2003).

Locus of control could be defined as to what extent person is involved with the influence of self-control to produce an attitude and behavior (17). That is, individual

5success in tackling a particular **situation will** depend **on their own** control **or controlled by external forces** (19). When **individuals**

perceived that they could control the situation, then it is unlikely that the situation would be seen as threatening or stress inducing . Commonly, Locus of control measurement scales were

12internal locus of control and external locus of control(

Spector E, 1988

31;Donnelly et al., 2003) . Internal **locus of control** is a

proactive,

1goal-oriented person, **believing that they** could **directly influence the outcome of the assessment or decision process**

. Persons with internal Locus of control would seek

1information and alternatives that they believed **will lead to more favorable**

outcomes and would allocate more cognitive effort to achieve the highest levels they expected from performance and they also demonstrated high performance motivation, more achievement and more leadership qualities . The external locus of control is a

1more passive person and they prefer a **structured** situation, **believing that other people or aspects of the situation** as the

foundation that determines the outcome . This means

28that **individuals with** external **locus of control** are more

contextual in determining process and outcome, less personal . Furthermore, the external considered that the outcome of their actions is more due

1to the **decisions and behaviors of superiors,** co-workers **or**

opportunity rather than "in control" but they were controlled . So that the private auditor who owns an external locus of control enhance to gain greater acceptance and action

5to manipulate the audit process in order to achieve individual performance

goals (Donnelly

17et al., 2011). The special nature of the locus of control

showed the fundamental differences between individuals and was strongly related to the potential of individual feelings . The level locus of control of a person is crucial to the individual's success in dealing with a particular situation or stress (19). The locus of control within the individual auditor would be able to moderate the strength of the relationship of events, pressures or specific situations and the perceived demands of the environment in determining the behavior of individual auditors within the organization (13) . In the audit environment the role of Locus of control was still very limited to be considered in determining the behavior of auditors

14(Donnelly et al., 2003 ;Shapeero et al., 2003 ;Paino et al.,

2012). Several previous studies have found that individuals who possessed Locus of control were positively and significantly encouraged auditors to engage in audit quality audit behavior (D. P Donnelly et al., 2003 ;Shapeero

10et al., 2003 ;David P Donnelly, Quirin, & O'Bryan,

2011). Meanwhile, auditors with

24internal Locus of control properties are considered less likely to accept

reduced audit quality behaviors (14). In other words, locus of control is very relevant in explaining the differences in why some people are more effective than others in dealing with and managing stressful situations . Therefore, based on the aforementioned theoretical studies and empirical findings, this to propose the

8following hypothesis: H2: The locus of control (external) positively affects the

reduced audit quality behavior. H3:

8Locus of control moderates the relationship between time budget pressure and

reduced audit quality behavior. 3. RESEARCH METHOD 3.1. Data Collection and Sample The auditor worked at the Public Accountant in Indonesia which registered in the directory of the Indonesian Institute of

Public Accountants in 2016 served as the research population. 240 respondents served as sample where has met sample adequate 5 times multiply of 23 indicators, referring to Maximum Likelihood Estimation Structural Equation Modeling (24). Judgment sampling method is used as sample selection, with selected junior and senior auditor. The consideration (19)(14) is that auditors at this level are the most stressful and most vulnerable staff to conduct reduced audit quality behavior (Kelley & Margheim, 1990 ;McNamara & Liyanarachchi, 2008). 3.2. Measurement This research applied three constructs, namely time budget pressure as an exogenous variable with 3 instruments (Otley & Pierce, 1996;Pierce & Sweeney, 2004;Soobaroyen & Chengabroyan, 2006) locus of control as a moderating variable with 16 instruments (Spector E, 1988;D. P

10Donnelly et al., 2003;Paino et al., 2012);

and reduce audit quality behavior as an endogenous variable with 5 instruments (Coram, P. & Woodliff, 2003;Margheim et al., 2005;Gundry & Liyanarachchi, 2007) Likert scale with a score of 1 to 5 is used as questionnaire measuring method. Statistical Analysis Data analysis was performed with confirmatory factor analysis (CFA) estimation to assess dimensionality (validity and reliability), and two-stage moderated structural equation modeling (MSEM) for hypothesis testing. The first stage is to calculate the indicator, loading factor and error variance of interaction variables. Interaction variable indicator is obtained from multiplication of sum result of indicator of exogenous variable and moderating variable. Loading factor interaction variables are obtained from the equation:

$$13?X*Z = (?X1+?X2)(?Z1+?Z2+...+?$$

Zn) For variance error is obtained from the equation:

$$13?X*Z = (?X1+?X2)^2\text{Var}(X)(?Z1+?Z2+...+? Z_k) + (?Z1+?Z2+...+? Z_n)^2\text{Var}(Z)(? X1+?X2) + (?X1+?X2)(?Z1+?Z2+...+?$$

