

The Moral Intensity of Reduced Audit Quality Acts

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ABSTRACT: This paper examines the underlying attributes of reduced audit quality (RAQ) acts. Since RAQ acts are ethical judgments, we examine whether they could vary because of differences in ‘moral intensity’. Moral intensity was proposed by Jones (1991) in a model that looked at the attributes of the moral issue itself. This study focuses on three components of Jones’ model (social consensus, magnitude of consequences, and probability of effect) to differentiate among RAQ acts. Based on the responses of a questionnaire sent to auditors, the findings suggest that differences exist in perceptions about RAQ acts relating to the probability of effect to auditors and the magnitude of consequences for auditors. There was, however, less variation among the acts on the social consensus dimension. Taken together, these results suggest that RAQ acts do differ in terms of their ‘moral intensity’ and could explain why some acts are more prevalent than others. The low variation in the social consensus dimension of moral intensity shows that auditors do think these acts are equally wrong but the variation in the other dimensions indicate that auditors differ in what they believe will be the consequences of these acts.

Key Words: *Reduced Audit Quality; Moral Intensity; Ethical Judgments*

INTRODUCTION

The value of the audit function is underpinned by the quality of the audit work performed. Reduced audit quality (RAQ) behavior, described as the intentional actions taken by an auditor that reduce evidence gathering inappropriately (Malone and Roberts 1996), compromises the quality of the audit as such behavior increases the risks that an inappropriate audit opinion will be formed and that financial statement users will be harmed. Hence, RAQ acts have the ability to “threaten the outcome of the engagement and the validity of the audit opinion” (Herrbach 2001, 790).

Prior studies (e.g., Rhode 1978, Alderman and Deitrick 1982, Margheim and Pany 1986, Kelley and Margheim 1990, Raghunathan 1991, Malone and Roberts 1996, Herrbach 2001, Coram et al. 2003) have documented the existence of RAQ behavior. In their examination of RAQ behavior, these studies have tended to treat RAQ acts as a homogeneous group. However, this may not be the case as the findings by Malone and Roberts (1996), Willett and Page (1996), Otley and Pierce (1996), and Herrbach (2001) indicate that specific acts that constitute RAQ behavior differ in their levels of occurrence. Furthermore, Coram et al. (2004) provide evidence that auditors perceive differences in RAQ acts, and suggest that differences may exist in the underlying attributes of RAQ acts.

Our study extends the auditing literature by examining the characteristics of RAQ acts. Coram et al. (2004) suggest that as RAQ acts are ethical judgments, they could vary because of differences in the ‘moral intensity’ of each act. The concept of ‘moral intensity’ was proposed by Jones (1991) in a model that looked at the attributes of moral issues. This study attempts to differentiate RAQ acts based on

three of the moral intensity dimensions proposed by Jones (1991): *social consensus*, which Jones described as the extent of agreement as to whether an act is evil (or good); *magnitude of consequences*, which refers to the aggregate of the harms (or benefits) that occur as a result of the act; and *probability of effect*, which refers to the likelihood that the act will occur and will cause the harms (or benefits) that are predicted. We refine these dimensions to be context specific for our study, and the magnitude of consequences and probability of effect are examined in relation to their perceived effect on both the auditor and financial statement users.

This study has implications for research and practice. First, prior studies that have examined the effect of organisational, personal and environmental factors on RAQ behavior have tended to treat RAQ acts as if they are a homogeneous group. That is, auditors' responses relating to the frequency with which various RAQ acts were committed have generally been aggregated to derive a single measure of RAQ behavior. However, if RAQ acts do differ in their underlying attributes, then aggregating data from different acts may confound results, and conclusions may also differ depending on the RAQ act(s) chosen. By examining the nature of RAQ acts, our study provides some direction for future research. Similarly, a greater understanding of RAQ acts will provide insights into why some acts are more likely to be committed which will assist the auditing profession in identifying ways to minimise this behavior.

Our study uses a questionnaire to determine whether RAQ acts differ in moral intensity. Seven RAQ acts commonly cited in the literature were examined. The sample consisted of 54 auditors from the Big 4 firms and four medium-sized firms. The results indicate that RAQ acts do differ in terms of the levels of moral intensity. The main differences in auditors' perceptions about RAQ acts related to the

probability of effect to auditors and the magnitude of consequences for auditors. That is, auditors viewed the seven acts to differ in terms of their likelihood of detection and the severity of penalties if the act is discovered. There was less variation among the acts on the social consensus dimension. However, all acts were rated highly on this dimension suggesting that auditors perceive them to be highly unethical.

PRIOR RESEARCH AND RESEARCH QUESTIONS

RAQ Research

Much of the prior literature on RAQ behavior has centred on identifying the extent of this behavior, the staff positions more likely to commit the behavior, the reasons why auditors commit RAQ, and the audit areas when this behavior is prevalent (e.g., Rhode 1978, Alderman and Deitrick 1982, Margheim and Pany 1986, Raghunathan 1991).

Some studies have also identified the extent to which *specific* RAQ acts are committed and reported differences in the levels of their occurrence. Willett and Page (1996), for example, reported differing levels of performance among three RAQ acts. Specifically, they reported that their auditors were more likely to reject awkward-looking items from a sample, followed by not testing all items in a reported sample and accepting doubtful audit evidence.

