

# Auditors Acceptance of Dysfunctional Behaviour in Kazakhstan

Suresh Balasingam, Dhamayanthi Arumugam, Alus Sanatova

**Abstract:** *The investor confidence is essential for efficient financial markets operation around the world and it also contributes to the stability and economic growth. Therefore, investors must know that the financial information that they rely on for capital allocation decisions is reliable and credible. Consequently, the quality of audits and the quality of opinions on financial reports are crucial in this situation. And audit quality is extremely difficult to measure, what makes it sensitive towards the behaviour of individuals who carry on the audit jobs. And the aim of this study is to analyze the factors that can potentially lead to dysfunctional audit behaviour amongst auditors in Kazakhstan. And that factors consist of time budget pressure, client importance, turnover intention and personality type. The results of the study show that time budget pressure, client importance and personality type have a significant relationship with dysfunctional audit behaviour. While turnover intention has no impact on acceptance of dysfunctional audit behaviour. Thus, this study reveals the factors that may lead the auditors to behave dysfunctionally. And the results of the study give the opportunity to auditing firms to notice such behaviour and find the solutions, in order to increase the quality of audits. For the primary data collection 150 auditors from Kazakhstan will be asked to complete the questionnaire.*

**Keywords:** *Dysfunctional audit behaviour, opinions on financial reports.*

## I. INTRODUCTION

The Public Oversight Board was established by American Institute of Certified Public Accountants in 1977 (Public Oversight Board, 2001). Nowadays, it is an independent, private sector body that oversees the self-regulatory programs for auditors of the companies registered with Securities and Exchange Commission (The Panel on Audit Effectiveness, 2000). Therefore, in 2000 the Panel was very concerned about the audit quality and recommended to Auditing Standards Board, that the auditing and quality standards must be revised and become more definite and specific. Hence, the audit firms are advised to focus on high quality audits and the enhancement of audit methodologies, trainings and guidance materials (The Panel on Audit Effectiveness, 2000). Later, in 2008 International Organisation of Supreme Audit Institutions (INTOSAI) as a non-political organisation for government audit community also addressed the need to create efficient system for quality control for Supreme Audit Institutions.

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\*Correspondence Author(s)

**Suresh Balasingam**, School of Accounting and Finance, Asia Pacific University of Technology and Innovation, Malaysia

**Dhamayanthi Arumugam**, School of Accounting and Finance, Asia Pacific University of Technology and Innovation, Malaysia

**Alus Sanatova**, School of Accounting and Finance, Asia Pacific University of Technology and Innovation, Malaysia

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Therefore, The International Auditing and Assurance Standards Board (IAASB) has designed the framework for audit quality in 2014, in order to achieve the outcome, where the auditors gather the sufficient evidence and express the objective opinion by enhancing the audit quality.

Despite of the recommendations and the issued frameworks to improve the audit quality, the Public Oversight Board recognizes, that the most important aspects in enhancing the audit quality are the personal skills and attributes of the auditor (The Panel on Audit Effectiveness, 2000). The attribute of the person provides the basics for his role in the society and creates the foundation for the establishment of true professional. There are several attributes that should be possessed by the auditor, namely loyalty to the strong ethical standards, independence, the excellent sense of personal integrity and the ability to remain objective under the pressure. The auditor is a representative of respected profession and he should protect the public interest. In order to motivate them to do so, the firm's management must support the auditors, as the countless amount of guidance and threat of penalties will not produce the high-quality audit, unless the person has the strong sense of responsibility and due diligence.

Hence, there are still multiple factors that can impact on audit behaviour. Consequently, time budget pressure, client importance, turnover intention and personality type may cause the dysfunctional audit behaviour, which is associated with quality diminution. Therefore, previous studies have concluded that dysfunctional audit behaviour leads to the reduction of audit quality and most probably it is a reaction to the stressful environment that is provoked by the tight managerial control in the audit firms (Otley and Pierce, 1995; Halil, Ismail, and Smith, 2012; Guan, Law, Lu and Yuen, 2013; Amroabadi, Khanagha and Naderibeni, 2014). Thus, the main objective of the study is to analyze and examine the factors that could result in dysfunctional behaviour amongst auditors in Kazakhstan.

