

## The Analysis of Reduced Audit Quality Behavior : The Intervening Role of Turnover Intention

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### ABSTRACT

Reduced audit quality behavior is an important issue for public accounting firms. Reduced audit quality behavior is a form of dysfunctional audit behavior that has a negative effect on users' confidence in financial statements. This study aims to examine the antecedents of turnover intention on reduced audit quality behavior. Specifically, this study investigates the effects of locus of control and organizational commitment on reduced audit quality behavior through turnover intention. Data is analyzed based on 97 responses from auditors who work for public accounting firms in Sumatera Island, Indonesia. The results from the PLS analysis reveal that the external locus of control, weak organizational commitment, and a high turnover intention lead to reduced audit quality behavior. In addition, the result also suggests that the effect of locus of control and organizational commitment on reduced audit quality behavior is indirectly influenced by turnover intention.

**JEL Classification:** H83, M40, L15

**Keywords:** Reduced Audit Quality Behavior, Turnover Intention, Locus of Control, Organizational Commitment.

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## INTRODUCTION

The users of financial statements always expect audit quality (Iskandar *et al.*, 2010; Ching *et al.*, 2015); therefore, audit quality is an important issue for public accounting firms (Sanusi *et al.*, 2014). Audit quality is based on evidences that are sufficient, appropriate, and competent (Arens *et al.*, 2012). To acquire audit evidence, auditors should execute the audit procedures in accordance with the established standards. The researchers found that practices of premature sign-off and altering of audit procedures are behaviors that can threaten the audit quality, which in turn can decrease the users' confidence towards financial statements (Coram *et al.*, 2003; Malone and Robert, 1996; Otley and Pierce, 1996; Donnelly *et al.*, 2003a). The researchers found that in line with the audit investigation result of the Panel on Audit Effectiveness, reduced audit quality is a continuing concern for the auditing profession (Public Oversight Board, 2000). In addition, the result of an examination conducted by the Center for Development of Public Accountants and Appraisal Service (PPAJP) at public accounting firms in Indonesia also suggests that auditors' behaviour can decrease the audit quality (PPAJP, 2015).

Reduced audit quality behaviour is a form of dysfunctional audit behaviour. Reduced audit quality behaviour is a poor execution of an audit procedure that reduces the level of evidence gathered for the audit, which makes the collected evidence unreliable, false, or inadequate quantitatively or qualitatively (Herrbach, 2001). Several previous studies have shown that reduced audit quality behaviour is carried out by auditors in some countries (Malone and Robert, 1996; Otley and Pierce, 1996; Donnelly *et al.*, 2003a). In addition, results show that reduced audit quality behaviour is influenced by personal characteristics of auditors.

Auditors' personal characteristics are some of the causes of reduced audit quality behavior (Malone and Robert, 1996). Personal characteristics such as locus of control, organizational commitment, and turnover intention can lead to reduced audit quality behavior directly or indirectly (Donnelly *et al.*, 2003a; Paino *et al.*, 2014; Malone and Robert, 1996; Paino *et al.*, 2012). Spector (1988) defined locus of control as a generalized expectancy that rewards, reinforcements, or outcomes in life are controlled either by one's own actions (internality) or by other forces (externality). Shapeero *et al.* (2003) also found that external locus of control tends to be linked to reduced audit quality behavior than internal locus of control.

Other personal characteristics that influence reduced audit quality behavior are organizational commitment and turnover intention. Organisational commitment is defined as the relative strength of an individual and involvement in a particular organization (Mowday *et al.*, 1979). Auditors who have strong organizational commitment will most likely not perform reduced audit quality behavior (Paino *et al.*, 2012), whereas auditors who have a weak commitment will tend to perform reduced audit quality behavior. Turnover intention is the auditors' desire to leave the organization (Aranya and Ferris, 1984). According to Malone and Robert (1996), auditors with a high turnover intention will tend to perform reduced audit quality behavior, while, an auditor who has a low turnover intention will tend to avoid reduced audit quality behavior.

Previous research (Malone and Roberts, 1996; Donnelly *et al.*, 2003a; Paino *et al.*, 2014) has indicated that auditors with an external locus of control and weak organizational commitment will have a strong desire to leave the organization. Furthermore, auditors who

have a high turnover intention will tend to conduct reduced audit quality behavior. Therefore, it can be predicted that auditors with an external locus of control and weak organizational commitment will tend to conduct reduced audit quality behavior. Past studies show that auditors with an external locus of control and weak organizational commitment will also have a high turnover intention resulting in auditors performing reduced audit quality behavior. In addition, from these studies, it can be predicted that turnover intention is a mediating variable between the influence of locus of control and organizational commitment variables to reduce audit quality behavior.

