

# External Locus of Control and Reduced Audit Quality Behavior: The Mediating Effects of Auditor Performance and Organizational Commitment

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**Abstract**—The purpose of this study is to develop and test a comprehensive model of reduced audit quality behavior. Specifically, this study examines the effects of external locus of control, auditor performance, and organizational commitment on reduced audit quality behavior. To test the hypotheses, a Partial Least Square analysis is applied to questionnaire survey data from 97 auditor working in public accounting firm in Sumatera Island, Indonesia. As hypothesized, the result revealed the existence of a positive influence of external locus of control on reduced audit quality behavior. In addition, auditors performance and organizational commitment also have a negative influence on reduced audit quality behavior. Result also indicates that externals locus of control has an indirect effect on reduced audit quality behavior through auditors performance and organizational commitment. Organizational commitment has an indirect effect on reduced audit quality behavior through auditors performance.

**Index Terms**—External locus of control, auditors performance, organizational commitment, and reduced audit quality behavior.

## I. INTRODUCTION

Reduced audit quality behavior is a form of dysfunctional audit behavior which is very important issue in accounting firm [1]. Reduced audit quality has negative effect on users of financial statements since users loss their confidence on that reports. Therefore, AICPA through the panel on audit effectiveness asked accounting firm to manage excessive time budget pressure [2]. Accounting firms have to manage time budget pressure properly in order to decrease a tendency of auditor to reduce audit quality behavior [3], [4].

Reduced audit quality behavior is indicated by not performing all audit steps [5], [6]. In this study reduced audit quality behavior is defined as actions taken by auditor that result in decreasing the effectiveness of collecting audit evidences [5], [6]. Reduced audit quality behavior can also be seen by various actions such as premature sign off and replacing or altering of the audit procedures [3], [5]. These actions would threaten the audit quality because of audit evidences that have been collected are unappropriate and insufficient as basis for auditors for issuing an opinion [3], [6]. Therefore, the possibility of the auditor issued an

incorrect opinion is high. One of the causes of audit failure is because of the auditor does not implement all of audit procedures carefully and thoroughly [3], [7].

Prior studies [3], [5] have attempted to link reduced audit quality behavior to personal characteristics such as external locus of control, auditor performance and organizational commitment. Unfortunately, no single study has studied all of those variables in one study. The purpose of this study is to develop and test a comprehensive model of reduced audit quality behavior. Through a more comprehensive model, the effect of external locus of control, auditor performance and organizational commitment on reduced audit quality behavior are studied simultaneously. The results of this study are expected to enhance our understanding about the negative effect of reduced audit quality behavior. Therefore the actions taken by auditor such as premature sign off and altering or replacing audit procedure will be hindered.

### A. External Locus of Control and Reduced Audit Quality Behavior

Individuals with an internal locus of control believe that they have greater control over their live [8]. In other side, externals locus of control believe that outside factors such a fate, luck or others play a great influence on their life. Reduced audit quality behavior occurs when auditors do not implement all of steps appropriately or replace audit procedures [3], [4]. In the context of auditing, reduced audit quality behavior can be seen from job pressures. When the auditors with an external locus of control work under pressure, they are likely to ignore the established procedures. Conversely, auditors with internal locus of control take that condition as a challenge and as a great responsibility and they will implement audit step properly [3], [6], [9].

The difference actions taken by auditors with internal locus of control and auditors with external locus of control support the view that auditors with external locus of control may be more likely engage in reduced audit quality behavior than auditors with internal locus of control [6].

There is an opinion about an individual's success whether it depends on the individual's behavior or controlled by external forces. Individuals with an internal locus of control are more likely to rely on their own determination of what is right and wrong, and are more likely to accept responsibility for the consequences of their behavior. On the other hand, individuals with external locus of control believe that the results obtained are caused by things beyond their control, and perceive that their actions do not relate to their success. Therefore, the less likely they are to know whether the

Manuscript received September 9, 2015; revised December 23, 2015.