Malone and Roberts (1996) examined the impact of auditors' professional and personality characteristics, audit firms' quality and review procedures, audit firm structure, and auditors' perceptions of time budget pressure on the incidence of RAQ behavior. They reported differing levels of occurrence for six RAQ acts, with 75 percent of auditors indicating that they never used false signoff. Fifty-eight percent indicated they had never failed to research a technical issue, followed by 52 percent

who had never committed the act of superficially reviewing supporting documents. Fifty percent of auditors had never failed to pursue questionable items, while 42 percent had never accepted weak explanations from their clients. Only 26 percent of auditors had never done less work than normal.

Otley and Pierce (1996) used four RAQ acts to examine the effect of organisational factors on the propensity to commit RAQ. They reported that the most frequently performed RAQ act was superficial review of documents, followed by accepting weak client explanations, reducing work below what was considered reasonable, with the least frequently performed act being failure to research an accounting principle.

Herrbach (2001) examined the effect of organisational commitment and the psychological contract between the auditor and the audit firm on RAQ behavior. Six RAQ acts were examined, and again the levels of occurrence varied. For example, 92 percent of auditors indicated that they had never committed false signoff, while only 8 percent indicated that they had never superficially reviewed client documents.

Interestingly, although reporting differences in the occurrence of various RAQ acts, Malone and Roberts (1996), Otley and Pierce (1996) and Herrbach (2001) aggregated the responses to their questions on the frequency of RAQ acts to derive a composite measure to represent RAQ behavior. This composite measure was then used as the dependent variable to test their hypotheses. By doing so, these studies treated RAQ acts as if they were homogeneous behaviors. However, if RAQ acts differ in their attributes, it is possible that aggregating responses to different acts may not be appropriate, and different conclusions might be reached depending on the RAQ act(s) used. The findings by Herrbach (2001) and Coram et al. (2004) provide support for this conjecture. Herrbach's attempts to aggregate his six acts into a single measure

resulted in a composite measure comprising only five acts, and led him to conclude that false signoff "...seems to be a different phenomenon (2001, 795)". Coram et al. (2004) investigated the joint effect of time budget pressure and risk of misstatement on RAQ behavior. Two RAQ acts were separately examined in the study, and Coram et al. (2004) reported that time budget pressure interacted with risk of misstatement for only one of the two acts. This finding led them to suggest that auditors may perceive differences in the RAQ acts themselves, and they proposed that the acts may differ in terms of moral intensity.

Jones' Moral Intensity Model

The decision to perform an RAQ act is an ethical decision by the auditor. Jones (1991, 367) describes moral issues as those "where a person's actions, when freely performed, may harm or benefit others". RAQ acts can be classified as moral issues, as auditors, usually due to tight time budgets, freely perform these acts. These behaviors have the potential to harm financial statement users as invalid audit opinions may be given. Thus, an RAQ act is a moral issue as it has consequences for others, and involves choice, or volition on the part of the auditor.

Jones (1991) proposed an issue-contingent model of ethical decision making by individuals in organisations.¹ Jones described moral intensity as a multidimensional construct that "captures the extent of issue-related moral imperative in a situation" (1991, 372). Jones identified six dimensions of moral intensity:

1. the magnitude of consequences - the aggregate harm done to victims or aggregate benefits accruing to beneficiaries

¹ Jones (1991) argued that earlier models of ethical decision making focused solely on the moral agent or the environment, whereas his model looks at the moral issue itself.

2. social consensus - the level of agreement about the goodness or evil of a proposed act
3. the probability of effect - the likelihood of the act occurring and the expected consequences of the act
4. temporal immediacy - the length of time between the act and its ethical consequences
5. proximity - the degree to which the individual can identify with potential victims or beneficiaries, and
6. concentration of effect – defined by Jones as “an inverse function of the number of people affected by an act of given magnitude” (1991, 377).

Jones (1991) contended that moral issues of high intensity are more salient and more vivid than those of low intensity. As the intensity or severity of a component increases, the perceived total “ethical heat” of the issue increases (Frey 2000). This in turn is expected to lead to greater awareness of the ethical content of an issue, and reduced likelihood of engaging in an ethically questionable course of action.

In the context of RAQ acts, the first three dimensions (social consensus, magnitude of consequences, and the probability of effect) are relevant as it is our expectation that they will vary among acts. The dimensions of proximity, concentration of effect, and temporal immediacy are not included in this study since the acts themselves do not determine the time interval between performing the act and any consequences, the number of people affected by the act, nor the proximity of the auditor to the ultimate financial statement users.

Social Consensus

According to Jones (1991, 375), social consensus is “the degree of social agreement that a proposed act is evil (or good)”. Jones incorporated social consensus in the moral intensity model for logical and empirical reasons. From a logical perspective, Jones argued that “it is difficult to act ethically if a person does not know what good ethics prescribes in a situation; a high degree of social consensus reduces the likelihood that ambiguity will exist” (1991, 375). Empirically, Jones cited the results of Laczniak and Inderrieden (1987), who found that subjects were more likely to reject illegal decisions than unethical (but legal) decisions. Jones suggested that “the social consensus that is implied by legal prohibition of a practice reduces moral ambiguity for the moral agent” (1991, 475). Thus, the behavior of individuals is linked to laws and governing rules. Behavior can also be linked to the influence exerted by authority figures or peers. Singhapakdi, Vitell and Kraft (1996, 47) suggested that social consensus is “a somewhat nebulous term” and individuals may gauge the level of social consensus by reference to what “significant others (i.e., family, friends, other employees)” believe.

