



**International Virtual Colloquium on
Multi-disciplinary Research Impact (2nd Series)**

Organised by Research Nexus UiTM (ReNeU)
Office of Deputy Vice Chancellor (Research and Innovation)
Universiti Teknologi MARA 40450 Shah Alam, Malaysia, 15 Oct 2021



Effect of Demographic Factors, Occupational Stress and Job Satisfaction on Dysfunctional Audit Behaviour among Auditors

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Abstract

This study aims to examine the factors of dysfunctional behaviour among auditors in Malaysia. Factor analysis was employed to analyse three factors (1) demographic factors (a type of firm and period of audit experience), (2) Occupational stress (time budget pressure and complexity of audit task) and (3) Job Satisfaction that affects dysfunctional audit behaviour which is reduced audit quality and underreporting time. A questionnaire was distributed among 223 respondents employed by the Big 4 and non-Big 4 audit firms located in Kuala Lumpur and Selangor. The findings revealed that all the tested variables have a significant influence towards reduced audit quality, whereas underreporting time show a non-significant relationship with demographic factors. The findings are anticipated to provide beneficial insights not only to audit practitioners but to many other regulators, professional bodies, policy makers, practitioners and academics that are relevant to their future decisions. This study is also subject to limitations that serve as consideration for future research.

Keywords: Dysfunctional Audit Behaviour; Audit Behaviour Factors; Fraud Detection; Audit Quality

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DOI: <https://doi.org/10.21834/ebpj.v7iSI7.3886>

1.0 Introduction

Audit quality plays an important role as it will influence the opinion on the financial statement. Dysfunctional audit behaviour (DAB) is an auditor's behaviour that may directly or indirectly influence the quality of the audit, which then fails the company (Donnelly, Quirin and O'Bryan, 2011). Moreover, dysfunctional behaviours are observed as normally being displayed through numerous adverse behaviours, such as signing off an audit programme without completing the task or skipping an audit step, highlighting its omission and failing to make follow-up recommendations of the audit (Johari, Hairudin & Dawood, 2022). DAB leads to serious effects on audit firms. For instance, the audit firms may be unable to generate expected revenue, completely professional and quality work on a timely basis and evaluate employee performance inaccurately (Nehme, Michael & Haslam, 2021). Hence, it will also give a bad impression to the audit firms as the quality of the financial statement is very important.

This study is both timely and significant because it will increase the awareness of Malaysian-related bodies, the Malaysian Institute of Accountants (MIA) and the Practice Review Committee (PRC). The function of MIA is to act as policymakers, while PRC is a body that will focus on the impairment of audit quality and dysfunctional audit behaviour (Audit Profession in Malaysia, 2018). From the result of this research, it will be easier for the audit firm to understand the dysfunctional audit behaviour and the implication of this harmful

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DOI: [https://doi.org/10.21834/ebpj.v7iSI7%20\(Special%20Issue\).3886](https://doi.org/10.21834/ebpj.v7iSI7%20(Special%20Issue).3886)

behaviour. Thus, this study aims to identify the determinant factors that may lead to this dysfunctional audit behaviour and is expected to give a contribution to both the behavioural and auditing literature.

2.0 Dysfunctional Audit Behaviour

Dysfunctional audit behaviour is described as a behaviour contributing to reduced failures of audit work and subsequently reducing the audit quality (Ridaryanto, Ghozali, & Purwanto, 2017). In the audit context, dysfunctional audit behaviour is the act of manipulation or fraud committed by the auditor. As such, the auditor's dysfunctional behaviour could manipulate the audit quality programs and regulations that have been established (Donnelly et al., 2011; Johari et al., 2022). Broberg, Tagesson, Argento, Gyllengahn & Mårtensson (2017) argued that auditors that do not maintain scepticism or make professional judgments make the audits less qualified. The request for audit services is due to the element of quality, where the auditor will be expected to produce quality audited financial statements (Chen, Ding, Han & Zhou, 2020). Reduce audit quality (RAQPs) is defined as a pretence act by the auditor during the involvement in the audit process, which reduces the effectiveness of gathering audit evidence (Johari et al., 2022). This makes the evidence collected by the auditor as unrealisable, false and also inadequate both quantitatively and qualitatively. It will affect the overall company's performance and external user decisions. RAQPs can consist of premature sign-off, the acceptance of weak client explanations, superficial reviews, failure to conform to accounting principles and the omission of audit steps. RAQPs may threaten audit quality and fair presentation of financial statements (Herda, Cannon & Young, 2018). These two elements are important as the report will be used by the external parties in order to make an important decision. Premature sign-off (PMSO) is a condition that indicates the auditor to stop one or more of the required audit steps in the procedure without replacing the others. Underreporting of audit time (URT) has also been evidenced to indirectly influence the audit quality (Donnelly et al., 2011). URT occurs when auditors fail to report the total hours worked while performing the audit work. Shapeero, Koh and Killough (2003) highlighted that the inaccurate computation of working hours might result in the firms' non-monetary losses, although the audit fee is being charged based on the utilisation of chargeable hours. In other words, an auditor that does not manage to achieve the time budget will tend to utilise personal hours that will not be chargeable. Besides that, the auditor might also tend to charge the working hours to a different client or extra hours to other audit tasks in the same audit works.