Zk) The second stage is to analyze all the variables that affect the endogen include the interacted variables (25).Anderson & Gerbing (1992). stated that setting parameter values on SEM is not a problem that can cause estimation to be biased, provided that latent variables are unimportant and not multi-dimensional (second order factor). The calculation of CFA and MSEM in this research is run through the program of AMOS (Analysis of Moment Structure) version 22. 4. RESULTS 4.1. Descriptive The total sample, as many as 240 respondents have been adequate and meet the minimum sample required for research using structural equation data analysis. Descriptive demographics explain the age of respondents in the range of 23-42 years with an average of 29.79 years. Educational level of undergraduate auditors 83.8% and post-graduate 16.2%, work experience between 2-18 years with an average of 5.25 years. Respondents contributed in junior auditor position 75.8% and senior 24.2%. Participated auditors work for small and medium-sized public accountant firm and is not affiliated with a foreign public accountant firm. 4.1.1. Reliability and Validity

22Confirmatory factor analysis (CFA) is used to test the uni -dimensionality of the constituent dimensions of

each latent variable. Convergent validity test results showed some research items are invalid because loadings factor <0.5 , i.e. 12 locus of control items and 2 items reduce audit quality behavior. The reliability test of the remaining items using construct reliability (CR) at the press release time could be accepted with $0.6 < CR < 0.7$, whereas the locus of control and reduce audit quality behavior are satisfied $CR > 0.7$. Table 1 describes the results of validity and reliability testing. Confirmatory factor analysis meets Goodness of Fit Index with

23 $GFI = 0.964$; $AGFI = 0.932$; $TLI = 0.964$; $CFI = 0.$

976; $CMIN / DF = 1,776$; $RMSEA = 0,057$, whereas $X^2 = 42,626$; $Df = 24$; $P = 0.011$ marginally is accepted (Hair et al., 2013). Table 1 Testing Validity and Reliability Construct/Items Factor loading Time budget pressure (2 items) Locus of control (4 items) Reduce audit quality behavior (3 items) 0,658-0,707 0,647-0,932 0,602-0,795 Source: Data Analyzed (2017) CR 0,636 0,886 0,720 4.2. Test of Structural Relationship The second stage after determining the validity and reliability is used moderated structural equation modeling to assess the structural relationship between constructs. The overall fit of the model with the interaction variable after modification of the model by making the covariance line has fulfilled the acceptance requirement, with $GFI = 0.970$; $AGFI = 0.937$; $TLI = 0.987$; $CFI = 0.993$; $CMIN / DF = 1,520$; $RMSEA = 0,057$, whereas $X^2 = 42,626$; $Df = 24$; $P = 0.011$ received marginally. The result of structural model estimation of first step and second step in MSEM can be explained as follows: $RAQB = 0,237 TBP + 0,079 LOC$; $Errorvar.=1,00$; $R^2=0,063$ $RAQB = 0,270 TBP + 0,025 LOC + 0,015 TPB*LOC$; $Errorvar.=1,00$; $R^2=0,21$ Where: (1) (2) TBP =Time Budget Pressure; LoC =Locus of Control; RAQB: reduce audit quality behavior 4.2.1. Hypotheses Testing H1 is accepted by showing a positive

30 **influence of time budget pressure on reduce audit quality**

behavior with value? = 0,270, p-value = 0,003. Testing H2 showed the locus of

33 **control has no a significant effect on reduce audit quality behavior**

with ?=0,025 and p- value=0,733, this to claim that H2 is not supported by empirical data. Testing H3 on external

17 **locus of control moderate the relationship between**

time budget pressure with reduce audit quality behavior can be accepted at ?= 0,015 and p-value = 0,002. In accordance of the test, locus of control is not related to reduce audit quality behavior, while its interaction with time budget pressure proved to have significant effect; this to conclude that locus of control is pure moderating (Sharma 1996). 5. DISCUSSION The high time budget pressure perceived by the auditor leads to higher acceptance of auditor staff for reduced audit quality behavior. The budgetary time of audit increases the level of passion and stress and has a number of impacts on decision-making behavior such as accelerating

