

ICTHM 2023**International Conference in Technology, Humanities and Management****BEHAVIOURAL REASONING THEORY: IDENTIFYING ACTUS REUS OF DYSFUNCTIONAL AUDIT BEHAVIOUR**

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Abstract

Audit scandals have revived debate about the concept of ethical reasoning by auditors where scandal is an actus reus. The aim of this research is to reveal what factors promote auditors in audit firms to carry out “actus reus” dysfunctional behaviour when carrying out auditing assignments, what are the forms of dysfunctional behaviour and how public accounting firms attempt to reduce dysfunctional behaviour to maintain audit quality within the behavioural reasoning theory framework. Behavioural reasoning theory (BRT) is a relatively new theory that defines the relationship between reasons, beliefs, intentions, motives, and behaviour. Paradigm of this research is qualitative with a phenomenological approach by directly using observation and researchers interacting in it. The phenomenological approach has a strong philosophical basis and involves an interview process. The results of this study conclude that auditors behave dysfunctionally and do not fully comply with auditing standards motivated by the status of auditor freelancers and small audit fees. This study adds to the scarce literature on firm auditing. The findings show that there are reasons for auditors to have dysfunctional audits. These findings will assist policy makers and regulators, in avoiding potential risks related to professional misconduct and in evaluating applicable ethical codes and audit quality. This study uses participants from small audit firms; therefore, the results are not intended to be generalized to auditors in big audit firms.

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1. Introduction

Many audit cases have occurred in Indonesia, for example the Indosat case, Garuda Indonesia, etc. Various audit failures raise many questions about how ethics is practiced in accounting firms and audit firms (Hegazy et al., 2017). Scandal's audit had reignited the debate regarding the concept of auditors' ethical reasoning (Alnabsha et al., 2018; Hassan et al., 2019). Even though according to auditing standards (SA 200) issued by IAPI, the aim of an audit of financial statements is to enhance the level of trust of the intended stakeholders in financial statements. This can be seen through the auditor's opinion regarding whether the financial statements are presented in accordance with the applicable financial reporting standards and regardless of material misstatements. Therefore, the auditor is obliged to maintain audit quality in accordance with auditing standards that apply in certain jurisdictions, in this case in Indonesia.

Auditors must carry out their duties in an ethical and objective manner to ensure that they do not engage in prohibited dysfunctional audit behaviour that can degrade the dignity of the profession. The auditor is a trusted profession, and must side with the public interest by being independent (Johari et al., 2022). Previous research has proven that dysfunctional audit behaviour causes a decrease in audit quality (Amroabadi et al., 2014; Balasingam et al., 2019; Donnelly et al., 2011; Johari et al., 2022; Khalil & Nehme, 2023; Nehme, 2017; Nehme et al., 2019, 2022; Otley & Pierce, 1996; Paino et al., 2011).

Dysfunctional audit behaviour is defined as deviant behaviour by the auditor. The auditor's dysfunctional behaviour is caused by a conflict of interest between the parties involved in the audit assignment, in this case the accounting firm, client and auditor (Sujana, 2010). Conflicts that often occur between the auditor and the auditee (client) where the auditee is a client who pays the auditor to carry out the task and the auditee has an interest in the best audit results. Another conflict phenomenon is the fulfillment of high auditing standards as mandated by regulators on auditing standards. High auditing standards are used as a reason in selecting audit procedures and programs as simple as possible for clients. This is allegedly due to the low audit fee and short audit time. Phenomena like this encourage auditors to perform dysfunctional audit behavior. The phenomenon of dysfunctional audit behavior which is marked by the existence of sanctions that are obtained by public accountants is currently a matter of concern.