Survey based research has revealed that reduced audit quality behavior is widespread in the United States of America (Malone and Roberts, 1996), Ireland (Otley and Pierce, 1996), the UK (Willet and Page, 1996), France (Herrbach, 2001), Australia (Coram, et. al., 2008), Malaysia (Paino *et al.*, 2014), and Uganda (Kasigwa *et al.*, 2013). However, there is hardly any research conducted on reduced audit quality behavior in Indonesia.

The purpose of this study is to investigate factors contributing to individual auditors' reduced audit quality behavior such as locus of control, organizational commitment, and turnover intention. In addition, this study aims to investigate the influence of locus of control and organizational commitment on reduced audit quality behavior through turnover intention. The remainder of this paper is organized into four sections. The first section presents the development of the theoretical framework and the hypotheses of the study, while the second section discusses the research method including data collection and measurement information. In the third section, empirical results are presented. The final section concludes with a discussion and limitations of this study.

## **Literature and Development of Theoretical Framework**

This section describes the theoretical model, linking locus of control (LOC), organizational commitment (OC), turnover intention (TI) to reduced audit quality behaviour (RAQ). These linkages are referred to as the direct effects. Additional indirect effects are also discussed followed by a formal presentation of the research hypotheses.

### **Direct effect on reduced audit quality behavior.**

Reduced audit quality behavior is defined as the failure of auditors to perform audit steps properly or actions taken by an auditor during an engagement, which reduces evidence gathering effectiveness inappropriately (Malone and Robert, 1996). Reduced audit quality behavior can also be seen by various actions such as premature sign-off and replacing the audit procedures (Donnelly *et al.*, 2003; Anugerah *et al.*, 2016). Auditors engage in premature sign-off when they believe the audit steps will not find anything wrong if completed (Donnelly *et al.*, 2003). This means the auditor did not implement all the audit procedures appropriately.

There are two kinds of individual locus of control such as the internal and the external locus of control. Individuals with an internal locus of control are those who are more likely to rely on their own determination of what is right and wrong and are more likely to accept responsibility for the consequences of their behaviors (Spector, 1988). On the other hand, individuals with an external locus of control believe that results are attributable to things

beyond their control and are less likely to take personal responsibility for the consequences (Trevino 1986; Shapeero, 2003; Paino *et al.*, 2014).

Therefore, an internal locus of control is expected to be negatively related to the intent of prematurely signing-off and the intent to altering/replacing the audit procedure. In addition, auditors who have an internal locus control (internals) believe that they have a greater control over their lives (Spector, 1988), while externals believe that outside factors such as fate, luck, or others play a large role in life's outcomes. Internals have a significantly greater commitment to difficult goals than do externals (Malone and Robert, 1996). Among auditors, internals tends to perceive less job stress (Choo, 1986). Kelley and Margheim (1990) suggest that reduced audit quality behaviour is a response to stress. These differences support the view that externals may be more likely than internals to engage in reduced audit quality behaviour. The above discussion leads to the following hypothesis :

*H<sub>1</sub>*: Locus of control has a positive effect on reduced audit quality behaviour.

Organizational commitment is defined as the acceptance of organizational goals and a willingness to exert effort on behalf of the organization and is associated with positive behaviors such as job performance and attendance (Mowday et al, 1979; Paino *et al.*, 2012). Three factors are traditionally used to characterize the commitment construct: a strong belief and acceptance of the organizational values, a willingness to work hard to achieve the organizational objectives, and a desire to maintain membership in the organization (Mowday *et al.*, 1979). It has been linked to reduced audit quality behavior such as resistance to change and reluctance to leave due to incompetence (Aranya and Ferris, 1984). Organizational commitment can create a countervailing force to reduced audit quality tendencies; as commitment increases, the organization is viewed as less hostile and manipulation is not necessary to obtain the reinforcement desired. Individuals who possess a strong belief in the organization, and who are willing to work hard to achieve organizational objectives, are less likely to resort to unethical and/or reduced audit quality tactics to achieve personal goals (Donnelly *et al.*, 2003b).