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actions they take it right or wrong. For that reason, the auditor with an external locus of control will tend to do reduced audit quality behaviour [3], [4], [9]. Thus, the following hypotheses is proposed:

$H_1$ : External locus of control has a positive effect on reduced audit quality behavior.

#### *B. Auditor Performance and Reduced Audit Quality Behaviors*

The literature suggests that reduced audit quality behavior occurs in situation where individuals see themselves less capable of achieving the desired or expected outcome through their own efforts [3], [10]. Auditor having a lower perception of their performance level are expected to exhibit a higher reduced audit quality behavior [3]. The following hypothesis then proposed:

$H_2$ : Auditor performance has a negative effect on reduced audit quality behavior.

#### *C. Organizational Commitment and Reduced Audit Quality Behaviors*

Organizational commitment can be defined as “the strength of the individual and his involvement in a particular organization” [3], [6], [11]. Committed individuals exhibit more work persistence even under highly stressful conditions [3]. In addition, studies suggest that individuals with high organizational commitment perform better than those less committed individuals [3], [4]. Given these findings, the study expect to find that auditors with low organizational commitment will tend to have a higher incidence of reduced audit quality behavior than auditors with high organizational commitment. Therefore, the following hypothesis is thus proposed:

$H_3$ : Organizational commitment has a negative effect on reduced audit quality behavior.

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

Studies of the role of external locus of control in the accounting literature has been somewhat limited. Some earlier studies in budgetary participation have identified external locus of control as a moderator in the relationship between participation and performance [3]. Audit works are associated with highly technical and professional works. Previous studies indicated that individuals with internal locus of control is associated with highly technical and professional works whereas individuals with external locus of control are related to production jobs, unskilled, clerical and routine. The relationship locus of control and performance depends on work presented. Therefore, auditors with internal locus of control will likely exhibit high performance than auditor with an external locus of control [3]. Thus, this lead to the following hypothesis:

$H_4$ : External locus of control has a negative effect on auditor performance.

Locus of control has been found to be an antecedent to organizational commitment [3], [4], [12]. Auditors with internal locus of control believe that they have more opportunities than auditors with external locus of control [8].

Thus, when auditors with internal locus of control joined with public accounting firm, they likely to have a high commitment to their firm compare to auditors with external locus of control. This is because auditors with internal locus of control believe they will succeed if they are loyal to public accounting firms. Furthermore, they will work hard and have a high commitment to achieve its objectives. Auditors with external locus of control believe that they will not succeed in public accounting firms, while auditors with internal locus of control will persist in the public accounting firm and finally they will increase organizational commitment [11]. Thus, based on these discussions, the following hypotheses is proposed to test:

$H_5$ : External locus of control has a negative effect on organizational commitment.

Based on discussion above, external locus of control is expected to has a positive effect on reduced audit quality behavior. In addition, external locus of control is also expected to has a negative effect on auditor performance and organizational commitment. In turn, auditor performance and organizational commitment are expected to have a negative effect on reduced audit quality. These relationships therefore suggest that the effect of external locus of control on reduced audit quality behavior might be indirect through auditor performance and organizational commitment. Thus, the following hypotheses are proposed:

$H_6$ : External locus of control has an indirect effect on reduced audit quality behavior through auditor performance.

$H_7$ : External locus of control has an indirect effect on reduced audit quality behavior through organizational commitment.

$H_8$ : External locus of control has an indirect effect on reduced audit quality behavior through auditor performance and organizational commitment.

Numerous studies have viewed organizational commitment as an antecedent to performance. Highly committed employees perform better than less committed ones [11]. Performance exhibited by junior accountant is partly affected by their commitment to the organization [3], [4]. Similar study also found that organizational commitment is one of the determinants of auditor performance [3], [4]. In the current study, auditors with greater organizational commitment are expected to exhibit better performance than less committed auditors. Therefore, the following hypothesis is proposed:

$H_9$ : Organizational commitment has a positive impact on auditor performance

Hypothesis 3 suggests that organizational commitment has a negative effect on reduced audit quality behavior. Whereas, hypothesis 2 suggests that auditor performance has a negative influence on reduced audit quality. Based on these hypotheses we can expect that the effect of organization commitment on reduced audit quality is indirect. The organizational commitment firstly affect auditor performance and auditor performance then affect reduced audit quality behavior. Based on the arguments above, the following hypothesis is proposed:

$H_{10}$ : Organizational commitment has an indirect effect on reduced audit quality behavior through auditor performance.