Dysfunctional auditor behaviour (DAB) has been studied and is of concern to researchers because it is associated with audit failure and decreased audit quality (Tervo et al., 2013). Dysfunctional audit behaviour continues to be a topic of concern and auditors engage in it intentionally and not out of ignorance (Nehme et al., 2016) and it still remains interesting (Smith & Emerson, 2017). The main factors that contribute to dysfunctional audit behaviour include under-reporting of chargeable time and premature sign-off (Donnelly et al., 2011; Nehme, 2017). Previous research has discussed DAB behaviour from a broader perspective such as offshoring behaviour of audit steps (Downey, 2018), cultural dimensions (Nehme et al., 2022), commitment (Andreas, 2016), concept of personality (Aamir et al., 2018), As well as discussing the dysfunctional audit factors quantitatively (Amiruddin, 2019; Lestari & Rahman, 2020; Nugrahanti & Nurfaidzah, 2020; Nehme et al., 2021; Sidik Tjan et al., 2019). However, as far as we know, it is rare to discuss dysfunctional audit behaviour with an actus reus perspective based on

behavioral reasoning theory which is discussed using a qualitative approach method. The purpose of this study is to explain phenomena *Actus reus* of dysfunctional audit. *Actus reus* is an act that violates the rules or standard. Our study is to answer what are the motivating factors for auditors to engage in dysfunctional behaviour, forms of behaviour, and how to reduce dysfunctional behaviour.

Our study is useful for auditing firms as it provides a practical approach to mitigating dysfunctional audit behaviour. The findings recommend that (1) audit firms can mitigate dysfunctional behaviour by auditors so that audit firms can evaluate them periodically. (2) Reducing dysfunctional practice time will result in more accurate data (3), staff scheduling, and training. (4) These findings are expected to help increase credibility and maintain public trust in the auditing. Our research also contributes to the literature on behavioural reasoning theory in psychology by demonstrating how reasoning influences dysfunctional auditing. Our analysis shows that reasons can change behaviour.

2. Literature Review

2.1. Behaviour Reasoning Theory

Understanding the fundamental determinants of behaviour has been a major goal for many theorists in social sciences and decision making. The behavioural intention model has greatly advanced our understanding of the determinants of that behaviour (Westaby, 2005). Our goal is to explain behaviour-related phenomena, the subject of our research, using the following behavioural reasoning theory (BRT). This theory explains that reason functions as an important link between beliefs, global motives (e.g., subjective norms, attitudes, and perceived control), behaviour and intentions (Westaby, 2005). Within the scope of auditing, the underlying theoretical assumption in this framework states that reasons influence the motives and intentions of auditors in dysfunctional *actus reus* actions, with various reasons helping auditors justify and defend their actions even though the auditor's actions are prohibited. The BRT determines relationships between values or beliefs, reasons (for or against), overall motivations (attitudes, subjective norms, and perceived behavioural control), intentions and measures of user behaviour.

2.2. Actus Reus

According to Rusanov (2020), *Actus reus* of abuse of power within the organization by exploiting power that is contrary to the interests of the organization. Such actions harm the rights and interests of the organization, or the interests of society or the state that are protected by law/rule. In the context of auditing, the auditor's *actus reus* (prohibited conduct) behaviour in conducting a dysfunctional audit can be very detrimental to users of financial statements, society and organizations. Things that are more extreme, for example the auditor receives or obtains property from the auditee so that the auditor cannot be independent and objective in carrying out the audit. Even in the prosecution of criminal acts of fraud, it is necessary to prove the fact that the defendant has a *mens rea* condition, or a mental state, and at that time he also committed an *actus reus* crime, which is said to be an element of the crime (Bell, 2000).

Studying about *actus reus* is very important, for example the use of fair value accounting practices for opportunistic earnings management with dishonest intentions is a criminal proceeds-generating crime

(Jayasekara et al., 2022). Perera et al. (2022) after studying the biggest accounting scandals revealed that legal proceedings over the scandals were limited due to lack of evidence due to technical fraud.

2.3. Dysfunctional Audit Behaviour

Literature studies regarding auditor dysfunctional behaviour have been carried out by various experts. Auditor dysfunctional behaviour is a deviant behaviour performed by the auditor in carrying out an audit which can directly or indirectly reduce quality of the audit (Otley & Pierce, 1996). Dysfunctional behavior of auditors is distinguished as follows:

- i. Actions that indirectly affect the quality of the audit for example underreporting of time.
- ii. Actions that reduce audit quality.
- iii. Premature termination of audit steps in the audit program (premature sign-off).
- iv. Superficial examination of auditee documents. An action taken by the auditor with less attention to the validity and accuracy of documents.
- v. Testing of part of the sample item. Auditor by not carrying out audit procedures on samples designed in the audit program
- vi. Do not further investigate doubtful items. The auditor not expanding the scope of testing when a suspicious transaction or item is detected.
- vii. Easily accept explanations from clients. An act by which the auditor accepts the client's explanation in lieu of or as a substitute for insufficient audit evidence.
- viii. Does not check the accounting principles applied by the client. Auditor by evaluating the suitability of the accounting judgement applied by the client with accounting principles.
- ix. The auditor reduces the audit procedures carried out from those that should be carried out in accordance with the audit program.
- x. Replacement of audit procedures from those specified in the audit program. Auditor by following the procedures set out in the audit program.
- xi. Excessive reliance on the results of the client's work. Auditor relying on audit evidence of the results of the work done by the client.
- xii. Documenting audit evidence that is not in accordance with audit firm policy. An action taken by the auditor by not documenting audit evidence of the implementation of an audit procedure required in accordance with the audit program established by the audit firm.

DAB's behavior poses a threat to audit quality because the audit evidence gathered during the performance of audit procedures is not competent and sufficient as a basis for the auditor to provide an opinion on the fairness of the auditee's financial statements. The possibility of auditors getting a high audit risk in issuing inappropriate opinions when there are actions to degrade audit quality in the audit program and in the quality control system of audit firms. In the development of auditing science, the audit paradigm adopted by the Indonesian Institute of Public Accountants is a risk-based audit, including an audit for MSMEs. Audit quality is related to the auditor's belief that the financial statements do not present material errors or fraud. So that the auditor must really not make mistakes in the audit and implement auditing standards To support the creation of a quality audit situation, the Indonesian Institute

of Public Accountants has issued a management board decree number 4 of 2018 concerning guidelines for audit quality indicators at accounting firms public. Audit quality indicators at the audit firm level which include audit engagement on financial statements conducted by auditor are as follows:

- i. Competency
- ii. Code ethic and independence of auditors
- iii. Key personnel time
- iv. Engagement of quality control
- v. Quality inspection from external and internal parties
- vi. Engagement control timeframe
- vii. Audit firm Organization and Governance
- viii. Remuneration policy

Auditor's individual factors can affect the dysfunctional audit. In addition, studies in psychology suggest that individual behaviour exhibits individual personality and situational variables when making decisions (Koonce & Mercer, 2005; Su'un & Sari, 2021). Therefore, auditors who carry out dysfunctional audit behaviour have various factors within each auditor such as locus of control, gender, self-rated performance, ethical judgment, turnover intentions, professional commitment and organizational commitment. But it can also be caused by situational factors in the workplace, such as peer influence, ethical climate, company size, level of employment, and managerial influence (Johari et al., 2022).

3. Research Method

3.1. Types and Research Paradigm

This type of research is qualitative which describes the phenomenon of audit dysfunctional behavior. Lichtman (2014) explains that qualitative research includes the study of the actual conditions of research subject to explain phenomena. This study includes "humans and the interactions within them" as well as "research questions" that cannot be explained with numbers (Creswell & Creswell, 2018). The paradigm used is an interpretive paradigm that aims to gain a subjective understanding that creates "what is" from a continuous process (Burrell & Morgan, 1979). Phenomenology tries to explain human experience. This is the search for that "essence" that cannot be expressed by ordinary observation (Sanders, 1982). This design has a strong philosophical basis and usually involves an interview (Giorgi, 2009; Moustakas, 1994).

According to Creswell and Creswell (2018) Phenomenology actually means 'letting the conscious symptoms show themselves' (to show themselves). Something will appear as it is (things as they appear). The main problem to be explored and understood by this method is the meaning or meaning, structure and essence of the life experience of a person or group of a symptom that is experienced. From the philosophy of phenomenology, the phenomenological method was developed. The purpose of this method is to capture the meaning of human life experience about a symptom. The phenomenological method wants to know more about the structure of consciousness in human experience (Creswell & Creswell, 2018).

3.2. Method of Collecting Data

The object of this research is the auditor at the audit Firm with the initials "Mentari" in Semarang, Indonesia. The selected participants are auditors who are directly involved in conducting the audit, understand, and can provide information regarding dysfunctional audit behavior. The data collection method used is interview, storytelling and in-depth interpretive with the participants because the researcher interprets and gives meaning to the data and information provided by the participants. Interviews were conducted informally and unstructured. In addition, researchers also made observations. Observations were carried out by applying participant observation, namely researchers trying to be involved in a process of everyday social life where social interaction takes place. The technique analysis used refers to Sanders (1982): (1) concern of phenomena, (2) presenting themes, (3) elaborating noetic/nematic correlations and (4) abstracting the essence or universals of nitric/nematic correlations.