The pivotal role of organizational commitment may also reflect differences in motivation between individuals with high and low organizational commitment (Paino *et al.*, 2012). Individuals who have a strong commitment will expend effort on behalf of the organization even when such an effort does not directly contribute to compensation or career opportunities for the auditor (Donnelly *et al.*, 2003b). Individuals with high organizational commitment want the organization to be a success (Paino *et al.*, 2012). These individuals will not appreciate certain behaviors such as reduced audit quality behavior, and they will be less accepting of these activities (Donnelly *et al.*, 2003a). Conversely, individuals with low organizational commitment may be more interested in pursuing self-interest rather than organizational interest. Thus, individuals possessing lower levels of organizational commitment are more likely to view reduced audit quality behavior as acceptable for the purpose of self-promotion (Donnelly *et al.*, 2003b). This discussion leads to the following hypothesis:

*H<sub>2</sub>*: Organizational commitment has a negative effect on reduced audit quality behaviour.

High turnover of auditors is an important phenomenon in the organizational environment, particularly in public accounting firms. There are times when a change of auditor has a positive

impact. However, most of the changes of auditors have a bad influence on public accounting firms, both in terms of cost and in terms of loss of time and opportunities. Malone and Roberts (1996) suggest that auditors who have intentions to move from the firm may be involved in reduced audit quality behavior due to a decrease in the fear of the conditions that may occur when the behavior is detected. Furthermore, an individual who intends to leave the firm is less likely to be concerned with the potential impact of reduced audit quality behavior. Thus, auditors who have a high intention to leave their job may be more receptive to reduced audit quality behavior (Aranya and Ferris, 1984). Based on the above discussion, we suggest the following hypothesis:

$H_3$ : Turnover intention has a positive effect on reduced audit quality behaviour.

### **Indirect effect on reduced audit quality behavior**

Incorporating the interrelationships among locus of control, organizational commitment, and turnover intention can provide a better understanding of the complex cause of the reduced audit quality behavior. Thus, a discussion of the impact follows.

Auditors, who have an internal locus of control, when faced with a conflict of larger jobs, will attempt to settle the conflict rather than to leave their job. Since auditors who have an internal locus of control, generally confident that the source of control is within themselves and they do a fairly high personal control in most situations (Feist and Feist, 2006; Andrisani and Nestle, 1976; Spector, 1988). This indicates that the auditors who have an external locus of control will likely have a high turnover intention; conversely, auditors who have an internal locus of control will likely have a lower turnover intention. Specifically, externals are expected to exhibit higher levels of turnover intention (Donnelly *et al.*, 2003a). Thus, this leads to the following hypothesis:

$H_{1a}$ : Locus of control has a positive effect on turnover intention.

The direct effect suggests that locus of control is positively related to reduce audit quality behaviour, whereas, the discussion on indirect effect suggests that locus of control is positively related to turnover intention. In turn, turnover intention is expected to have a positive impact on reduced audit quality behaviour. Therefore, these relationships lead to the following hypothesis:

$H_{1b}$ : Locus of control has an indirect effect on reduced audit quality behavior through turnover intention.

Organizational commitment has often been used as an antecedent in studies predicting withdrawal behaviors. Mowday *et al.* (1982) predicted and found that the strongest and most predictable behavioral consequence of organizational commitment was lower turnover rates. Results of Mathieu and Zajac's (1990) meta-analysis illustrate that organizational commitment is positively associated with attendance and negatively associated with lateness and turnover. In addition, organizational commitment demonstrates a larger association with turnover intentions, including intention to leave one job (Donnelly *et al.*, 2003a). Therefore, the following hypothesis is proposed:

$H_{2a}$ : Organizational commitment has a negative effect on turnover intention.

The direct effect suggests that organizational commitment to be negatively related to the reduced audit quality behavior, whereas, the discussion on indirect effect suggests that organizational commitment is negatively related to turnover intention. In turn, turnover intention is expected to have a positive impact on reduced audit quality behavior. Therefore, these relationships lead to the following hypothesis:

*H<sub>2b</sub>*: Organizational commitment has an indirect effect on reduced audit quality behaviour through turnover intention.

## RESEARCH METHOD

### Data Collection

Data was collected using a survey questionnaire sent to all auditors in Sumatera Island (Indonesia) with a total of 344 auditors. Of the 344 surveys distributed, respondents returned 97 usable questionnaires for an effective response rate of 28.20 percent. Most of the respondents were male with 58 respondents (59.8 percent), consisting of partners, managers, supervisors, senior auditors, and junior auditors.