11 **efforts to assimilate information, shifting strategy used and information**

process constrain (27). Time budget pressure could even lead auditor falling into higher levels of stress and cognitive impairment leading auditors to encourage to a dysfunctional performing such as reduced audit quality behavior(12) . Based on the transactional theory, the handling of an event can be categorized into a problem focus coping or emotion focus coping. At the level of pressure or high stress, emotion-oriented coping begin to dominate. Emotion-focused coping is a dysfunctional mechanism that emphasizes defensive behavior or stress-avoidance behaviors. Based on this theory, the high time budget pressure perceived by the auditor in the implementation of audit procedures causes the auditor to modify its actions by more likely to perform dysfunctional audit actions such as the behavior of reducing audit quality rather than functional audit actions (e.g. requesting additional audit time budgets or re-scheduling audit procedures). The reduced audit quality behavior as a coping to the time budget pressure in completing the audit task. This could be interpreted that when the auditor perceive the execution of the audit task is not possible to be completed or very difficult within the budget constraints, the auditor tends to modify his attitude to overcome the time budget by skipping the steps such as conducting the reduced audit quality behavior during audit program implementation. This was aligned with McNamara & Liyanarachchi (2008) claimed that auditors have a tendency

4to reduce the quality of audit work when encountered with

a strict budget audit time and probably apply both functional and dysfunctional ways to cope with audit time budget pressures. From the result of moderated structural equation modeling (MSEM) test, it is found that the

11interaction between time budget pressure and locus of

control (external) has a significant effect on reduced audit quality behavior. This could be proven from the estimation result of estimate 0,015, critical ratio (CR) equal to 3,122> 1,96 and probability 0,002<0,05. Locus of control (external) has no effect on reduced audit quality behavior. This to prove that estimate outcomes over estimate value 0.025, critical ratio (CR) of 0.341> -1.96 and probability 0.733. Where the probability value of 0.733 obtained from the analysis is much greater than the confidence level set that is 0.05 From the analysis result, it is found that

32locus of control (external) is not related to

the reduce daudit quality behavior but interact directly with the time budget pressure variables in influencing reduced audit quality behavior. Thus the locus of control (external) moderator variable has no function as a predictor or independent variable but as pure moderator(28) . The amount of influence of time budget pressure and locus of control (external)simultaneously to reduced audit quality behavior before added interaction variable is equal to 6, 3%. Having added a large interaction variable of simultaneously effects increased to 21%. Thus if the external locus of control is interacted

11with time budget pressure will have an impact on the high acceptance of

the auditor against the reduced audit quality behavior. 6. CONCLUSIONS The results of this study provide empirical support for work stress literature which states that stress experienced by individuals in the working environment could decrease individual performance, and to overcome the decrease in performance

individuals might be tempted to perform dysfunctional behavior such as reduced audit quality behavior . This result is also aligned with the theory of the transactional process that individual auditors will seek coping to reduce the perceived gap between situational demands and personal resources (17). The results of this study supported some previous studies (Coram, P. & Woodliff, 2003;Pierce & Sweeney, 2004;Gundry & Liyanarachchi, 2007) that found a positive and significant influence between time budget pressures with reduced audit quality behavior.

8Locus of control (external) moderated the relationship between time budget pressures and

reduced audit quality behavior. Testing results came up

8that Locus of Control (external)strongly affected the relationship between

19time budget pressures on reduced audit quality

behavior. Locus of control (external) was not directly related on reduced audit quality behavior. Thus, Locus of control (external) as moderating has no function as predictors or independent but serves as pure moderator.

3The findings of this study have some implications for the

management of the public accountant firm and the public accounting profession organizational that the control factor of individual auditors has an influence on individual auditors behavior, thus, it would be better for the management of the public accountant to firstly consider the tendency of the nature of

7individual auditors' locus of control. The management of the

public accountant office is recommended to provide training for

7auditors who have an external locus of control as a

form of training that emphasizes on improving the quality of audit program implementation. Implementation of these activities repeatedly is expected to reduce the tendency of

7auditors who have external locus of control

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2Locus of Control and Reduced Audit Quality Behavior

Manatap Berliana Lumban Gaol, Imam Ghozali, Fuad Time Budget Pressure, Auditor

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