

REDUCED AUDIT QUALITY BEHAVIOR AMONG AUDITORS IN UGANDA

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ABSTRACT

Reduced audit quality behavior (RAQB) has been linked to poor quality audits. Whereas reduced audit quality behavior has been studied for some time, most of the studies have been carried out in developed countries; yet reduced audit quality behavior has been linked to frauds in least developed countries like Uganda. This research set out to establish the extent of occurrence of reduced audit quality behavior among auditors in Uganda.

Data were collected from 351 certified public accountants (CPA's) practicing as external auditors in Uganda. They completed questionnaires indicating the extent to which they have engaged in the seven reduced audit quality acts commonly cited in the literature.

Results show that reduced audit quality behavior is a widespread problem in Uganda. The most engaged in act is accepting client explanation as a substitute for other evidence that would be readily available while the least engaged act is extending the scope of examination when suspicious transactions are detected.

Key words: Reduced Audit Quality Behavior, Confirmatory Factor Analysis, Reliability, Validity, Certified Public Accountants

I. INTRODUCTION

During the last few years governments and professional bodies have tried in vain to put a stop to a lengthening series of audit failures. Their effort has included increased legislation and governance. However, audit failures have continued in spite of these efforts. These audit failures have been linked to reduced audit quality behavior (RAQB) of auditors involved in the audits. Survey based research has shown that reduced audit quality acts are wide spread 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, Glavovic, Ng and Woodliff., 2008); and Malaysia (Paino, Ismail, and Smith, 2010). However, there is hardly any research on the existence of reduced audit quality behavior among the least developed countries like Uganda.

Reduced audit quality behaviour (RAQB), described as the intentional actions taken by an individual auditor, that reduce evidence gathering inappropriately (Malone and Roberts, 1996), has been found to have potentially hazardous effects on audit quality (Public Oversight Board, 2000). Such behavior increases the risks that an inappropriate audit opinion will be formed, and the financial statement users will be harmed (Coram et al., 2008). It is estimated that annual losses due to fraud in Uganda were US\$ 400 Million in the year 2000 (Gichure, 2000). On 24th October, 2012, the Monitor and New Vision newspapers reported that between 2009 and 2012, a total of Ugandan Shs. 169 billion meant to be paid to former retired Government of Uganda workers as pension had been paid to 3000 non existing workers ("ghost workers"). On November, 2012, the Monitor Newspaper reported that an estimated Ugandan Shs. 50 billion had been misappropriated in the Office of the Prime Minister during the financial years 2010/11 and 2011/12. In response to the frauds, Mr. Ofwono Opondo, the Deputy spokesperson of the ruling party wrote in the Sunday Vision of 23rd December, 2012, as follows:

For starters, it is the Finance Ministry, particularly the Treasury department that posts all accountants, internal auditors and procurement officers to ministries and government departments, and they are the ones who have been conniving to cover each other's backs. These officers are answerable and report to the Treasury. The Auditor General's office is not as

innocent either as it first appears because, its officers have been closing the loopholes for the thieves in the ministries, while annually issuing near-clean financial bills of health.

Speaking after reading the budget on the 14th June, 2013, the President of Uganda, His Excellency Yoweri Musevi confirmed the above position when he said:

The corruption cases from the Office of the Prime Minister, from the Ministry of Public Service and from the Ministry of Health that are now in court were detected by the NRM sympathizers and the Police.

According to the statement of auditing standards No. 53, the auditor has the responsibility to plan and perform the audit to obtain reasonable assurance that any material misstatements (including those caused by fraud) is detected and reported (American Institute of Certified Public Accountants, 1988). However, most frauds involving huge sums of money were not being reported on by the auditors as indicated above by Ofwono Opondo and His Excellency President Museveni. The failure to report gross financial impropriety by the auditors could be linked to high prevalence of reduced audit quality behaviour among auditors in Uganda. This study sought to establish the extent of occurrence of reduced audit quality acts among auditors in Uganda.