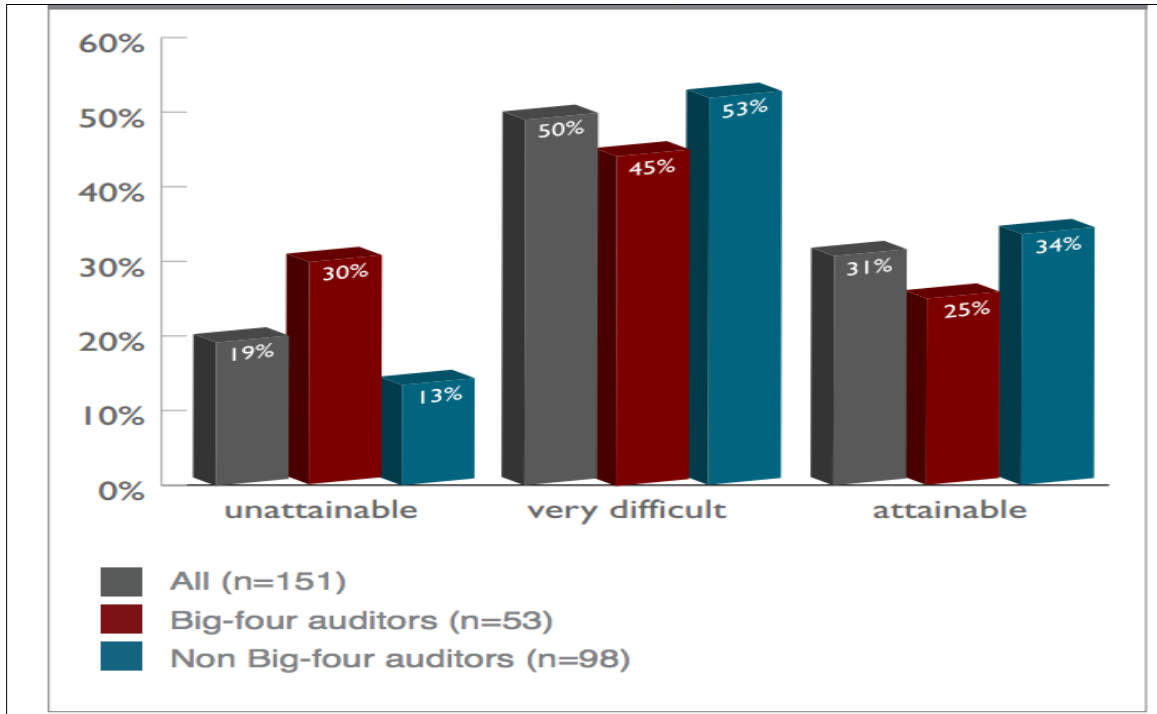
## A. Problem statement

The listed companies in Kazakhstan are required to submit the annual reports to Kazakhstan Stock Exchange (KASE), as well as audited financial statements, that are prepared in accordance with IFRS or KAS (Kazakhstan Accounting Standards). Unfortunately, there is no inspections on quality of the information received from the particular companies. Such situations are detrimental, because auditors play crucial role in revealing the financial frauds or foreseeing the business failure during the unexpected financial crisis, therefore to create a goodwill in their profession it is essential to provide independent opinions to the clients.