Applying the social consensus dimension to RAQ acts, it is expected that auditors’ perceptions of the acts’ social consensus will be influenced, on the one hand explicitly, by auditing standards and, on the other hand implicitly, by individuals or groups of significance to the auditor.

The following research question is proposed to examine the social consensus dimension of moral intensity:

RQ1: Do reduced audit quality acts vary with regards to the levels of perceived social consensus that the act is wrong?

Probability of Effect

Probability of effect refers to the likelihood that the act in question will actually cause the harm (benefit) predicted. Jones contended that this dimension was a logical inclusion in the determination of moral intensity. The probability of effect of an ethical issue is positive related to individuals' ethical perceptions (Singhapakdi et al. 1996).

Applying this dimension to RAQ acts, we argue that there are two aspects to the effect caused by RAQ acts. On the one hand, there is the likelihood of effect to users and, on the other hand, there is the likelihood of effect to the auditors themselves. In the case of the former, the harm of an RAQ act is the incorrect audit opinion and thus the probability of effect is the likelihood of an incorrect audit opinion if a particular RAQ act is performed. The probability of effect is expected to differ among RAQ acts as some acts are more severe than others. For example, if we compare false sign off (in which the whole step is not conducted) with not checking a few items in the sample, the first act has the greater probability of harm to financial statement users (i.e., more likely to lead to an incorrect audit opinion).

In the case of the probability of effect to auditors, we view this aspect from the perspective of the RAQ act being discovered. The literature suggests that the likelihood of detection is an important consideration in the decision to commit RAQ behavior. For example, Otley and Pierce (1996) found an inverse relationship between the effectiveness of audit review procedures and the level of RAQ behavior. Similarly, the Commission on Auditors' Responsibilities Report (1978) noted that the greatest concern of auditors who engage in premature sign-off is the "risk of discovery by their supervisor". We expect the probability of getting caught to be

different among acts as some are easier to hide than others and thus are less likely to be detected in quality control and review procedures.

The following research question is proposed to examine the probability of effect dimension of moral intensity:

RQ2: Do reduced audit quality acts vary with regards to the levels of perceived probability of effect?

Magnitude of Consequences

Jones (1991, 374) describes the magnitude of consequences as “the sum of the harms (or benefits) done to victims (or beneficiaries) of the moral act in question”. It is expected that moral concerns are directly related to the severity of the consequences associated with the act.

In applying this dimension to RAQ acts, the severity of consequences for financial statement users is represented by the degree to which an act will lead to an incorrect audit opinion. Therefore, the probability of effect and the magnitude of consequences for financial statement users can be jointly measured by the likelihood of an incorrect audit opinion.

We also argue that there are potential consequences for auditors who decide to commit RAQ acts. These consequences relate to the penalties associated with the discovery of the acts, and it is expected that the severity of the consequences is commensurate with the severity of the act. Hence, if caught, the magnitude of consequences for auditors is likely to vary depending on the RAQ act committed.

The following research question is proposed to examine the magnitude of consequences dimension of moral intensity:

RQ3: Do reduced audit quality acts vary with regards to the levels of perceived magnitude of consequences?

In this study we expect that RAQ acts will have different levels of moral intensity. In particular, some of the prior research suggests that the RAQ act “false signoff” will be seen differently by auditors. As discussed earlier in this paper, Herrbach (2001) concluded that that false signoff seemed to be different to other RAQ. Other studies support the contention that false signoff is seen differently by auditors.² Kelley and Margheim (1990) found “prematurely signing off an audit step”³ to be clearly the least commonly used of the five audit quality reduction acts examined in their study. Malone and Roberts (1996) found false signoff to be the most rarely used of all of the six RAQ behaviors examined in their study. From these studies it is apparent that auditors seem to evaluate “false signoff” as being more unacceptable behavior than some of the other RAQ acts. We therefore expect that false signoff will have a higher level of moral intensity compared to other RAQ acts.

RESEARCH METHOD

A questionnaire was distributed to Australian auditors from all Big 4 firms and four medium sized firms in one of the state capital cities. Eighty-seven questionnaires were sent and 54 responses were received, giving a response rate of 62 percent. Table 1 shows the descriptive statistics for the participants in the study. Seventy-eight percent of respondents were employed by Big 4 firms and 67 percent of respondents were males. In terms of audit experience, 24 percent of respondents indicated that

² Willett and Page (1996) and Otley and Pierce (1996) did not explicitly examine “false signoff”.

³ This is very similar to “false signoff”. The main difference is that prematurely signing off an audit step alludes to the possibility that *some* audit work was done whereas false signoff may relate to some work being done before prematurely signing off or no work done at all before signing off.

they had between one and two years' experience, approximately 32 percent had between 2 and 3 years' experience, 17 percent had three to four years' experience, while 13 respondents (24 percent) indicated that they had more than four years' experience. Univariate analyses using a Bonferroni adjusted alpha did not find any difference in the level of responses based on experience, gender or firm size. To try and identify any non-response bias, the responses of those replying after the due date were compared with those replying before the due date on the premise that the late respondents would be more likely to be representative of the non-respondents. Mann-Whitney U tests identified only one significant ($p < .05$) difference for the seven RAQ acts across the four dimensions examined suggesting that non-response bias is unlikely to impact on the results.⁴

Insert Table 1 here

The questionnaire identified the seven RAQ acts most commonly cited in prior RAQ literature (e.g., Malone and Roberts, 1996; Otley and Pierce, 1996; Herrbach, 2001). These acts (in no particular order) were:

1. failure to pursue questionable items
2. not testing all items in a sample
3. failing to research a technical issue
4. accepting weak client explanations
5. false signoff
6. superficial review of client documents
7. rejecting awkward-looking items from a sample

⁴ Late respondents agreed more strongly than early respondents that "most auditors would agree" (social consensus) false signoff was wrong ($Z=-2.005, p<0.05$).