2.1 Demographic factors and Dysfunctional Audit Behavior

Firm type may influence auditor behaviour directly or indirectly. Abid, Shaique, and Haq (2018) stated that Big 4 auditors provide enhanced quality audits than non-Big 4 auditors. One of the reasons suggested that the Big 4 auditors might have greater incentives due to higher competency compared to non-Big 4 (Millán, Ortín-Ángel, & Sundgren, 2016). There are mixed findings on the relationship between auditors' experience and ethical decision-making. Some empirical research on underreporting chooses the population of pre-manager level auditors. This is due to the higher-level auditors, i.e. an associate auditor and senior associate, having been found to engage in higher levels of underreporting behaviour (Johari et al., 2022). However, Donnelly et al. (2011) found that the experience level to be negatively associated with dysfunctional audit behaviour (including underreporting time). Previous studies suggested that auditors with greater audit experience are more likely to recognise the impact and consequences of dysfunctional audit behaviour (Shapeero et al., 2003; Donnelly et al., 2011). The number of audit sections covered by junior auditors is usually limited, such as cash and bank balances and accounts payable. Most of them are only concerned with completing their assigned audit areas and ensuring that the audit work is done within the time budget allocated and are less concerned with the overall audit process (Herda et al., 2018). Different from the higher position such as partners and managers who are more concerned with the whole perspective of their audit portfolio. Accordingly, more experienced auditors are better aware of the risky effects of reduced audit quality in relation to less experienced auditors.

Thus, based on the above arguments, the proposed hypotheses are as follows:

H1: There is a relationship between firm types and dysfunctional audit behaviour.

H2: There is a relationship between audit experience and dysfunctional audit behaviour.

2.2 Time Budget Pressure

The time budget is the basis for estimating the audit fees, allocating audit personnel and also to evaluate the performance of the person in charge (Shapeero et al., 2003). Lower audit costs will make the budget time pressure higher, and this could lead to the stress between cost and audit quality (Nehme et al., 2021). If the stress changes to the tightness of the time budget, it will direct the auditor to perform work under pressure to meet the budget; thus, threatening the auditor's freedom to perform standard audit procedures (Nehme et al., 2021). Other than that, Yuen (2013) found a significant positive influence between time budget pressure and dysfunctional audit behaviour. It showed that the increase in time budget pressure would increase the acceptance of auditors for reduced audit quality behaviour. Thus, based on the theoretical studies and earlier empirical findings above, the proposed hypothesis is as follows:

H3: There is a relationship between time budget pressure and dysfunctional audit behaviour.

2.3 Complexity of the audit task

The audit process can be complicated and troublesome in different ways. The collapse of one of history's largest audit firms, as in the Enron Scandal, is a good example of how complex an audit process can be. The failure showed the difficulties in auditing complex estimations and accounting numbers. A critical audit task with high complexity may have a major impact on audit judgements (Bonner, 1994). Other than that, research by Hun-Tong, Terence Bu-Peow, and Bobby Wai-Yeong Mak (2002) highlighted that audit performance

would decline when the complexity of the audit task increases. Task complexity can also affect auditors' activities in performing, and they tend to make errors in performing the audit tasks when the tasks are difficult and complicated indicating high task complexity that leads auditors to dysfunctionally audit behaviour (Cahyaningrum & Utami, 2015). A high task complexity will affect auditor judgment; ultimately, it is an indication of the cause of the decline in audit quality and dysfunctional audit behaviour (Agus Wijaya & Tri Yulyona, 2017). These audit judgements may lead to dysfunctional audit behaviour if the audit task is complex. Thus, based on the theoretical studies and earlier empirical findings above, the proposed hypothesis is as follows:

H4: There is a relationship between the complexity of audit tasks and dysfunctional audit behaviour.