### Measures

Locus of control was measured using a summed total of 16-item work locus of control scale (Spector, 1988). Respondents were asked to identify the effect among reward/outcomes and causes using a seven-point Likert-type scale. A higher score on the work locus of control scale indicates a greater degree of external personality, while a lower score is associated with internal traits. Organizational commitment was measured using a summed total of 9-items based on the study by Mowday *et al.* (1979). The response format was a seven-point Likert scale with 1 representing strongly disagree and 7 representing strongly agree. A response of 7 indicates a high level of organizational commitment. A summed three-item turnover intention scale assessed the respondent's immediate turnover intention (within 2 years), middle term turnover intention (within 5 years), and long-term turnover intention (until retirement). This multi-period approach is supported by prior literature in auditing studies (Donnelly *et al.*, 2003a). For the reduced audit quality behaviour, two types of reduced audit quality behaviour deemed harmful to audit quality were used: premature sign-off and altering/replacement of audit procedures. Reduced audit quality behaviour was measured using a summed total of 8-items according to the study by Donnelly *et al.* (2003a).

### Partial Least Square Method

The technique of Partial Least Square (PLS) is used to test the hypotheses. The technique is used because the study has a small sample size and is exploratory in nature (Hair *et al.*, 2014). However, PLS could also be used for the confirmation of a theory (Chin, 1998). PLS enables an overall assessment of the validity of constructs within the total model (Hulland, 1999). The application of PLS model is done in two steps. Firstly, the reliability and validity of the measurement model are assessed. Secondly, the structural model itself is assessed (Chin, 1998; Hulland, 1999; Hair *et al.*, 2012; Hair *et al.*, 2014).

## EMPIRICAL RESULTS

### Measurement Model Analysis

Statistics from the PLS measurement models are used to examine the reliability and validity. The first step uses composite reliability to evaluate the construct measures' internal consistency reliability. As shown in column 2 of Table 1, the composite reliability for each variable is above 0.70, which demonstrates that each variable has an acceptable reliability (Hulland, 1999; Hair *et al.*, 2012; Hair *et al.*, 2014).

The second step is the assessment of validity. Validity is examined by noting a construct's convergent validity and discriminant validity. The convergent validity of the model is carried out by examining the factor loading. Factor loadings of all the items in the model are greater than 0.70 and significant at  $p < 0.01$ . The result demonstrates an acceptable convergent validity (Hair *et al.*, 2012; Hair *et al.*, 2014). The discriminant validity of the measured model is assessed based on the square root of AVE compared to the correlations among the latent variables (Chin, 1998; Hair *et al.*, 2012; Hair *et al.*, 2014).

**Table 1:** Composite Reliability, AVE, and Correlation

Variable	Composite Reliability	AVE	Locus of Control	Correlation Organizational Commitment	RAQ Behavior
Locus of Control	0.984	0.795	<b>0.892</b>		
Organizational Commitment	0.973	0.799	-0.622	<b>0.894</b>	
RAQ Behavior	0.985	0.892	0.729	-0.772	<b>0.945</b>
Turnover Intention	0.981	0.945	0.670	-0.798	0.792

Table 1 show that all the square roots of the AVE are greater than the respective correlation between constructs. Results based on the discussion above demonstrate adequate discriminant validity. Overall, the results from the PLS measurement model indicate that each construct exhibits satisfactory reliability and validity (Chin, 1998; Hulland, 1999; Hair *et al.*, 2012; Hair *et al.*, 2014).

### Structural Model Analysis

The study aimed to examine whether the locus of control and organizational commitment would positively or negatively impact reduced audit quality behaviour through turnover intention. The PLS structural models of relationship are shown in Table 2.



**Table 2:** Path Analysis Result

Dependent variable	Independent Variable	Path Coefficient	T-Statistics	Sig. P-Value
Reduced Audit Quality Behavior	Locus of Control	0.311	3.908	p<0.01
Reduced Audit Quality Behavior	Organizational Commitment	-0.311	1.968	p<0.05
Reduced Audit Quality Behavior	Turnover Intention	0.335	2.763	p<0.01
Turnover Intention	Locus of Control	0.283	3.558	p<0.01
Turnover Intention	Organizational Commitment	-0.622	9.366	p<0.01