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Consequently, the quality of the audit provided is heavily dependent on the behaviour of individual, who carries out that service. According to previous research papers dysfunctional audit behaviour is the cause of audit quality reduction (Chan, Kleinman and Lee, 2009; Otley and Pierce, 1995). Hence, the audits have to be performed within limited time and budget. And this can result in finishing reports in hurry by collecting insufficient evidential materials and produce imprecise reports (McNair, 1991). In the light of stressful nature of work, auditors may have two options either to perform based on professional standards or to accept dysfunctional behaviour. And such factors as time budget pressure, client importance, high turnover rate and

personality type can increase the probability of dysfunctional behaviour occurrence among the auditors. Previous studies have reported that time budget pressure exists in auditing industry and the auditors are in need to trade off the time assigned for auditing, as well as quality to the cost of conducting it (Pierce and Sweeney, 2004; Ettredge, Bedard and Johnstone, 2008). In the past years, the audit fees have dropped due to high competition within the industry (Paino, Ismail and Smith, 2010). Consequently, time budget pressure has increased even more as the essential part of audit. Based on Liyanarachchi and McNamara (2007) research more than half or respondents find that 2006 time budgets are very difficult to attain.



**Exhibit 1: Time budget**

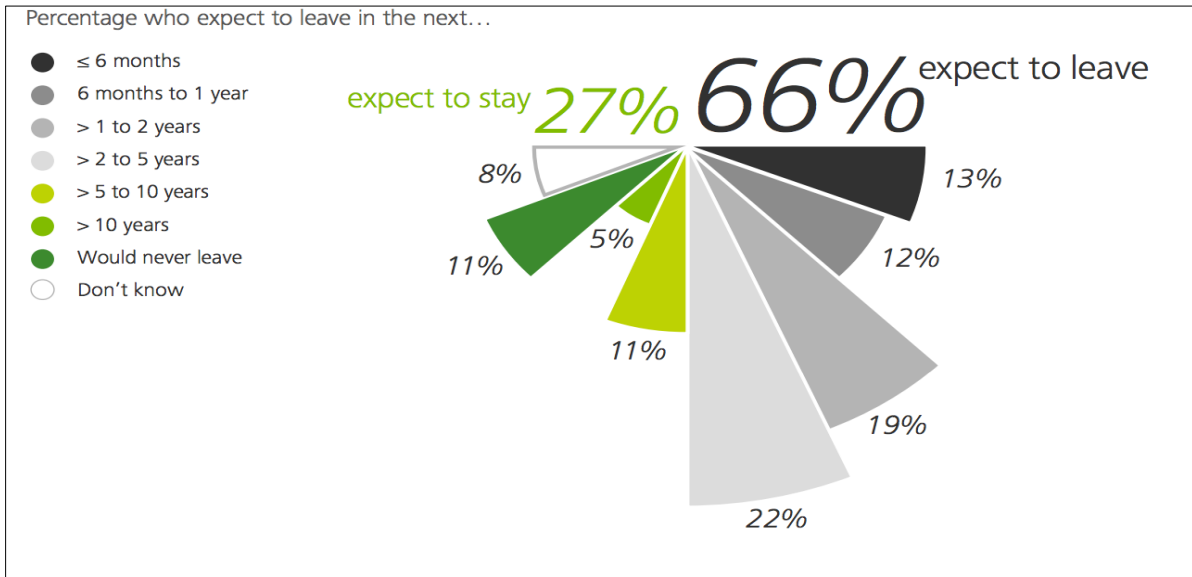
Source: Liyanarachchi and McNamara, 2007

Therefore, Big 4 auditors have greater time pressure than other companies' auditors. Hence, 30% of Big Four auditors indicated that the time budget was unattainable, while 13% of non- Big Four auditors states the same.

The high turnover rate is the emerging issue in public accounting, that is resulting in depletion of resources and time have been spent on getting the staff members. Therefore, according to Forbes Finance Council (2017) the replacement of entry-level employee could cost more than 30% of the annual salary and even more for higher level positions. The results of Deloitte Millennial survey found out employees' remarkable absence of loyalty to their current workplaces (Deloitte, 2016). As the result 66% of millennial are expected to leave their work places by 2020 and they constitute the considerable share of workforce. Nevertheless, Big Four's turnover rates have been historically high approximately 15-20% leave annually in comparison with 5% in other industries (The Economist, 2007). That is why the managing director of human resources in Deloitte stated that every one-percentage drop in turnover rate would result in \$400-500 million savings

(Howard, 2010). Hence, it is interesting to examine the turnover in the auditing profession and how it can impact on auditors' dysfunctional behaviour.