2.4 Job satisfaction and Dysfunctional Audit Behavior

Howard (2002) defines job satisfaction as the "pleasurable emotional state resulting from the appraisal of one's job when one achieved the job values". Audit offices with higher employee satisfaction, especially satisfaction with the work-life balance, will perform higher-quality audits compared to employees with low job satisfaction (Gold, Kuang, Lee & Qin et al., 2018). Reducing the audit quality is a form of dysfunctional audit behaviour that will affect the result of the financial statement (Herda et al., 2018). When the auditor does not feel satisfied with their job, the auditor tends to complete the job without caring about the quality of their work. Hence, an unmotivated auditor with low job satisfaction may have a higher tendency to involve in dysfunctional audit behaviour.

Thus, based on the theoretical studies and earlier empirical findings above, the proposed hypothesis is as follows:

H5: There is a relationship between job satisfaction and dysfunctional audit behaviour.

3.0 Research Methodology

A quantitative data collection using a questionnaire was conducted, whereby data was collected from external auditors who worked in Kuala Lumpur and Selangor. The sampling method used was the Stratified Random Sampling design technique to get the most important information by answering the questions of the research acquired from this sample. The sample includes 223 auditors which were drawn from Big 4 and non-Big 4 audit firms located in these cities due to being more representative and readily available for the study. The questionnaire distributed consists of three sections. Part A contains six questions that include respondents' demographic factors regarding gender, age, working experience, a period working in a current company, position and type of firm. Part B is labelled as auditor behaviour factors such as time budget pressure, the complexity of audit tasks and job satisfaction. Part C is labelled as auditor behaviour, underreporting time (URT) and reduced audit quality (RAQPs). The Normality Test was carried out to determine whether the data set was modelled for normal distribution.

4.0 Result and Findings

The results showed that the respondents consisted of 104 male auditors (46.6%) and 119 female auditors (53.4%). In terms of position, most respondents were audit associates (54.7%) compared to audit partners (0.9%), an audit director and audit manager (17.5%), senior associates (20.2%) and others; audit assistants and assistant managers (6.7%). There are 0.9% of auditors that are below 20 years old who are currently pursuing professional papers and working as part-time auditors. For auditors that have yet to complete their professional papers and first degree, the salary will be slightly lower than the auditor that has a qualification.

Table 1: Summary of Statistics of Correlation Analysis

Factors	RAQPs		URT	
	Coefficient of Correlation (r)	p-value	Coefficient of Correlation (r)	p-value
Working experience	0.239***	0.000	0.144**	0.031
Type of firm	0.029	0.671	0.077	0.253
Time Budget pressure	0.679***	0.000	0.570***	0.000
Task complexity	0.478***	0.000	0.350***	0.000
Job Satisfaction	0.563***	0.000	0.437***	0.000

*** Significant at 0.01; ** Significant at 0.05

Table 1 shows a non-significant correlation between the type of firm with both DAB variables which shows a very weak relationship with ($r = 0.029$; $p > 0.05$) for RAQPs and ($r = 0.077$; $p > 0.05$) for URT. It also shows that there is a significant correlation between periods of audit experience and RAQPs with $p < 0.01$, while URT has a significant correlation with $p < 0.05$. The analysis also shows a significant correlation between time budget pressure towards DAB with $p < 0.01$. With the correlation values of $r = 0.679$ for RAQPs and $r = 0.570$ for URT, it shows a moderate relationship between the two variables. For task complexity, it shows a significant but weakly correlation with DAB with $p < 0.01$ and $r = 0.478$ for RAQPs and $r = 0.350$ for URT. The analysis also shows a significant correlation between job satisfaction factors and dysfunctional audit behaviour with $p < 0.01$. However, with the correlation value of $r = 0.563$ for RAQPs and $r = 0.437$ for URT, it shows a medium relationship between the two variables.

Table 2 provides that the regression equation is statistically significant at 0.01 ($p < 0.01$), implying that there is a relationship between DAB with any or all of the independent variables. The R-square value being 0.566 for RAQPs and 0.357 for URT explains 56.6 per cent and 35.7 per cent variance in the dependent variable for both, respectively. The result shows that there is no significant relationship between the period of audit experience and the type of audit firm with URT. In contrast, the result shows a significant positive association

between the period of audit experience with RAQPs at the level of 5%. This is due to more experienced auditors with higher positions having the capability to influence other factors such as time budget and more experience in handling the complexity of audit tasks compared to junior auditors with constraints in meeting the deadline assigned by their supervisor (Broberg et al., 2016; Johari et al., 2022). The result for RAQPs also supported hypothesis 1, showing auditor from the Big 4 has a negative influence on DAB compared to non-Big 4.