## II. METHOD

### A. Data Collection

Data was collected using a survey questionnaire sent to all auditors in Sumatera Island, Indonesia. A total of 344 set questionnaire are sent and a total of 97 set are returned, giving a 28.20% respond rate.

### B. Measures

To measure the variable being studied, this study adopted the instrument from previous studies. Locus of control was measured by 16 items from [8]. Respondent were asked to identify whether the reward/outcomes received are caused by his action/effort. This instrument was measured by using a seven-point Likert scale. Auditor performance was measured using a modified version used in [3]. Respondents were asked to evaluate their individual performance with regard to six performance dimensions, including planning, investigating, coordinating, supervising, representing and staffing. Respondents then asked to rate their overall effectiveness in the final question. Organizational commitment was measured using a nine item by [11] and rated by seven-point Likertscale. The reduced audit quality behavior is measured by two types of reduced audit quality behavior: premature sign-off and altering/replacement of audit procedures.

### C. Data Analysis

To test the hypotheses proposed, this study used Structural Equation Modeling-Partial Least Square (PLS-SEM) Version 2.0 M3.

## III. RESULT AND DISCUSSION

The technique of PLS is used to test the hypothesis. The application of PLS model is done in two steps. Firstly, the reliability and validity of the measurement model is assessed. Secondly, the structural model itself is assessed. Statistics from the PLS measurement models are used to examine the convergent validity of the model by examining the factor loading. Factor loading of all items of the model are greater than 0.7 and are significant at  $p<0.01$ . The result demonstrates an acceptable convergent validity [13].

The discriminant validity of the measure model is assessed based on the square root of AVE as compared to the correlations among the latent variables [13], [14]. Table I shows that the square roots of the AVE are all greater than the respective correlation between constructs. Results demonstrated that adequate discriminant validity. The reliability of each variable is assessed based on composite reliability. As shown in column 2 table I, the composite reliability for each variable is above 0.70, which demonstrates that each variable has an acceptable reliability [15], [16]. Overall, result from the PLS measurement model indicate that each construct exhibits satisfactory reliability and validity.

The study sought to examine that external locus of control has a positive effect on reduced audit quality behavior through organizational commitment and auditor performance. The PLS structural models of relationship are shown in table

## II.

TABLE I: COMPOSITE RELIABILITY, AVE AND CORRELATION

Variable	Composite Reliability	Square Root of AVE	Correlation		
			AP	LOC	OC
AP	0.937	0.826	1.000		
External LOC	0.982	0.879	-0.469	1.000	
OC	0.950	0.824	0.648	-0.516	1.000
RAQ Behavior	0.980	0.926	-0.534	0.683	-0.517

TABLE II: PATH ANALYSIS RESULT

Dependent Variable	Independent Variable	Path Coefficient	T Statistic	Sig. P-Value
RAQ Behavior	External LOC	0.527	16.920	$p<0.01$
RAQ Behavior	AP	-0.219	7.911	$p <0.01$
RAQ Behavior	OC	-0.103	2.103	$p <0.05$
AP	External LOC	-0.184	6.174	$p <0.01$
OC	External LOC	-0.516	25.882	$p <0.01$
AP	OC	0.553	17.777	$p <0.01$