Over the past few years it has been suspected that auditors' independence may be affected if the auditor has the financial interest towards his client (Mautz and Sharaf, 1961). And Enron scandal and Arthur Andersen collapse raised more discussions related to auditors' independency. That events prove that auditors' independence is highly affected by the importance of the client. The personal characteristics of auditor play a vital role in establishing audit quality (Cowperthwaite, 2009). Therefore, intuitively every auditor varies in the extent to which he is exposed toward dysfunctional audit behaviour due to the personal characteristics. Consequently, Rayburn and Rayburn (1996) has found that personality type is directly related to person's ethical orientation. Therefore, it is appropriate to study the relationship between personality type and the dysfunctional audit behaviour.



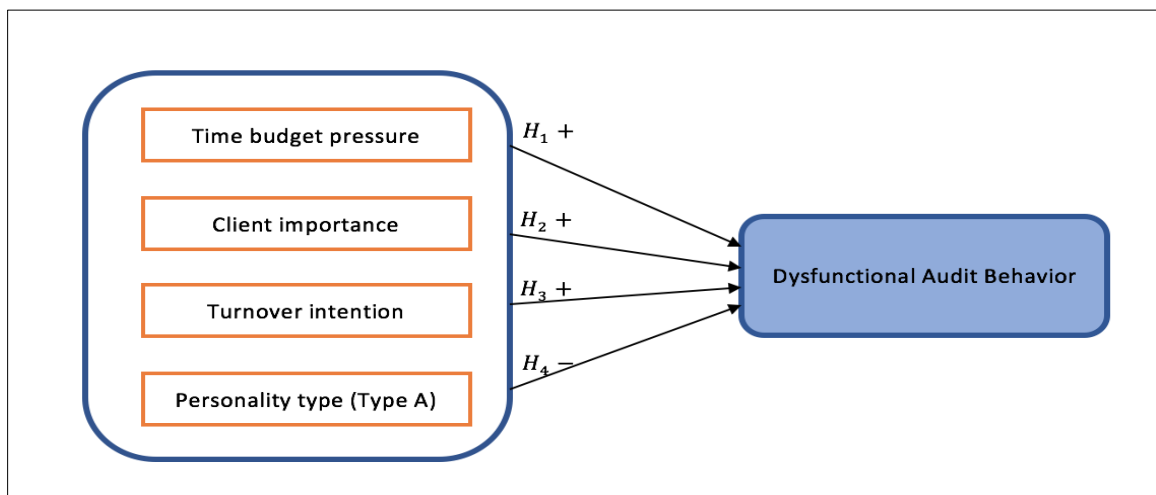
**Exhibit1: Percentage who expect to leave**  
Source: Deloitte, 2016

Thus, the study aims to examine the factors that may potentially result in dysfunctional audit behaviour.

- To determine the relationship between time budget pressure and the acceptance of dysfunctional behaviour among Kazakhstan’s auditors.
- To identify the relationship between client importance and the acceptance of dysfunctional behaviour among Kazakhstan’s auditors.

- To examine the relationship between turnover intention and the acceptance of dysfunctional behaviour among Kazakhstan’s auditors.
- To investigate the relationship personality type and the acceptance of dysfunctional behaviour among Kazakhstan’s auditors.