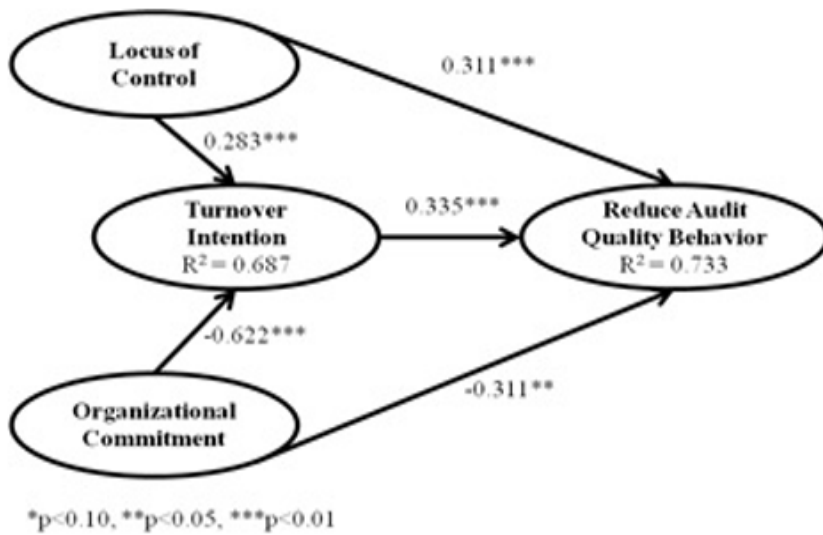


Figure 1. PLS Result

The results presented in Table 2 indicate that locus of control has a significant positive effect on reduced audit quality behaviour ( $\gamma = 0.311, p<0.01$ ). This supports H<sub>1</sub>, which states that the locus of control has a positive effect on reduced audit quality behaviour. A significant negative effect of organizational commitment on reduced audit quality behaviour was found ( $\gamma = -0.311, p<0.05$ ). This supports H<sub>2</sub>, which states that organizational commitment has a negative effect on reduced audit quality behaviour. In addition, it was found that turnover intention has a significant positive effect on reduced audit quality behaviour ( $\beta = 0.335, p<0.01$ ). This supports H<sub>3</sub>, which states that turnover intention has a positive effect on reduced audit quality behaviour.

The findings of the direct effects of locus of control and organizational commitment on reduced audit quality behaviour reveal the positive and negative effects as predicted in the hypotheses (H<sub>1</sub> and H<sub>2</sub>). This study also extends the analysis of locus of control and organizational commitment by demonstrating the indirect effect of locus of control and organizational commitment. The indirect effects may reflect the influence that turnover intention



has on locus of control and organizational commitment with regard to reduced audit quality behaviour. A significant positive impact of locus of control on turnover intention was found ( $\gamma = 0.283, p < 0.01$ ). This supports  $H_{1a}$ , which states that locus of control has a positive impact on turnover intention. In addition, it was found that organizational commitment has a significant negative effect on turnover intention ( $\gamma = -0.622, p < 0.01$ ). This supports  $H_{2a}$ , which states that organizational commitment has a negative effect on turnover intention.

**Table 3:** Direct Effect LOC and OC on RAQ Behaviour without TI

Dependent variable	Independent Variable	Path Coefficient	T-Statistics	Sig. P-Value
Reduced Audit Quality Behavior	Locus of Control	0.407	4.936	$p < 0.01$
Reduced Audit Quality Behavior	Organizational Commitment	-0.521	4.640	$p < 0.01$

The results presented in Table 3 indicate that the path coefficient of the influence locus of control on reduced audit quality behaviour without turnover intention is 0.407,  $p < 0.01$ . However, when turnover intention is included, the path coefficient is reduced in magnitude ( $\gamma = 0.311, p < 0.01$ ) but remains statistically significant. Since the direct effect is significantly different from zero, therefore, it is concluded that turnover intention partially mediates the impact of locus of control on reduced audit quality behaviour (Baron and Kenny, 1986; Preacher and Andrew, 2004). The significance of the indirect effect is computed using the Sobel test (Baron and Kenny, 1986; Preacher and Andrew, 2004). It is found that the indirect effect of locus of control on reduced audit quality behaviour through turnover intention is significant ( $z = 2.13, p < 0.05$ ). This supports  $H_{1b}$ , which states that locus of control has an indirect effect on reduced audit quality behaviour through turnover intention.