Each act was defined in the questionnaire, and an example of each act was provided. The definitions provided and examples used in the questionnaire are reproduced in the Appendix. Four questions were developed to measure the moral intensity dimensions of social consensus, probability of effect, and magnitude of consequences. Respondents were provided with these statements and were asked to rate the seven acts on each statement.

To measure the social consensus dimension, respondents were asked to rate each act on the statement “Most auditors would agree that the act is wrong” using a scale ranging from 1 (strongly disagree) – 7 (strongly agree). To measure the probability of effect on auditors (i.e., the likelihood of detection), respondents were asked to rate each RAQ act on the statement “If an audit assistant performed the act, what is the probability that the action will be discovered by his/her superiors?” The rating scale ranged from 0 (nil) – 6 (highly likely). For this statement, we asked the question from the perspective of an ‘audit assistant’. This approach has been used in other studies in the RAQ literature (e.g., Margheim and Pany 1996, Coram et al. 2004) to elicit greater honesty in participants’ responses, and thus reduce social desirability bias in the study.

In addition to the likelihood of the auditor being discovered for committing the RAQ act, we were also interested in the potential magnitude of consequences for the auditor. This was operationalised by the penalty associated with the act if the act was discovered. To measure the magnitude of consequences for auditors, respondents were asked to indicate their beliefs on the extent of penalties that would be associated with the discovery of the seven RAQ acts by rating each act on the statement “If the act was discovered, what level of disciplinary action an audit assistant would face?” The 7-point rating scale ranged from 0 (nil) – 6 (severe).

As discussed earlier, the magnitude of consequences for financial statement users and the probability of effect to financial statement users are represented by the likelihood that the RAQ act leads to an incorrect audit opinion. Respondents were presented with the statement “The performance of the act can lead to an incorrect audit opinion” to measure this likelihood. The response scale ranged from 1 (strongly disagree) – 7 (strongly agree).

RESULTS AND DISCUSSION

The data are firstly analysed by each measure of moral intensity (Tables 2 to 5), and then by an overall analysis (Table 6). Non-parametric tests are used in this study as the data are not normally distributed. Friedman tests are performed for each measure of moral intensity to examine overall differences among the seven acts and then Wilcoxon sign-ranked tests are used to identify differences between the acts.

Social Consensus

Table 2 outlines the means, the standard deviation, and the Friedman test rankings for each of the RAQ acts on the social consensus component of moral intensity. It also shows the results of the Friedman test performed and the results of the Wilcoxon sign-ranked tests comparing differences in perceptions of social consensus between RAQ acts.

Insert Table 2 here

As can be seen from Table 2 there is a high degree of social consensus that auditors perceive all of the RAQ acts listed as “wrong”, with the mean responses

ranging from 5.9 to 6.3 out of a maximum of 7 (strongly agree that the act is wrong). The Wilcoxon tests revealed few perceived differences among the acts. Table 2 shows that false signoff was perceived to be significantly more unacceptable than all of the other acts except failure to pursue questionable items. Failure to pursue questionable items was considered significantly more unacceptable than rejecting awkward items from a sample and marginally different ($p < 0.10$) from the other acts except false signoff.

From this analysis it could be said that auditors perceive false signoff and failure to pursue questionable items as more unacceptable than other RAQ acts, within which there is little further differentiation. However, from an overall viewpoint, auditors do see all of these acts as “wrong”, thus confirming their nomenclature as RAQ acts.

Probability of Effect to Auditors

Table 3 shows the results for the probability of effect to auditors, measured by their perception of the likelihood that the act would be discovered by the auditors' superiors. This dimension was measured on a 0 (nil) - 6 (highly likely) Likert scale.

Insert Table 3 here

The means varied quite significantly for this component of moral intensity, ranging from 2.2 to 4.9, indicating that the auditors viewed the likelihood of detection as ranging from low to high, dependent on the type of RAQ act. The Friedman test showed that the acts were significantly different and, as indicated in Table 3, the Wilcoxon tests showed that there were significant differences between most of the

acts. These results broadly suggest the following ranking (starting with the most likely to be detected):

1. Failing to research a technical issue
2. Accepting weak client explanations / Failure to pursue questionable items
3. False signoff
4. Not testing all items in a sample
5. Superficial review of client documents
6. Rejecting awkward items from a sample

Interestingly, auditors perceived failing to research a technical issue most likely to be discovered. This could be influenced by some of the recent corporate collapses where it has been shown that the audited accounts were technically deficient.

Not surprisingly, rejecting awkward-looking items was perceived to be least likely to be detected, as it is very difficult to oversee auditors' selection of a sample. Similarly, a superficial review of client documents and not testing all items in a sample, which were also perceived to have a low likelihood of detection, are difficult to detect. These results, although not surprising, are of a concern as the auditing standards are quite clear in relation to rejecting items from a sample or not testing all items in a sample. International Standard on Auditing (ISA) 530.44 states: "The auditor should perform audit procedures appropriate to the particular test objective on each item selected". This importance of carefully examining the supporting documents is illustrated by ISA 240.06 which states: "Fraudulent financial reporting may involve deception such as manipulation, falsification or alteration of accounting records or supporting documents from which the financial statements are prepared".