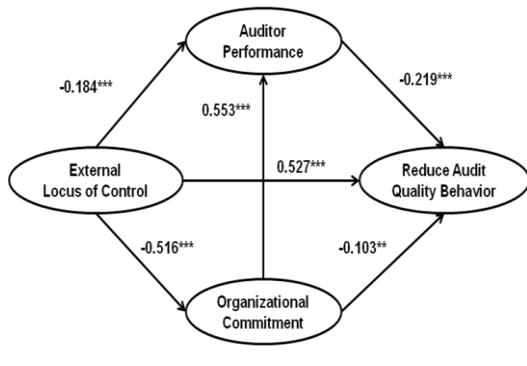
The results presented in Table II indicate that external LOC (locus of control) has a significant positiveeffect on RAQ (reduced audit quality) behavior ( $\beta=0.527$ ,  $p<0.01$ ). This support  $H_1$  which stated that external locus of control has a positive effect on reduced audit quality behavior. Result of this study suggest that external locus of control may play a significant role in reduced audit quality behavior. This result is consistent with the study by [3] and [4]. Therefore, external locus of control are more likely to associate with reduced audit quality behavior.

A significant negative effect of AP (auditor performance) on reduced audit quality behavior was found ( $\beta=-0.219$ ,  $p<0.01$ ). This support  $H_2$  which stated that auditor performance has a negative effect on reduced audit quality behavior. These results are consistent with studies by [3] that found a negative influence of auditors' performance on reduced audit quality behaviors. Results of this study indicate that an auditor who assesses his performance is good then he is likely to do reduced audit quality behaviors, otherwise auditor who assesses performance is not good then he will tend to do reduced audit quality behaviors. This result is consistent with the study by [3] and [4].

A significant negative effect of OC (organizational commitment) on reduced audit quality behavior was found ( $\beta=-0.219$ ,  $p<0.05$ ). This support  $H_3$  which stated that organizational commitment has a negative effect on reduced audit quality behavior. Research finding by [17] shows that organizational commitment negatively affect reduced audit quality behavior. This indicates that the auditor has a strong organizational commitment will be less likely to do reduced audit quality behavior, otherwise auditors have a low organizational commitment will tend to do reduced audit quality behavior.

The results of direct effect of external locus of control on reduced audit quality behaviors reveals the positive effect as predicted in the hypothesis ( $H_1$ ). This study also extend the

analysis on external locus of control by demonstrating the indirect effect of external locus of control. These indirect effects may reflect the influence of auditor performance and organizational commitment on an external locus of control with regard to reduced audit quality behavior. A significant negative impact of external locus of control on auditor performance was found ( $\beta = -0.184, p < 0.01$ ). This supports H<sub>4</sub> which stated that external locus of control has a negative impact on auditor performance. Results of this study indicate that the auditors who have an external locus of control are more likely to have low performance, whereas auditors have internal locus of control are more likely to have high performance.



\*p<0.10, \*\*p<0.05, \*\*\*p<0.01

Fig. 1. Path analysis model.

A significant negative effect of external locus of control on organizational commitment was found ( $\beta = -0.516, p < 0.01$ ). This supports H<sub>5</sub> that stated external locus of control has a negative effect on organizational commitment. This result is consistent with the study by [3]. When auditors with internal locus of control join an accounting firm, they tend to have a higher commitment relative to auditors with external locus of control [3], [12].

Furthermore, organizational commitment has a significant positive effect on auditor performance ( $\beta = -0.516, p < 0.01$ ). This supports H<sub>9</sub> which stated that organizational commitment has a positive effect on auditor performance. [3] and [11] suggested that the auditors who have a higher commitment will show better performance than the auditor who has a low commitment.

The results presented in Table III indicate that path coefficient of the effect of external locus of control on reduced audit quality behavior without organizational commitment and auditor performance was 0.687,  $p < 0.01$ . However, when auditor performance and organizational commitment were controlled, the path coefficient was reduced in magnitude ( $\beta = 0.527, p < 0.01$ ) but remained statistically significant. Since the direct effect was significantly different from zero therefore, it was concluded that auditor performance and organizational commitment partially mediated the impact of external locus of control on reduced audit quality behavior [18], [19].