4. Result and Discussion

4.1. Factors that encourage auditors to perform dysfunctional behaviour

Public Accountant Office "X" is a small-medium public accounting firm whose audit clients include cooperatives, BMT, BPR, CV and non-listed limited liability companies. Based on the proceeds of observations, interviews and analysis of the proceeds of the discussion, it is clear that some of the auditors are freelance auditors. This is as revealed by one of the senior auditors (Mr. R):

“Most of us (auditors) are freelancers. Not permanent audit firm employees, but we are registered at this audit firm. It is also possible for reporting to the Ministry of Finance's and audit boards. every year I bring clients, and I also bring an audit team (my own team). I am the senior/supervisor of the audit team who is responsible for audit quality, procedures, audit implementation, and audit working papers”.

Furthermore, regarding audit work hours or audit time budget, the auditor has not implemented an audit time budget, even during the "peak season" in January-April where there is a lot of audit work. Maybe because most of our clients are cooperatives and agencies in the MSME category, we often ignore working hours (time budget) and poor documentation of audit procedures, said Mr. A. As a freelance auditor, the auditor of course has an agreement with the public accounting firm where he is sheltered regarding salary replacement audit fees/compensation. According to informants, the compensation at audit firm "Mentari" is 35% of the net audit fee for audit firm, and 65% of the net audit fee for the auditor team consisting of auditors and supervisory staff. The net audit fee is obtained from the audit fee (excluding VAT) minus the auditor's accommodation fees unless the amount of the fee is disclosed in the engagement letter between the audit firm and the auditee. With the auditor's status as a freelancer, the auditor's commitment and obligations to audit quality are questioned because there is no legal contractual bond between the auditor and audit firm. This seems to be only for financial or economic purposes. On the one hand, freelance auditors, audits as part-time work, on the audit firm side, freelance auditors are money-making machines.

In addition to financial or economic factors, other factors that influence dysfunctional audit behaviour at audit firm "Mentari" are weak quality reviews, for example reviewing the quality of audit

work papers. In addition, the audit firm "Mentari" audit market segment for low-risk auditing industries such as cooperatives, BMT, is also a reason for conducting a dysfunctional audit. This right is expressed by Coram et al. (2003) namely the main reason for conducting audit quality reducing behaviour is low audit risk.

4.2. Dysfunctional Audit Behaviour

Based on an analysis of the results of interviews with informants, auditors at audit firm often underreporting of time which indicates a situation where Auditors complete work or assignments that are charged with personal time and are motivated by a desire to avoid or minimize budget overruns. This is due to the status of a freelance auditor, so the auditor wants to finish the job as soon as possible and change to another job (change another auditee). An example of underreporting time is that there is no time budget for audit work. Because usually the auditee uses the auditor's report for shareholder meetings, but also must remain independent and objective in expressing audit opinion (said Mr. R). Furthermore, Mr. H revealed that the time budget for audit work was also not calculated due to the small audit fees with small clients.

Underreporting of time will cause problems in making time budgets in the future, where the time budget made will tend to be less than the actual time spent doing audit work, so it will probably cause premature sign off in the future. In addition, underreporting of time is also a problem in determining audit fees in the future. With the time outside working hours used in carrying out audit work, in determining fees in the future it will tend to be below the actual fees due to unrecorded fees, especially if the determination of fees is based on working hours spent doing audit work. This will have unfavourable consequences for auditors who use time outside the office to do audit work where they will experience low job satisfaction and a high desire to change jobs because they feel they are not getting proper compensation.

"We as freelance auditors who have audit clients will also switch audit firms for 3 years, in quotation marks "borrow another audit firms operational permit".

In addition to underreporting behaviour of time, researchers also found behaviour that directly reduces audit quality, this is reflected in several audit working papers as a basis for forming opinions. This causes premature sign off so that the quality of the audit is questioned.