Furthermore, the results presented in Table 3 also indicate that the path coefficient of the influence of organizational commitment on reduced audit quality behaviour without turnover intention is -0.521,  $p < 0.01$ . However, when turnover intention is included, the path coefficient is reduced in magnitude ( $\gamma = -0.311, p < 0.05$ ) but remains statistically significant. Since the direct effect is significantly different from zero, therefore, it is concluded that turnover intention partially mediates the impact of organizational commitment on reduced audit quality behaviour. The significance of the indirect effect is computed using the Sobel test. It is found that the indirect effect of organizational commitment on reduced audit quality behaviour through turnover intention is significant ( $z = 2.63, p < 0.01$ ). This supports  $H_{2b}$ , which states that organizational commitment has an indirect effect on reduced audit quality behaviour through turnover intention.

## DISCUSSION, CONCLUSION, AND LIMITATIONS

This study has made a unique and valuable contribution to our understanding of factors associated to the reduced audit quality behaviour. This model predicted that an external locus of control, a weak organizational commitment, and a high turnover intention would affect the reduced audit quality behavior. The result of  $H_1$  showed that auditors with an external locus

of control tend to perform reduced audit quality behavior. These results are consistent with studies conducted by Donnelly *et al.* (2003a) and Paino *et al.* (2014) who found that there is a positive correlation between external locus of control and reduced audit quality behavior. Results are also supported by Kelley and Margheim (1990) who state that when auditors with an external locus of control work under pressure, they tend to ignore the established procedures and conduct reduced audit quality behavior.

The result of H<sub>2</sub> indicated that organizational commitment negatively affects reduced audit quality behavior. These results are in line with Donnelly *et al.* (2003b) who found that auditors with high organizational commitment would most likely not perform reduced audit quality behavior. Conversely, auditors with low organizational commitment would likely carry out reduced audit quality behavior. This result is consistent with Paino *et al.* (2012) who indicated that auditors who are proud and have similar values with the organization are unlikely to ignore the planned audit procedures. Mindarti and Elen (2014) also found that auditors who have different goals from the purpose of the public accounting firm would likely ignore audit procedures. The result of H<sub>3</sub> found a positive influence of turnover intention on reduced audit quality behavior. The result suggests that auditors who have a high desire to leave their jobs would tend to conduct reduced audit quality behavior, while auditors who have a low desire to leave their jobs would most likely not perform reduced audit quality behavior.

H<sub>1</sub> and H<sub>2</sub> revealed the positive influence of locus of control and the negative influence of organizational commitment on reduced audit quality behavior directly. Further, this study examined the indirect influence of locus of control and organizational commitment on reduced audit quality behavior. H<sub>1a</sub> showed that auditors with an external locus of control have a tendency to leave the public accounting firm. This study found that auditors, who have an external locus of control when faced with a complicated job, would not be able to finish it and would choose to leave the firm. This result is supported by Donnelly *et al.* (2003a) who stated that auditors with an external locus of control tend to have a high desire to leave the organization. In addition, H<sub>2a</sub> proved that auditors with a strong organizational commitment tend to have a lower turnover intention. In contrast, auditors with a weak organizational commitment tend to have a high turnover intention. Findings of H<sub>2a</sub> are supported by Mathieu and Zajac (1990) who reveal that organizational commitment is negatively related to turnover intention.

Furthermore, H<sub>1b</sub> also successfully proved that turnover intention mediate the effect of locus of control on reduced audit quality behavior. The result indicated that auditors who have an external locus of control would perform reduced audit quality behavior, due to the indirect effect of the strong desire to leave the job. The hypothesis of H<sub>2b</sub> is accepted, which reveals that turnover intention also mediates the influence of organizational commitment and reduced audit quality behavior. These results indicate that auditors with a low organizational commitment would have a reduced audit quality behavior through a strong desire to leave their job.

This study provides implications for public accounting firms about the importance of understanding personal characteristics of auditors associated with reduced audit quality behavior. Public accounting firms should consider personality tests in the recruitment and selection process to get a professional auditor (Gibson *et al.*, 2012). Moreover, accounting firms also need to design some programs to develop the ability and personality of auditors (Alwi, 2008). Finally, it is important for public accounting firms to support auditors who

want to leave the organization voluntarily. There is no doubt that any turnover is costly in terms of the lost investment in training and development, but this must be balanced against the possible benefits of higher audit quality and the resulting lower costs of avoiding audit failures (Donnelly *et al.*, 2003a).

This study was conducted in Indonesia with a relatively small sample. Therefore, it limits the generalization. This research only studied three personal characteristics. Future studies can replicate or extend this study by using a higher sample size or by adding other personal characteristics such as professional commitment (Paino *et al.*, 2012). Further study can also include ethical aspects such as the ethical attitude (Liza *et al.*, 2013).

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