Magnitude of Consequences for Auditors

Table 4 shows the results for the auditors' magnitude of consequences, which was measured by their response to what the level of disciplinary action would be faced by the auditor if they committed the RAQ act, using a Likert scale ranging from 0 (none) - 6 (severe).

Insert Table 4 here

The means varied for this aspect of moral intensity, ranging from 3.4 to 5.0, indicating that the auditors perceived the possible disciplinary action to vary dependent on the type of RAQ act. The Friedman test showed that the acts were significantly different and the Wilcoxon tests showed that there were significant differences between some of the acts, suggesting three distinct levels for this dimension (starting with the most significant consequences):

1. False signoff
2. Not testing all items in a sample / Superficial review of client documents / Rejecting awkward-looking items from a sample
3. Failure to pursue questionable items / Accepting weak client explanations / Failing to research a technical issue

From these results, it is clear that auditors perceive different acts to have different consequences, with false signoff being the act with the most severe consequences for the auditor. This is not unexpected as false signoff is clearly a fraudulent offence, and it is encouraging that auditors perceive the penalties for this act to be stringent. The next level of perceived consequences comprised not testing all items in a sample; superficial review of client documents; and rejecting awkward

looking items from a sample. Interestingly, these three acts, although having moderate consequences, rated the lowest on probability of effect to auditors (i.e., the likelihood of detection). The lowest magnitudes of consequences were associated with failure to pursue questionable items; accepting weak client explanations; and failing to research a technical issue. All of these three rank the highest in terms of the probability of effect for auditors. The results seem to suggest an inverse relationship between the magnitude of consequences and probability of effect for a number of the RAQ acts.

Probability of Effect and Magnitude of Consequences for Financial Statement Users

Table 5 shows the results for the probability of effect and magnitude of consequences for financial statement users. The probability of effect and magnitude of consequences to financial statement users was combined into one question based on whether the RAQ act would lead to an incorrect audit opinion. The participants responded to this question on a 1 (strongly disagree) – 7 (strongly agree) Likert scale. The responses ranged from a mean of 5.0 to 6.0, indicating a narrow range of differentiation among acts, and shows that all the RAQ acts pose high risks of leading to an incorrect audit opinion.

Insert Table 5 here

The Wilcoxon tests showed that there were significant differences between some of the acts, specifically the two most likely to result in an inappropriate audit opinion are failure to pursue questionable items and failing to research a technical

issue. It is possible that this may have been affected by the deficiencies in audited financial reports exposed by the corporate collapses in recent years.

Average Moral Intensity Rankings

To enable more general conclusions about the ‘moral intensity’ of each RAQ act to be reached, Table 6 summarises the mean rankings for each of the moral intensity components that have already been discussed, and provides an average ‘moral intensity’ ranking based on an equal weighted⁵ averaging across the four individual components. Several general findings from Table 6 are worthy of comment. Firstly, the average rankings correspond strongly to the varying levels of occurrence reported by Willett and Page (1996), Malone and Roberts (1996), and Herrbach (2001), that is, the higher the average moral intensity, the lower the level of occurrence reported in these surveys. Secondly, the rankings for each act are not the same across all dimensions, thus indicating that the acts are perceived to be different in terms of the elements of moral intensity we have studied. Furthermore, all acts are ranked at least third on one of the dimensions, suggesting that none of the acts are considered trivial by auditors. Without losing sight of these comments, the following analysis discusses each RAQ act in turn.

Insert Table 6 here

The act that has the highest average across the four components is the act of false signoff. As for individual component ranks, it is ranked first in the social consensus category and thus, as expected, auditors believe this act is very wrong. This

⁵ The four components were assumed to be equally weighted to derive the rankings. However, the validity of this assumption is an issue that future research needs to examine.

is not surprising given that it is a fraudulent act. False signoff was also ranked first in terms of magnitude of consequences for auditors, suggesting that the perceived penalties reflect the perceived social consensus of the act. The third rank regarding the probability of effect to auditors should be of some concern for accounting firms and they should consider the quality of their control and review procedures. Overall, false signoff has the highest average moral intensity suggesting that auditors would have the highest ethical concerns with performing this type of act.

Failure to pursue questionable items has the second highest average across the four components. It is also ranked second for social consensus. This depicts that auditors strongly believe this act has negative consequences. This could be due to the new auditing standard which highlights the importance of checking unusual transactions and emphasises the possibility of fraud to a greater extent. Auditors also ranked this act to be most likely to lead to an incorrect audit opinion. Failure to pursue questionable items was ranked second in terms of the likelihood that the act would be detected. However, in terms of the magnitude of consequences for auditors, it was ranked fourth. This is of concern especially since auditing standards are focusing more on fraud and the auditors' perceptions of penalties do not seem to reflect the importance of checking on unusual items.

Failing to research a technical issue has the third highest average across the components. From Table 6, it can be seen that this result is mainly driven by the financial statement users' components and the probability of effect to auditors. Failing to research a technical issue was ranked third on the social consensus component, and ranked sixth in regard to the perceived penalties if the act is discovered. However, with regards to the probability of effect for auditors, it was ranked first. This indicates that auditors believe this act is highly likely to be detected by review and control

procedures. The act of failing to research a technical issue was ranked second in terms of the auditors' perceptions of the likelihood of incorrect audit opinion. Once again, perhaps the auditors have recognised the importance of researching a technical issue due to a run of corporate collapses. In Australia, the collapse of the large insurance company, HIH, was in part because the company it bought, FAI Insurance, indulged in a series of hidden "reinsurance transactions", which inflated its immediate profits but guaranteed later losses (Armstrong, 2002).