"Because our client is a small company, we usually don't focus too much on control testing and even when substantive testing is not well documented, for example the use of audit procedures, tick marks in working papers. We are pressed for time, and there are still many clients waiting. Inevitably minimal supervision, relying on professional judgment without clear authentic evidence, relying on feelings and experience so partners only read and sign the audit opinion we propose."

"Still disclosed by Mr. R, "Empirical facts show that audit quality is questionable when there is an inspection from professional authorities on the quality of our incomplete working papers, and some time ago, one of our partners was sanctioned by suspension of audit permits, we are indeed weak in supervision, maybe it's different if it's in a big audit firm (he added)."

Research studies conducted by Paino et al. (2012) and Al Kautsar (2016) It is also supported that the auditor performs dysfunctional audit behaviour if the auditor faces high time budget pressure. However, recent research by Nehme et al. (2021) found that despite time budget pressures, auditors do not perform superficial checks or receive insufficient evidence from auditee.

4.3. Reduce Dysfunctional Behaviour

Dysfunctional behaviour that causes the imposition of suspension sanctions by the audit oversight board of the Ministry of Finance, audit firm focuses on implementing the implementation of public accounting professional standards, especially SPM (quality control) No.1 concerning quality control for public accounting firms that carry out assurance engagements (Audit, Review and Other Assurance Engagements) and Engagements other than assurance. Forms of activities include conducting structured training programs for auditor staff, implementing structured audit working papers using audit tools and linked archives.

On the other hand, to provide confidence that the audit firm is running well and the engagement partners and auditors can carry out audits in accordance with auditing standards, professional ethics and applicable legal provisions in the relevant jurisdictions, the audit firm must receive adequate compensation for services. Public accountants can determine the amount of the audit fee freely and independently based on their needs and professional judgment.

Furthermore, as stated by Mr. R “The minimum audit fee for MSME category institutions is IDR. 15,000,000, while for a Limited Liability Company it is IDR. 19,000,000. The low audit fee causes us to minimize expenses, for example by cutting working hours, cutting audit procedures, taking audit samples, preparing working papers as simple as possible but it is expected that work papers comply with audit standards.

The low fee received by audit firm will also have an impact on the low compensation received by the auditor, so that the auditor will always try to find alternative work that can provide better compensation. This condition will then trigger dysfunctional behaviour (Sujana, 2010). Time pressure and low compensation when viewed from a conflict-of-interest perspective indicate that in these conditions a conflict actually occurred between the implementing auditor and the audit firm. The client's low appreciation of the audit firm is actually a conflict of interest between the audit firm and the client. This conflict has unknowingly led to dysfunctional behaviour which has a very bad impact on the auditor profession itself. In addition, in terms of carrying out field work, the auditor will also be faced with a conflict of interest with the client, especially related to the client's desire to obtain a satisfactory opinion with the idealism of the auditor to maintain audit independence and quality.

As an effort to reduce other dysfunctional behaviour is by increasing competence, continuous training for auditors, implementation of audit oversight board inspections and quality reviews by professional association (IAPI) will encourage better audit quality. Audit oversight board can provide sanctions for public accountants / audit firm who show bad audit results, violate professional ethics and auditing standards. Likewise, what professional association (IAPI) does, if a member violates the code of ethics and auditing standards, the public accountant or audit firm can be subject to sanctions in the form

of a warning, suspension, or expulsion from professional association (IAPI) members. Löhlein (2016) proves the positive effect of audits conducted by professional bodies and/or supervisors on audit firms.

5. Conclusion and Suggestion

Actus reus dysfunctional behaviour is motivated by economic factors and weak control of the audit firm. where one of the implications is obtaining sanctions for freezing operational permits to audit firms that do not fully comply with standards audit in conducting audits. The status of the auditor as a freelancer and the small amount of the audit fee must also be considered because it contributes to the auditor's dysfunctional behaviour and audit quality. The research results can be used as input for audit firm leaders in evaluating policies to create a work environment according to quality control standards that can mitigate the possibility of auditors carrying out dysfunctional audit behaviour in auditing, for example by monitoring and evaluating auditors, audit work papers, determining compensation, developing auditor skills, increase in organizational commitment. One of the limitations of this study is that it only examines small and medium sized audit firms, so it cannot be generalized to all audit firms. Future research is expected to be able to develop a larger research object, for example by comparing the audit firm, client size, location, cultural aspects and others.

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