II. LITERATURE REVIEW

Reduced audit quality behaviors that are common in audit practice include: premature signing of audit steps without actually carrying out the required procedures (Alderman and Dietrick, 1982; Hyatt and loving, 2001; Otley and Pierce, 1996a; Raghunathan , 1991; Rhode 1978); using client explanations as a substitute for other evidence (Coram et al., 2003; Dalton and Kelly, 1997; Kelly and Margheim, 1990; McNair, 1991; Otley and Pierce, 1996a; Willet and Page, 1997;), making superficial reviews of client documents (Kelly and Margheim, 1987, 1990; Otley and Pierce, 1996a); inadequate research of accounting principles (Kelly and Margheim, 1987, 1990;McNair, 1991; Otley and Pierce, 1996a); using a biased sample (Coram et al., 2003; Willet and page, 1996), not pursuing questionable items (McNair, 1991); falsifying actual time spent on the audit (Otley and Pierce, 1996a).

A number of studies have surveyed auditors on their engagement in reduced audit quality behaviors. Lightener *et al.* (1982) found 67 percent of the Big eight auditors surveyed admitted to underreporting time. Alderman and Deitrick (1982) found 31 percent of the Big 8 auditors surveyed in Texas acknowledged that pre-maturely signing off work-papers occurs in practice. Willet and Page (1996) found that only 78 percent of the finalist taking the institute of Chartered Accountants test in England and Wales admitted to speeding up of audit testing by irregular methods. Malone and Roberts (1996) reported that 25 percent of the auditors surveyed admitted to falsely signing off, 42 percent admitted to failing to research a technical issue, while 48 percent

admitted to superficially reviewing supporting documents. Fifty percent had failed to pursue questionable items, while 58 percent had accepted weak client explanation from their clients. Only 26 percent of auditors had never done less work than normal. Coram et al. (2003) found that two thirds of Australian respondents had “sometimes” performed reduced audit quality practices. Additionally, Otley and Pierce (1995), found that 89 percent of the big six auditors in Ireland had participated in reduced audit quality behaviors. Paino et al., (2010) found that 57 per-cent of 244 auditors surveyed in Malaysia admitted to signing off pre-maturely. Herrbach (2001) also indicated that specific acts that constitute reduced audit quality behavior differ in their levels of occurrence.

Coram *et al.* (2008) found that reduced audit quality acts differ in terms of their moral intensity and this could explain why some acts are more prevalent than others. They found that differences existed in perception about reduced audit quality acts relating to the probability of effect to auditors and the magnitude of consequences to auditors. These results suggest that reduced audit quality acts differ in terms of their “moral intensity” and this could explain why some acts are more prevalent than others. Coram *et al.* (2008) also examined the underlying attributes of reduced audit quality acts and found that auditors viewed false sign off as the worst reduced audit quality act followed by failure to pursue questionable items, failure to pursue a technical issue, accepting weak client explanation, not testing all items in a sample and superficial reviews. It was therefore hypothesized that:

H1: Some reduced audit acts would be more prevalent than others

Auditors seem to be confident that some reduced audit quality acts do not have a negative impact on audit quality since they involve only immaterial aspects of the engagement (Raghunathan, 1991; Otley and Pierce, 1996; Willet and Page, 1996). Herrbach (2005) argued that French audit seniors felt that some steps are more important than others. Some auditors view some of the procedures in the work programmes as not being necessary, which introduces subjectivity in the audit process. Many audit seniors consider reduced audit quality acts as a coping mechanism that allows adapting the work they perform to their perceived engagement constraints. This enables them to view reduced audit quality acts as legitimate, because it enables them to focus on what they consider risky.

Although there has been an attempt to legitimize some reduced audit quality acts, other forms like false sign off are considered a taboo by auditors. Hence the way an auditor treats a given reduced audit quality act is a reflection of his or her perception of the functional or dysfunctional nature of the behavior. This makes it important to understand how external auditors in least developed countries perceive reduced audit quality behavior.