Table 2: Regression Results

Variable	RAQPs		URT	
	Coefficient	p-value (t-value)	Coefficient	p-value (t-value)
Working experience	0.561	0.002** (3.180)	0.094	0.434 (0.784)
Type of firm	-1.066	0.031** (-2.168)	-0.026	0.938 (-0.77)
Time Budget pressure	1.021	0.000*** (8.136)	0.536	0.000*** (6.295)
Task complexity	0.552	0.000*** (4.681)	0.177	0.028** (2.213)
Job Satisfaction	0.189	0.002** (3.205)	0.070	0.082* (1.746)
F-Value	56.684***		24.145***	
R2	0.566		0.357	

** Correlation is significant at the 0.05 level (2-tailed).

*** Correlation is significant at the 0.01 level (2-tailed).

It also shows a strong significant relationship between time budget pressure and both RAQPs and URT. The report indicates that 28% of the respondents stated that their audit time budget is attainable with considerable effort, 52% stated that their time budget is very tight and partially unattainable, while the remaining stated that their time budget was very easy to attain (1%) and attainable with reasonable effort (19%).

As for the complexity of the audit task, significant positive results were found for both RAQPs and URT. The results indicated a significant association with dysfunctional behaviour creation at the level of 1% and 5% for RAQPs and URT; respectively. About 55% responded that they often and nearly always encounter a complex issue during the audit. Of the 55%, 30 respondents admitted that they had omitted the audit procedure, and 35 respondents admitted that they had sign-off the audit programme before completing the audit work. This is in line with Benford (2000), in which the complexity of audit tasks can force and lead to dysfunctional behaviour. This is supported by Umar et al. (2017), who stated that auditors always encounter task complexity in their job when other pressures exist. As such, 48 per cent of the respondents think that complex tasks will increase the difficulty of the audit process, especially audit engagement that requires complex interpretation of technical knowledge and standards. Hence, the auditor will tend to reduce the quality and underreporting time when faced with a complex audit task as it is more time-consuming and may increase the workload of the auditor.

It is shown that job satisfaction has a significant positive relation with DAB at the level of 5% and 10% for RAQPs and URT; respectively. Usually, job satisfaction will be influenced by other factors in the audit environment, such as work pressure from superiors, heavy workload and rewards in the audit firm. Auditors with low job satisfaction tend to reduce RAQPs but will finish their work on time since they do not give much attention to the reporting time. Auditors who have high job satisfaction will tend to complete the audit task and procedure based on the accounting act and standard. 95% admitted that they had made a superficial review of client documents, and 65% of them will work on personal time under URT. It shows that auditors with low job satisfaction will increase dysfunctional audit behaviour. This is in line with Fakhar and Hoseinzadeh (2016), who stated that job performance, turnover and job satisfaction show a relationship between organisational commitment and dysfunctional behaviour of auditing.

5.0 Conclusions and Recommendations

This study investigated whether demographic factors, occupational stress and job satisfaction affect dysfunctional audit behaviour. All hypotheses are supported to provide evidence that these factors are significantly related to and impact the auditor's dysfunctional behaviour. Hence, this study should help to enrich the understanding among audit partners and authorities regarding the importance of audit behaviour factors that can affect dysfunctional behaviour. This will enhance the quality of the audited financial statement in Malaysia, which subsequently will increase the ability of auditors to detect fraud.

This study suggests the development of special training in order to reduce dysfunctional audit behaviour, as well the managing time budget pressure should be taken into consideration as it is crucial in influencing dysfunctional audit behaviour among auditors in this study. There are several limitations. Firstly, the number of samples used in this study is regarded as a limitation since it is insufficient to generalize the findings to all auditors in Malaysia. Additionally, this survey relies on participants' interpretations of the relevant scales used. Thus, this serves as an avenue for future research in which larger sample size and more variables of individual factors should be considered. Additionally, the significant audit behaviour factors identified may also need more thorough empirical scrutiny so that remedial actions can be taken in order to decrease the dysfunctional audit behaviour by adding some new rules and regulations in the policies of audit firms.

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