Accepting weak client explanations has the fourth highest average across the components. Its ranks are third for social consensus, fifth for magnitude of consequences and probability of effect for financial statement users, and fifth for the magnitude of consequences for auditors. This indicates that its moral intensity ranking is driven by the probability that the act would be discovered by the superior (i.e., the probability of effect to auditors).

Not testing all items in a sample has the fifth highest average across the components. It is ranked last on the financial statement users' components. It is ranked third for social consensus, and fourth in the probability of effect to auditors. It is interesting to note that, although not testing all items in a sample was perceived to have the second highest level of penalties, it had the lowest rating for magnitude of consequences and probability of effect to financial statement users. There seems to be some inconsistency in the auditors' understanding of the seriousness of this particular act.

Superficial review of client documents has the sixth highest average across the components. As far as social consensus and magnitude of consequences for auditors are concerned, it was ranked third. However, with regards to the magnitude of consequences and probability of effect to financial statement users and the probability

of effect to auditors, the act of superficial review of client documents is ranked sixth and fifth, respectively. Thus, auditors do not consider the probability that this act can lead to an incorrect audit opinion to be as high as most of the other acts. Also, auditors consider it less likely that the act will be discovered.

The lowest average belongs to the act of rejecting awkward-looking items from a sample. This low rank in total moral intensity seems to be driven by the last place in rank with regards to the probability of effect to auditors and social consensus. That is, the auditors feel that this act has the least likelihood of being detected by their supervisor. The other components' ranks are fourth on the financial statement users' components and third for the magnitude of consequences for auditors. The results suggest that companies' review procedures are perceived to be quite inadequate in detecting this act. However, it is very difficult to control this act, as the supervisor cannot observe this after the sample has already been chosen. He/she would actually have to oversee the sample selection process.

CONCLUSIONS AND FUTURE RESEARCH

The main findings of this study are that RAQ acts are perceived differently by auditors. In terms of the "self interest" measures (i.e., the probability of effect to auditors and the magnitude of consequences for auditors), significant differences between the acts are observed. However, an interesting finding from this analysis is that the rankings indicate an inverse relationship between these two components of moral intensity. For example, failing to research a technical issue is ranked first in probability of effect and last in magnitude of consequences. This has a couple of implications for research and practice. Where prior research has shown similar levels of RAQ acts, the factors affecting those decisions may have been quite different. In

relation to practice, the relative importance that auditors place on these two measures of “self-interest” will significantly affect the extent and type of RAQ acts performed by auditors.

Significant differences are also observed for the magnitude of consequences and probability of effect to financial statement users as measured by the likelihood of an incorrect audit opinion. This component relates most closely to the concept of audit risk. Therefore, if the auditor is under pressure and decides to take short cuts in his or her work, deciding to use RAQ with consideration of this component might be considered a rational response. If auditors significantly consider this component in deciding to use RAQ acts, it may be of interest to accounting firms to establish whether they agree with the order as reported in this study. If they do not agree, it should have implications for their training of audit staff.

Auditors did not significantly differentiate the RAQ acts on the basis of the social consensus component of moral intensity. However, for both the “probability of effect and magnitude of consequences for financial statement users” and “social consensus” components, auditors perceived them as being very “wrong”, with mean ratings across all RAQ acts of no lower than 5.0 and 5.9 (out of 7) respectively. This should be of some comfort to accounting practice, provided these components are weighed into auditors’ decisions to use RAQ.

As expected, false signoff is shown to be the most morally intense of the RAQ acts. This act’s intensity ranking is driven primarily by the magnitude of consequences for auditors’ dimension and by the social consensus dimension. This is a good result for accounting practice as prior research has shown it to be consistently the least performed RAQ act (Kelley and Margheim, 1990; Malone and Roberts, 1996; Herrbach, 2002). The next most morally intense acts are the failure to pursue

questionable items and failing to research a technical issue. The importance of these two could have been affected by recent corporate collapses, highlighting audit deficiencies in these areas.

This study also shows that the ratings are not consistent across the dimensions for each of the RAQ acts (e.g., not testing all items in a sample is second in relation to the magnitude of consequences for auditors and last in relation to the magnitude of consequences and probability of effect for financial statement users). The possibility of these different components offsetting each other may make it difficult to observe these ethical perceptions being translated into RAQ behavior.

In summary, this research adds to the literature and has implications for practice in several ways. Firstly, it shows that auditors do perceive RAQ acts to be different from an ethical perspective. Previous studies have tended to treat these acts as a homogenous group. Secondly, this study raises interesting questions about whether the differences in moral intensity observed are reflected in propensity to commit these acts. Finally, greater understanding of RAQ acts will provide insights into why some acts are more likely to be committed which will assist the auditing profession in identifying ways to minimise this behavior.

A limitation of this study was the use of a single example for each act. Consequently, auditors' responses may have been sensitive to the example utilised. Future studies should use different examples to represent the RAQ acts to test for the robustness of results.

Since this is the first study of this type, future studies will need to confirm the results and thus test their robustness and validity. In particular, studies should evaluate the interrelationships between the components measuring: the probability of effect on users and on auditors themselves; and also between magnitude of consequences on

users and on auditors themselves. Future studies should also examine whether auditors consider the moral intensity dimensions when deciding if they should commit an RAQ act, and if they do, how they incorporate the different components of moral intensity into their judgments and decisions on using RAQ.