**B. Research Framework**



**Exhibit 3: Research Framework**  
Source: Primary Data

**II. METHOD & MATERIALS**

This research based on the quantitative primary data. The population of the study is the number of the current members of Auditors’ Chamber of the Republic of Kazakhstan, which constitute 383 auditors (Auditors’ Chamber of the Republic of Kazakhstan, 2017). For the primary data collection 150 auditors from Kazakhstan will be asked to complete the questionnaire. Hence, the questionnaire has been created based on the previous studies

and will be distributed through Google Docs. Consequently, the respondents will be selected randomly, as the research is using convenient sampling in the study. The population of this study focuses in the auditors (respondents) from PwC, Deloitte, KPMG and EY in Kazakhstan. In addition, convenience sampling has been employed. The multiple regression analysis is implemented to provide more sophisticated analysis of interrelationship between independent variables and dependent variable.

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## A. Dysfunctional Audit Behaviour

**Table 1: Itemized Questions for Dysfunctional Audit Behaviour (in percentage)**

No	Statement	1	2	3	4	5	Mean	Standard Deviation
1	I have made a superficial documents review	<b>33.3%</b>	12.7%	5.3%	32%	16.7%	2.86	1.56
2	I have decreased the quality of work below to the level I considered reasonable	<b>44.7%</b>	17.3%	6%	10%	22%	2.47	1.64
3	I have accepted weak client explanation	<b>30%</b>	22.7%	11.3%	27.3%	8.7%	2.62	1.38
4	I have failed to implement accounting principle	<b>62.7%</b>	22.7%	4.7%	8.7%	1.3%	1.63	1.01

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neither Disagree nor Agree, 4: Agree, 5: Strongly Agree  
Source: Primary Data

## B. Time Budget Pressure

**Table 2: Itemized Questions for Time Budget Pressure**

No	Statement	1	2	3	4	5	Mean	Standard Deviation
1	In general, the time budgets for the jobs you worked on during the last year were impossible to attain	15.3%	12	26%	<b>30%</b>	16.7%	3.21	1.29
<b>How do you respond when you feel the time budget is not possible to achieve?</b>								
2	I work harder, but charge all time properly	2.7%	12%	15.3%	<b>38.7%</b>	31.3%	3.84	1.08
3	I decrease the quality of audit, in order to meet time budget	<b>31.3%</b>	22%	17.3%	17.3%	12%	2.57	1.4
4	I engage in under reporting of time by working on personal time	2%	3.3%	8.7%	22.7%	<b>63.3%</b>	4.42	0.93
5	I request and obtain an increase in a time budget	12%	15.3%	28%	<b>38%</b>	6.7%	3.12	1.13
6	I charge time to a different client, that I should charge to this client	<b>51.3%</b>	23.3%	6.7%	16%	2.7%	1.95	1.21

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neither Disagree nor Agree, 4: Agree, 5: Strongly Agree

## C. Client Importance

**Table 3: Itemized Questions for Client Importance**

No	Statement	1	2	3	4	5	Mean	Standard Deviation
1	Most of my auditing clients are extremely important to me	4.7%	8%	19.3%	<b>36.7%</b>	31.3%	3.82	1.11
2	The degree of client's satisfaction is very important to me	2%	8%	10%	36.7%	<b>43.3%</b>	4.11	1.01
3	I have close relationship with my clients	7.3%	10.7%	25.3%	<b>30.7%</b>	26%	3.57	1.19
4	I really care about the fate of my clients	6%	9.3%	30%	<b>34.7%</b>	20%	3.53	1.1
5	I have a client that occupies more than 40 percent of my work schedule	20%	12%	<b>24.7%</b>	20%	23.3%	3.15	1.43

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neither Disagree nor Agree, 4: Agree, 5: Strongly Agree  
Source: Primary Data

D. Turnover Intention

Table 4: Itemized Questions for Turnover Intention

No	Statement	1	2	3	4	5	Mean	Standard Deviation
1	I plan to remain with my current organisation until I retire	56%	22%	16%	4%	2%	1.74	0.99
2	I feel I may change my job within 2-3 years	8.7%	8%	12%	27.3%	44%	3.9	1.29
3	I will quit my job in the near future	15.3%	6.7%	30%	20%	28%	3.39	1.36
4	I am thinking about working in another industry	12%	6%	27.3%	28%	26.7%	3.51	1.28

