

FACTORS INFLUENCING AUDITORS' ACCEPTANCE OF THE PRACTICE REVIEW SYSTEM

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**UNIVERSITI SAINS MALAYSIA
2006**

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DEDICATION

I wish to dedicate this research to my beloved parent,
in-laws, spouse, children, relatives and friends;
wherever you may be.

Your continuous support made a significant difference.

THANK YOU!

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ABSTRACT

This research was carried out to identify the factors that influence auditors' acceptance of the Practice Review System. Using a theoretical model based on the Decomposed Theory of Planned Behavior, this study aims to identify the factors influencing acceptance of the Practice Review System. This research serves to test the applicability of the Decomposed TPB in predicting auditors' behavioral intention to accept the Practice Review System. Questionnaire Survey was used in this research. Systematic Random Sampling was adopted with 1000 sets of questionnaire distributed and 123 completed questionnaire returned for analysis. The results indicated that the proposed model explained 79.4% of the variance in the intention to accept the practice review system. The results from this study highlight that salient beliefs including perceived usefulness and rule observance behavior are highly relevant in assessing attitude toward acceptance of the Practice Review System, while attitude is strongly associated with intention. Normative beliefs also strongly associated with intention. Other factors influencing acceptance of Practice Review System include Perceived Financial Cost and Facilitating Resources Conditions. The implications of the study are beneficial for practitioners in identifying the factors influencing auditors' acceptance of the practice review system. Hence this would enable them to better develop implementation strategies for acceptance of the Practice Review System.

ABSTRAK

Kajian ini dibuat untuk mengaji kecenderungan sikap tingkap laku juruaudit untuk menerima Sistem Penyemakan Amalan. Kajian ini juga bertujuan untuk mengklasifikasikan fakta – fakta yang mempengaruhi tingkahlaku juruaudit untuk menerima Sistem Penyemakan Amalan. Model yang digunakan ialah “Decomposed Theory of Planned Behavior” (DTPB). Di samping itu juga, kajian ini ingin mengkaji kesesuaian model “DTPB” di dalam meramalkan tingkahlaku juruaudit untuk menerima Sistem Penyemakan Amalan. Pensampelan secara rawak sistematik digunakan untuk mengedar 1,000 set soal selidik dan sebanyak 123 soal selidik yang lengkap telah diperolehi untuk menganalisa keputusan disertasi ini. Keputusan yang diperolehi menunjukkan bahawa “DTPB” boleh digunakan dalam menentukan tingkahlaku juruaudit untuk menerima Sistem Penyemakan Amalan. Ini diperkukuhkan lagi apabila model ini dapat menjelaskan varians sebanyak 79.4%. Fakta – fakta iaitu tanggapan kegunaan dan tingkahlaku dalam mematuhi undang – undang dapat menjelaskan sikap dan tingkahlaku juruaudit terhadap sistem tersebut. Di samping itu komponen sikap dan tingkah laku juruaudit serta norma subjektif adalah cenderung terhadap meramalkan tingkah laku. Fakta – fakta yang mempengaruhi tingkahlaku juruaudit untuk menerima Sistem Penyemakan Amalan adalah kemudahan sumber persekitaran dan tanggapan sumber kos. Implikasi dari segi teori dan praktikal juga dibincangkan agar ia dapat dimanfaatkan oleh pengamal di dalam mengenalpasti fakta – fakta yang mempengaruhi tingkahlaku juruaudit untuk menerima Sistem Penyemakan Amalan. Ini akan membolehkan pengamal membangunkan strategi implimentasi yang berkesan dalam penerimaan Sistem Penyemakan Amalan.

Chapter 1 INTRODUCTION

1.1 Background

Globally, corporate governance is critical to capital market development. Effective corporate governance can create safeguards against corruption, mismanagement and promote transparency and thus efficiency in the economy. Therefore good corporate governance is the heart of building confidence in financial systems and generating a sustainable economic growth.

Back in 2002, many blamed the Enron failure almost exclusively on the auditors. Corporate Governance was not yet seen as so central to the corporate failures. Some predicted that Enron was a storm that would soon blow over. Time has shown rather than being an isolated event, Enron was the initial of a series of corporate failures. In fact “Enron” has become a classic example for corporate greed and failed corporate governance. Worldcom, Tyco, Adelphia, Vivendi, Parmalat and closer to home Perwaja whereby each case trending to reinforce public cynicism towards business in general.