The significance of the indirect effect was computed using the Sobel test [18], [19]. It was found that the indirect effects of external locus of control on reduced audit quality behavior via auditor performance was significant ( $z = 4.84, p < 0.01$ ). This supports H<sub>6</sub> which stated that external locus of control

has an indirect effect on reduced audit quality behavior through auditor performance. The indirect effect of external locus of control on reduced audit quality behavior via organizational commitment was also significant ( $z = 2.09, p < 0.05$ ). This supports H<sub>7</sub> which stated that external locus of control has an indirect effect on reduced audit quality behavior through organizational commitment.

TABLE III: DIRECT EFFECT LOC ON RAQ WITHOUT OC AND AP

Dependent Variable	Independent Variable	Path Coefficient	T Statistic	Sig. P-Value
RAQ Behavior	LOC	0.687	34.354	p<0.01

TABLE IV: DIRECT EFFECT OC ON RAQ WITHOUT AP

Dependent Variable	Independent Variable	Path Coefficient	T Statistic	Sig. P-Value
RAQ Behavior	OC	-0.527	17.263	p<0.01

The results presented in Table IV indicate that path coefficient of the effect of organizational commitment on reduced audit quality behavior without auditor performance was -0.527,  $p < 0.05$ . However, when auditor performance was controlled the path coefficient was reduced in magnitude ( $\beta = -0.103, p < 0.05$ ) but remained statistically significant. Since the direct effect was significantly different from zero therefore, it was concluded that auditor performance partially mediated the impact of organizational commitment on reduced audit quality behavior. The partial mediation case is perhaps more realistic than complete mediation in behavioral sciences research because of the many causes of behavior [18], [20].

The significance of the indirect effect was computed using the Sobel test. It was found that the indirect effects of the organizational commitment on reduced audit quality behavior via auditor performance was significant ( $z = 7.22, p < 0.01$ ). This supports H<sub>10</sub> that stated organizational commitment has an indirect effect on reduced audit quality behaviors through auditor performance.

The indirect association or effect of external locus of control on reduced audit quality behaviour was then measured by the intervening variables of organisational commitment and auditor performance as per Hypothesis 8 (H<sub>8</sub>). The indirect effects of external locus of control on reduced audit quality behaviour are calculated based on the values of the following path coefficients:

TABLE V: INDIRECT EFFECT LOC ON RAQ THROUGH AP AND OC

External LOC-AP-RAQ behavior	: -0.184 x -0.219 = 0.040
External LOC-OC-RAQ behavior	: -0.516 x -0.103 = 0.053
Total indirect effect	= 0.093

The results in Table V indicate that path coefficient of indirect effect external locus of control on reduced audit quality behaviors via auditor performance and organizational commitment was 0.093. As the indirect effect via auditor performance and organizational commitment is more than 0.05 [17]. This supports H<sub>8</sub> which stated that external locus of control has an indirect effect on reduced audit quality behaviors through auditor performance and organizational commitment.

#### IV. CONCLUSION

This study aims to examine the influence of personal characteristics on reduced audit quality behavior. Results proved that auditors with an external locus of control, weak organizational commitment, and low performance tend to conduct reduced audit quality behavior. In addition, results also prove that the effect of external locus of control on reduced audit quality behavior is indirect through auditor performance and organizational commitment. Further analysis found that auditor performance mediate the effect of organizational commitment on reduced audit quality behavior.

Even Though this study has completed its purposes, the results of this study should be interpreted carefully. The conclusion of this study is drawn from relatively small sample size and research was done in one country, Indonesia. Therefore, it limits the generalization. This research only studies three personal characteristics. Future study can replicate or extend this study by using more sample size or add other personal characteristics such as job satisfaction [3]. Further study also can include ethical aspect such as corporate code of ethics [21].

This study has implications for accounting firm. By understanding personal characteristics, accounting firm need to consider a personality test in recruiting and selection process in order to get professional auditors [22]. In addition, accounting firm also need to design some program to develop auditor ability and personality [23].

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