III. METHODOLOGY

This section discusses the research methods and design used in this study.

A. Research Design

The quantitative research approach was the preferred approach for this research based on nature of the research. Drawing on the existing literature on reduced audit quality behavior, this study sought to establish the extent of engagement in reduced audit behavior by auditors based on the seven acts frequently cited in the literature and used by Coram et al., (2003). Punch (1998) maintains that the methods used to conduct the research should be in line with the research questions. Therefore, a quantitative approach was carried out in this study to test the hypotheses and then to answer the research questions. Quantitative methods have been described as “an organized method for combining deductive logic with precise empirical observations of individual behaviour in order to discover and confirm a set of probabilistic causal laws that can be used to predict general patterns of human activity. While quantitative methodology is unable to generate theory or provide the in-depth explanations of qualitative enquiry, Cavana (2001) and Amaratunga et al. (2002) point out that it can verify the hypotheses and provide strong reliability and validity. Added to this, quantitative methodology has been successfully used in previous studies on reduced audit quality behavior.

Although the main study in this research is quantitative, it was deemed appropriate and in line with a logical empiricism, to undertake some qualitative research to support the quantitative research. Creswell (2007, p39) suggests that qualitative research is undertaken “because a problem or issue needs to be explored”. He goes on to state that “we also conduct qualitative research because we need to have a complex, detailed understanding of the issue” (P40). This being the first research on reduced audit quality behaviour in Uganda; it needed as much clarification as possible. For further conceptual validation, qualitative information might be worthwhile in any research approach. Accordingly, the study incorporates both quantitative and qualitative triangulation of data where empirical findings show the level of significance of the relationship, and quantitative information explores interpretation of the phenomena.

The study also employed a cross sectional survey design. In a cross-sectional study, a particular phenomenon is studied at a particular period of time. Cross sectional designs are suited for studies aimed at finding out the prevalence of a phenomenon, situation, problem or attitude, by taking a cross-section of the population at a given time. This being a behavioral study, a cross sectional design was ideal.

B. Measures

Reduced audit quality behavior was measured using Coram et al., (2008), questionnaire. The questionnaire identified the seven reduced audit quality acts most commonly cited in prior reduced audit quality behavior literature (Malone and Roberts, 1996; Otley and Pierce, 1996; Herrbach, 2001). The seven items using a five point scale, anchored by "Always=1, Often=2, Sometimes=3, Rarely=4 and Never=5".

C. Final Survey sampling Frame

Following the pre-test, the final survey was administered in the field. This section of the paper begins with a discussion of the sampling frame related to the final survey. This is followed by detailed descriptions of the procedures undertaken to administer the collection of data.

D. Population and sample

The study population was all Certified Public Accountants (CPA's) involved in external auditing of private and public entities in Uganda. To obtain a representative sample, stratified random and cluster sampling were used to select auditors to participate in the study. A list of firms from Institute of Public Accountants of Uganda (ICPAU) was used to select a sample of 127 firms from a total of 168 based on Krejcie and Morgan (1970). Questionnaires were then distributed to the 127 firms and delivered to the partners in the firm to distribute to Certified Public Accountants in the firms. The office of the Auditor General was purposefully selected because it is a Supreme Audit Institution, the only firm permitted to audit the public sector. A total of eighty auditors were randomly selected from a list of 96 Certified Public Accountants employed by the office at that time, making a total of 400 sampled respondents.

E. Qualitative Sample.

A total of twelve certified public accountants practicing as external auditors and one senior officers of the Institute of Certified Public Accountants of Uganda were interviewed. These interviewees were considered sufficient for this study because little new or relevant data seemed to come up from the latter interviews, which tends to imply that the interview results were becoming "theoretically saturated" (Strauss & Corbin, 1990). Moreover, such a sample is not uncommon in the auditing literature: Kosmala Maclulich (2003) based her paper on 15 interviews, Hines et al. (2001) had a sample of 16, Beattie and Fearnley (1998) interviewed 12 individuals while Herrbach (2005) interviewed 15 auditors.