APPENDIX
Definitions and Examples of the Seven RAQ Acts

Act 1 - Failure to pursue questionable items

Such acts refer to an auditor's failure to extend the scope of examination when suspicious transactions are detected.

Example: Whilst checking a sample of transactions, an audit assistant notices some unusually large transactions. The assistant does not investigate these questionable items.

Act 2 - Not testing all items in a sample

Such acts refer to not performing designated audit procedures on each item selected.

Example: An audit assistant is testing a sample of debtors to cash received. For some items, the audit assistant ticks that the cash has been received, without checking that it has in fact been received.

Act 3 - Failing to research a technical issue

Such acts refer to not checking the technical and professional standards relevant to the issue, even though the auditor is unsure of the correct accounting treatment.

Example: An audit assistant is unsure of the company's treatment of accounting for goodwill purchase consideration when it comprises shares. The assistant does not research this issue and accepts the client's treatment.

Act 4 - Accepting weak client explanations

Such acts refer to accepting client explanations and using them as a substitute for other evidence that the auditor could reasonably expect to be available.

Example: An audit assistant who is vouching a sample of transactions cannot find the

documentation to support some of the entries. The assistant approaches management about the problem, and is told the documents have been mislaid, but that management is sure they have been correctly recorded. The assistant accepts this explanation.

Act 5 - False signoff

Such acts refer to falsely signing off a required audit step, which is not covered by other steps, without completing the work or noting the omission of procedures.

Example: An audit assistant has finished the vouching of a sample of invoices to dispatch notes and approved sales orders. However, the assistant does not perform a separate audit step on accuracy of pricing, but signs off the procedure as done.

Act 6 - Superficial review of client documents

Such acts refer to an auditor quickly reviewing the supporting documents without paying much attention to their validity and accuracy.

Example: An audit assistant reviewed supporting documents for the sample of purchases, and made tickmarks on audit schedules without detailed consideration of the content of the documents.

Act 7 - Rejecting awkward-looking items from a sample

Such act refers to discarding items, during the examination of the sample, which seem complex and/or time consuming, and replacing them with others.

Example: In choosing a sample of invoices, an audit assistant avoids the invoices which have many supporting documents stapled to them, as well as the ones that have many manuscript queries and annotations.

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TABLE 1
Biographical Data

Participants	Number	Percent (%)
<u>Sex</u>		
Male	36	67
Female	18	33
<u>Firm Size</u>		
Big 4	42	78
Non Big 4	12	22
<u>Audit Experience</u>		
< One year	2	4
One year < Two years	13	24
Two years < Three years	17	31
Three years < Four years	9	17
> Four years	13	24

TABLE 2
Social Consensus

		Rejecting awkward items 7	Superficial review of documents 6	False signoff 5	Accepting weak explanation 4	Failing to research tech issue 3	Not testing all items 2	Failure to pursue items 1	Friedman Test
	Mean (StDev) Rank ^a	5.9 (1.4) 3.7	6.0 (1.1) 3.8	6.3 (1.3) 4.7	6.1 (1.0) 3.8	6.1 (1.1) 3.8	5.9 (1.6) 3.8	6.3 (1.1) 4.4	0.005
Failure to pursue items 1	6.3 (1.1) 4.4	Z=-2.229 p=0.026	Z=-1.794 p=0.073	Z=-0.864 p=0.387	Z=-1.756 p=0.079	Z=-1.725 p=0.085	Z=-1.828 p=0.068		
Not testing all items 2	5.9 (1.6) 3.8	Z=-0.124 p=0.901	Z=-0.737 p=0.461	Z=-2.394 p=0.017	Z=-0.793 p=0.428	Z=-0.803 p=0.422			
Failing to research tech issue 3	6.1 (1.1) 3.8	Z=-0.963 p=0.335	Z=-0.338 p=0.735	Z=-2.218 p=0.027	Z=-0.158 p=0.874				
Accepting weak explanation 4	6.1 (1.0) 3.8	Z=-0.898 p=0.369	Z=-0.393 p=0.694	Z=-2.000 p=0.045					
False signoff 5	6.3 (1.3) 4.7	Z=-2.474 p=0.013	Z=-2.128 p=0.033						
Superficial review of documents 6	6.0 (1.1) 3.8	Z=-0.933 p=0.351							
Rejecting awkward items 7	5.9 (1.4) 3.7								
Friedman Test	0.005								

The social consensus dimension was rated on a scale ranging from 1 (strongly disagree) – 7 (strongly agree).

^aThis ranking refers to the Friedman test rank.