E. Personality Type

Table 5: Itemized Questions for Personality Type

No	Statement	1	2	3	4	5	Mean	Standard Deviation
1	I must finish my job once I started	-	4%	14.7%	45.3%	36%	4.13	0.81
2	I am never late for the meetings	-	4%	10.7%	47.3%	38%	4.19	0.78
3	I am highly competitive	-	1.3%	8.7%	59.3%	30.7%	4.19	0.64
4	I anticipate others in conversation (interrupts, fishing off sentences)	31.3%	32%	20.7%	10%	6%	2.27	1.18
5	I am always in a hurry	9.3%	22.7%	24.7%	29.3%	14%	3.16	1.19
6	I am impatient while waiting	9.3%	12%	23.3%	31.3%	24%	3.49	1.24
7	I always go full speed ahead	1.3%	12%	32.7%	40.7%	13.3%	3.53	0.92
8	I try to do more than one thing at a time	4%	10.7%	24%	44%	17.3%	3.6	1.02
9	I am vigorous and forceful in speech	8%	23.3%	40%	18%	10.7%	3	1.08
10	I like to be recognized by others when the job is done well	0.7%	2.7%	8.7%	40.7%	47.3%	4.31	0.79
11	I do things as fast as possible	3.3%	10.7%	20.7%	48%	17.3%	3.65	0.99
12	I am hard driving	2%	10%	25.3%	40.7%	22%	3.71	0.99
13	I usually hold feelings in	9.3%	14.7%	26.7%	30.7%	18.7%	3.35	1.21
14	I have few interests outside work	29.3%	27.3%	20%	16.7%	6.7%	2.44	1.26
15	I am ambitious and want a quick advancement on job	-	1.3%	9.3%	50%	39.3%	4.27	0.68
16	I often set own deadlines	4%	21.3%	24.7%	35.3%	14.7%	3.35	1.09
17	I always feel responsible	2.7%	6%	8.7%	50%	32.7%	4.04	0.95
18	I often judge the things in terms of numbers	12.7%	16%	23.3%	32.7%	15.3%	3.22	1.25
19	I take work very seriously (work weekends, bring work home)	2%	4%	13.3%	36.7%	44%	4.17	0.94
20	I am very precise	1.3%	11.3%	20%	40%	27.3%	3.81	1.01

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neither Disagree nor Agree, 4: Agree, 5: Strongly Agree

Source: Primary Data

**F. ANOVA result**

**Table 6: Anova<sup>a</sup>result**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1168.774	4	292.194	22.422	0.000 <sup>b</sup>
Residual	1889.599	145	13.032		
Total	3058.373	149			

Degree of freedom: 5%

The F-test in ANOVA table indicates whether the regression model is a good fit for data. The regression model for this study is statistically significant (F ratio= 22.087; probability level= 0.000). The probability level of 0.000 means that the probability of the results occurring by the chance is 0.000 (Hair, Celsi, Money, Samouel and and Page, 2016).

Hence, the independent variables of this study, namely time budget pressure, client importance, turnover intention and

personality type are statistically significant predictors of dysfunctional audit behaviour.

Although, the results obtained through ANOVA table are not sufficient enough to indicate how much each independent variable contributes to such outcome. That is why it is essential to analyse the Coefficients table.