IV. RESULTS

This section sets out the results from data analysis

Descriptive statistics

Descriptive statistics and correlation analysis, Means and standard deviations for all variables are listed in table 1 and 2.

A. Sample characteristics

A total of 352 responses were received giving an overall response rate of 89.2 percent. A number of variables were used in order to describe the sample characteristics. The results indicate differences in the demographics of the respondents including gender, age, educational qualification, audit working experience and position in the firm nights. Analysis of the final sample profile showed a higher number of male respondents than female representing a ratio of 69.7% and 30.3%, respectively. The mean age of respondents in this thesis was 44.7 years, while 62.4 percent of the respondents had bachelor's degrees. The majority of respondents were auditors (49.5%); senior auditors were (25.6%). Most respondents had auditing experience of 4-6 years (31.9%), while those of 0-3 years were (24.9%).

Table 1: Frequency and admittance

Reduced audit quality acts	Frequency %					Admittance %
	Always	Often	Sometimes	Rarely	Never	
raq1: How often do you extend the scope of examination when suspicious transactions are detected	57.8	30.0	5.4	6.1	6	42
raq3: How often do you perform all procedures on all items in the sample	40.9	44.1	9.3	5.1	.6	59
raq5: How often do you research a technical issue and professional standards relevant to the issues, when unsure of the correct accounting treatment	54.6	30.4	9.6	3.2	2.2	45.4
raq7: How often do you accept client explanation and use them as a substitute for other evidence that you could reasonably expect to be available	8.6	14.4	38.7	32.3	6.1	94

raq9: How often do you sign off a required audit step, which is not covered by other steps, without completing, or noting the omission of the procedure	5.4	7.3	18.8	43.8	24.6	75.4
raq11: How often do you quickly review supporting documents without paying much attention to their validity or accuracy	7.0	5.8	16.0	38.3	32.9	67.1
raq13: : During examination, how often do you discard awkward-looking items from a sample, which seem complex and/or time consuming, and replacing them with others	4.8	10.5	20.1	36.4	28.1	71.9
Raq14: How often do you think other auditors act in the above manner	3.8	11.2	27.5	40.6	10.9	

Table 2: Means and standard Deviations

	Mean	Std. Deviation
raq1: How often do you extend the scope of examination when suspicious transactions are detected	1.61	.88
raq3: How often do you perform all procedures on all items in the sample	1.80	.85
raq5: How often do you research a technical issue and professional standards relevant to the issues, when unsure of the correct accounting treatment	1.68	.93
raq7: How often do you accept client explanation and use them as a substitute for other evidence that you could reasonably expect to be available	3.12	1.05
raq9: How often do you sign off a required audit step, which is not covered by other steps, without completing, or noting the omission of the procedure	3.74	1.07
raq11: How often do you quickly review supporting documents without paying much attention to their validity or accuracy	3.84	1.15
raq13: : During examination, how often do you discard awkward-looking items from a sample, which seem complex and/or time consuming, and replacing them with others	3.72	1.12

Source: Data analysis

V. DISCUSSION OF RESULTS

A. The extent of occurrence of Reduced Audit Quality Behaviour

The results show that the extent of occurrence of reduced audit quality acts varies as hypothesized in H1; with the most engaged in act being; accepting weak client explanation as substitute for other audit evidence that could be availed, and the least engaged in act being extending the scope of examination when suspicious transactions are detected. This shows that when suspicious transactions are detected most auditors will tend to extend the scope of their work in order to avoid issuing a wrong audit

opinion. The study provides evidence showing that reduced audit quality behavior is a problem in Uganda because 94 percent of all the auditors involved in this study admitted to engaging in at least one type of reduced audit quality behavior. This may suggest that auditors continue getting involved in unprofessional behavior which could have a detrimental effect on the audit opinion. A number of respondents interviewed admitted to engaging in reduced audit quality acts. They justified their involvement in these acts with various reasons which included; favorable performance appraisal, budget constraints and profit motive. One respondent stated as follows:

To a big extent I carry out most of the procedures, and I leave out others when I feel that I have done enough, it is not deliberate. Sometimes, I look at the steps and they are routine, there are those you take for granted. Sometimes, I rely on management representation because the standards also allow it. When you detect suspicious transactions, by going further you can open a can of worms for the one who has done it. The only way I can carry out all procedures is if there are constant reviews by the audit manager.