TABLE 3
Probability of Effect to Auditors

		Rejecting awkward items 7	Superficial review of documents 6	False signoff 5	Accepting weak explanation 4	Failing to research tech issue 3	Not testing all items 2	Failure to pursue items 1	Friedman Test
	Mean (StDev) Rank ^a	2.2 (1.6) 2.4	2.7 (1.5) 3.0	3.5 (1.7) 4.1	4.1 (1.4) 4.8	4.9 (1.1) 5.8	2.8 (1.8) 3.2	4.1 (1.6) 4.8	0.00
Failure to pursue items 1	4.1 (1.6) 4.8	Z=-5.572 p<0.001	Z=4.961 p<0.001	Z=-1.933 p=0.053	Z=-1.933 p=0.932	Z=-3.440 p=0.001	Z=-3.688 p<0.001		
Not testing all items 2	2.8 (1.8) 3.2	Z=-1.930 p=0.054	Z=-0.448 p=0.654	Z=-2.337 p=0.019	Z=-4.276 p<0.001	Z=-4.983 p<0.001			
Failing to research tech issue 3	4.9 (1.1) 5.8	Z=-6.072 p<0.001	Z=-5.591 p<0.001	Z=-4.194 p<0.001	Z=-3.630 p<0.001				
Accepting weak explanation 4	4.1 (1.4) 4.8	Z=-5.250 p<0.001	Z=-5.131 p<0.001	Z=-2.376 p=0.017					
False signoff 5	3.5 (1.7) 4.1	Z=-3.596 p<0.001	Z=-3.100 p=0.002						
Superficial review of documents 6	2.7 (1.5) 3.0	Z=-1.992 p=0.046							
Rejecting awkward items 7	2.2 (1.6) 2.4								
Friedman Test	0.00								

The probability of effect to auditors was rated on a scale ranging from 0 (nil) – 6 (highly likely).

^a This ranking refers to the Friedman test rank.

TABLE 4
Magnitude of Consequences for Auditors

		Rejecting awkward items 7	Superficial review of documents 6	False signoff 5	Accepting weak explanation 4	Failing to research tech issue 3	Not testing all items 2	Failure to pursue items 1	Friedman Test
	Mean (StDev) Rank ^a	3.8 (1.4) 4.1	3.9 (1.2) 4.1	5.0 (1.1) 5.9	3.4 (1.4) 3.1	3.4 (1.4) 3.0	4.0 (1.5) 4.3	3.5 (1.4) 3.5	0.000
Failure to pursue items 1	3.5 (1.4) 3.5	Z=-1.834 p=0.067	Z=-2.133 p=0.033	Z=-5.355 p<0.001	Z=-1.134 p=0.257	Z=-1.163 p=0.245	Z=-2.587 P=0.010		
Not testing all items 2	4.0 (1.5) 4.3	Z=-0.872 p=0.383	Z=-0.970 p=0.332	Z=-4.395 p<0.001	Z=-3.421 p=0.001	Z=-3.361 p=0.001			
Failing to research tech issue 3	3.4 (1.4) 3.0	Z=-2.792 p=0.005	Z=-2.947 p=0.003	Z=-5.509 p<0.001	Z=-0.029 p=0.977				
Accepting weak explanation 4	3.4 (1.4) 3.1	Z=-2.546 0.011	Z=-3.378 p=0.001	Z=-5.526 p<0.001					
False signoff 5	5.0 (1.1) 5.9	Z=-4.840 p<0.001	Z=-4.829 p<0.001						
Superficial review of documents 6	3.9 (1.2) 4.1	Z=-0.182 p=0.856							
Rejecting awkward items 7	3.8 (1.4) 4.1								
Friedman Test	0.000								

The magnitude of consequences for auditors was rated on a scale ranging from 0 (nil) – 6 (severe).

^a This ranking refers to the Friedman test rank.

TABLE 5
Probability of Effect and Magnitude of Consequences
for Financial Statement Users

		Rejecting awkward items 7	Superficial review of documents 6	False signoff 5	Accepting weak explanation 4	Failing to research tech issue 3	Not testing all items 2	Failure to pursue items 1	Friedman Test
	Mean (StDev) Rank ^a	5.4 (1.5) 4.0	5.2 (1.4) 3.4	5.6 (1.4) 4.1	5.4 (1.2) 3.7	5.7 (1.4) 4.5	5.0 (1.6) 3.2	6.0 (1.1) 5.0	0.000
Failure to pursue items 1	6.0 (1.1) 5.0	Z=-2.740 p=0.006	Z=-4.019 p<0.001	Z=-2.232 p=0.026	Z=-3.737 p<0.001	Z=-1.093 p=0.275	Z=-4.116 p<0.001		
Not testing all items 2	5.0 (1.6) 3.2	Z=1.947 p=0.052	Z=-0.834 p=0.405	Z=2.445 p=0.014	Z=-2.011 p=0.044	Z=-3.100 p=0.002			
Failing to research tech issue 3	5.7 (1.4) 4.5	Z=-1.366 p=0.172	Z=-2.752 p=0.006	Z=-0.655 p=0.512	Z=-2.189 p=0.029				
Accepting weak explanation 4	5.4 (1.2) 3.7	Z=-0.422 p=0.673	Z=-1.160 p=0.246	Z=-1.101 p=0.271					
False signoff 5	5.6 (1.4) 4.1	Z=-0.564 p=0.573	Z=-2.072 p=0.038						
Superficial review of documents 6	5.2 (1.4) 3.4	Z=-1.589 p=0.112							
Rejecting awkward items 7	5.4 (1.5) 4.0								
Friedman Test	0.000								

The measure was rated on a scale ranging from 1 (strongly disagree) – 7 (strongly agree).

^aThis ranking refers to the Friedman test rank.

TABLE 6**The Ranks of Each Act: Across Components and Total Moral Intensity**

	Magnitude of consequences and probability of effect to users	Probability of effect to auditors	Magnitude of consequences to auditors	Average rank
False signoff	1	3	3	1
Failure to pursue questionable items	2	1	2	2
Failing to research a technical issue	3	2	1	3
Accepting weak client explanations	3	5	2	4
Not testing all items in a sample	3	7	4	5
Superficial review of client documents	3	6	5	6
Rejecting awkward items from a sample	4	4	6	7