**Table 7: Coefficients<sup>b</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.303	3.515		0.655	0.513
Time Budget Pressure	0.384	0.087	0.358	4.425	0.000
Client Importance	0.239	0.075	0.225	3.185	0.002
Turnover Intention	0.115	0.087	0.108	1.325	0.187
Personality Type	-0.075	0.034	-0.157	-2.193	0.030

The coefficients table assists in identifying the contribution of each independent variable to the prediction of dependent variable. Hence “B” column in the coefficients table shows the coefficients for independent variables in the regression model. Consequently, the regression equation can be presented as follows;

Based on the equation, it can be analyzed that;

$$Y = a + B_1X_1 + B_2X_2 \dots B_nX_n$$

- Y = the dependent variable
- a = constant value
- $B_1, B_2, B_n = B$  values for independent variables
- $X_1, X_2, X_n =$  the independent variables

$$\text{Dysfunctional Audit Behaviour} = 2.303 + 0.384 (\text{time budget pressure}) + 0.239 (\text{client importance}) + 0.115 (\text{turnover intention}) + (-0.075) (\text{personality type})$$

- When time budget pressure increases by one unit the dysfunctional audit behaviour is expected to increase by 0.384, while all other independent variables are held constant.
- When client importance increases by one unit the dysfunctional audit behaviour is expected to increase by 0.239, while all other independent variables are held constant.
- When turnover intention increases by one unit the dysfunctional audit behaviour is expected to increase by 0.115, while all other independent variables are held constant.
- When personality type increases by one unit the dysfunctional audit behaviour is expected to decrease by 0.075, while all other independent variables are held constant.

Furthermore, it is important to analyze the column labelled Sig., as it indicates the statistical significance of each of independent variable. Therefore, in order to have a unique contribution to the prediction of dependent variable (dysfunctional audit behaviour) the significance value of independent variables (time budget pressure, client importance, turnover intention and personality type) should be less than 0.05 (Saunders, Lewis, and Thornhill, 2016). Respectively, time budget pressure (0.000), client importance (0.002) and personality type (-0.030) explain the significant amount of unique variance in dysfunctional audit behaviour, while turnover intention (0.187) is not a significant predictor of dysfunctional audit behaviour.

### III. RECOMMENDATION

Almost all findings in this study are supported by the previous researchers' findings, despite of that fact there are always the areas for improvements and further investigations.

First of all, the research can be conducted in different cities of Kazakhstan, such as Aktobe, Astana, Almaty and Atyrau and also include non-Big Four auditing firms. Hence, the researchers can analyze the data, which is obtained from different cities and various auditing firms. This will provide the researcher with more understanding towards the acceptance of dysfunctional audit behaviour. Moreover, it will allow the researcher to find out the factors that influence the acceptance of dysfunctional behaviour among auditors in certain city. Hence, it will assist the firms to understand the causes of dysfunctional behaviour and design the solutions.

Secondly, the research can be extended to other countries, in order to get more arguments and better understand the relationship between the variables. Thirdly, the future research should examine more variables such as supervisory style, cultural effects, ethical attitude and professional commitment.

Moreover, the sample size of this study is 150 auditors from Big 4, which is why the future research may increase the sample size to get more reliable results. And include non-Big 4 firms for more comprehensive results. Additionally, the future research may implement proportionate or disproportionate stratified random sampling. Therefore, the population can be divided into different job levels such as staff auditor, senior auditor, audit manager and senior partner. The idea of this sampling design is that each essential segment of population is better represented and more differentiated and adequate information is obtained related to each group.

### IV. CONCLUSION

This study has been conducted in order to analyze and examine the factors that potentially will lead to dysfunctional audit behaviour amongst auditors in Kazakhstan. Hence, the results of the study show that time budget pressure, client importance and personality type (Type A) are the significant factors that influence the acceptance of dysfunctional audit behaviour. Meanwhile, turnover intention has been found to be insignificant factor. Also, chapter six has provided the implications for auditing forms, as well as theoretical implications. And lastly, this chapter has discussed the recommendations for the future researchers.

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### AUTHORS PROFILE

**Suresh Balasingam** is working as School of Accounting and Finance, Asia Pacific University of Technology and Innovation, Malaysia.

**Dhamayanthi Arumugam** is working as School of Accounting and Finance, Asia Pacific University of Technology and Innovation, Malaysia.

**AlusSanatova** is working as School of Accounting and Finance, Asia Pacific University of Technology and Innovation, Malaysia.