Another respondent had this to say:

Am appraised based on the number of procedures I have carried out during the audit, sometimes am forced to sign off steps I have not carried out in order to get a favorable performance assessment from my superiors. But when I see a suspicious looking item in the sample, I extend my audit until am satisfied that there is nothing wrong with this item, I don't take chances with a suspicious looking item.. There are also situations when I don't carry out all procedures and I depend on client explanation. If a person explains and I am satisfied I can take the explanation as evidence.

To explain his involvement in reduced audit quality acts a respondent had this to say:

The client determines the audit fees based on the budget, the only way you can perform an audit within the clients budget is by performing procedures that you consider important and leave out the ones that are not risky. If you reject work based on low audit fees, you may find yourself with little or no work at all.

The results seem to suggest that different reduced audit quality acts are viewed differently by different auditors. The results are in agreement with Herrbach (2001) and Coram et al. (2003) who found that specific acts that constitute reduced audit quality behavior differ in their levels of occurrence. The results also agree with Coram et al. (2008), who found that reduced audit quality acts vary because of differences in moral intensity and this explains why some acts are more prevalent than others. They found that differences existed in perception about reduced audit quality acts relating to the probability of effect to auditors and the magnitude of consequences to auditors. This is consistent with Jone's (1991) model of moral intensity which posits that the attributes of a moral dilemma affect multiple components of the ethical decision making process.

CONCLUSION

The study found that reduced audit quality behaviour is a widespread problem, the most engaged in reduced audit quality behavior is accepting client explanation as a substitute for audit evidence, while the least engaged in is extending the scope of examination when suspicious transactions are detected.

According to Bandura (2002) “people do not usually engage in harmful conduct until they have justified to themselves, the morality of their actions”. He posits that “selective” activation and disengagement of self-sanctions permits different types of conduct. Auditors seem to justify moral disengagement on grounds of risk, thus creating a situation where some procedures are viewed as being more important than others. This justifies the skipping of such procedures in order to concentrate on what is considered more important audit steps. This has been attributed to lack of supervision created by partners taking up more jobs than they can supervise. This has been attributed to the desire to maximize profit. Reduced audit quality behavior seems to be a coping mechanism that enables auditors to overcome budget constraints. Such a justification allows behaviors that are otherwise not allowed by the auditing standards. This implies that when auditors are faced with time or other pressures they tend to concentrate on areas and procedures they consider risky exposing the less risky areas to material misstatements. This means that the cumulative errors in relatively less risky areas can amount to a material error that can mislead the users of the financial statements. This is a dangerous trend which shows that a number of material misstatements may have gone undetected simply because they fall in areas that auditors consider as being low risk.

Managerial Implications

The results of the study show the reduced audit quality acts that are commonly engaged in by auditors. This could impact on auditing procedures, hiring, training and promotion decisions and help to minimize the occurrence of reduced audit quality behavior.

Limitation of the study

This research used the self-reported measure of reduced audit quality behavior. If the data was collected from supervisors or peers of the respondents, the findings may well have turned out to be different from the ones reported in this research. Future research should be based on supervisors’ ratings of staff.

All operational measures in behavior research, only partially capture the underlying constructs. Thus measurement errors may have reduced the reliability of the scales.

Another limitation involves the cross-sectional nature of the study. We do not know whether these results would change overtime. Longitudinal research could provide strong evidence to support our findings.

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