The year 2002 recorded the biggest corporate collapse in the United States history that subsequently raised lots of questions regarding auditors’ independence. Arthur Andersen, being the auditor of the three biggest bankruptcies, Enron, Worldcom and Global Crossing was heavily criticized for the collapse. Andersen was allegedly stressing more on non-audit services (NAS) than the audit itself (Kandiah, 2003a).

The scandals created a ripple effect to the accounting profession due to the various breakdowns in accounting practices which affect the trust, reputation and credibility of the profession. Accountant play a key role in the information supply chain that deliver the

financial reporting to the market thus contribute significantly to good corporate governance practices. Analysis and studies done by IFAC illustrates very clearly the connection between business failure and reporting failure. In order to ensure the independence of auditors and to protect the interest of investors, the accounting profession in most countries has come up with a code of ethics that spells out guidelines for quality control mechanisms, auditors' competency and ultimately auditors' independence.

The series of very high profile and recent corporate scandals involving Enron, Worldcom, Adelphia and Tyco had resulted in Sarbanes Oxley Act (SOA) a US law passed in 2002 aimed at strengthening corporate governance and attempt to restore investor confidence in the US financial system. The provisions of Act will affect the operation of public companies in several dimensions, including corporate governance, financial disclosure, officer and director activities and responsibilities and auditor independence. In general SOA applies not only to publicly owned U.S. companies but also to all companies (whether in the U.S. or elsewhere) that have registered equity or debt securities with the Securities Exchange Act of 1934. The Act also creates and regulates the Public Accounting Oversight Board ("PAOB") to oversee public company audits and establishes conflict of interest rules for securities analysis.

Other proposal have also been implemented which include instituting reforms to corporate governance, expanding corporate executives' liability for providing misleading accounting statements, enhancing oversight and enforcement by the SEC, creating a new oversight board to regulate and supervise accounting and auditing firms, establish audit standards and punish malpractice. As a result, the "Auditing Oversight Board" which has wider power, founded in US as the establishment of Sarbanes-Oxley Act. The Board should

play as a watchdog for accounting and auditing practices to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of independent, reliable, true and fair audit.

The establishment of Sarbanes –Oxley Act and Public Company Accounting Oversight Board (PCAOB) in US thus becomes a model for other countries in order to set their own auditing oversight board including Malaysia. In Malaysia, Auditing Oversight Board is still in the introductory stage and is not fully functioning yet. It is formed because of Sarbanes Oxley Act and is required by the Securities of Commission to oversee the audit firms in Malaysia. It consists of MIA members, practitioners and academicians which will oversee the auditing profession.

Prior to this, the Malaysian Institute of Accountants (MIA) which is established by statute in 1967, is currently playing a role as accounting oversight board to create a high degree of public confidence through the insistence on setting and maintaining a high professional standard among its 18,000 members. MIA has, on 26th July 2002, introduced Practice Review Framework as one of the mechanism to monitor auditors' compliance with technical and ethical standard. Subsequently MIA in July 2005 came up with a quality manual, adopting the International Standards on Quality Control (ISQC) 1 as an approved Standard on Auditing in Malaysia. Member firms are required to establish compliance with the quality control systems as per ISQC 1 by 1st July 2006. Practice Review Framework is a pro-active measure to ensure all audit firms maintain, observe and apply the relevant professional and ethical standards.

Practice Review focuses on the audit firm's quality control system for its accounting and auditing practice including documentation of the system and compliance by firm

personnel. It is a periodic external review of a firm's quality control system in accounting and auditing by members of the same profession with the goal of maintaining and improving the quality of these services on a comprehensive basis. Hence there would be a self regulatory framework attempting to develop members' professional work standard and increases the credibility of a true and fair audited financial statement to decision makers.

For the purpose of this study, the Practice Review Framework will be referred to as the Practice Review System. The practice review framework consists of two components: the first is a study and evaluation of the quality control systems of the firm under review to ensure it is in accordance with the requirements of the Standards on Auditing, while the second relates to the testing of the firm's compliance with its quality control procedures. To ensure that the two key components are evaluated and the objectives are met, Practice Review is a process where audit practice standards and procedures are assessed by member of the same profession. Practice review is already a norm in countries like Canada, New Zealand, United Kingdom, Hong Kong and Singapore.

Practice Review System is intended to provide educational and supportive and assist practitioners to maintain and improve their professional standards. The implementation of Practice Review System will create awareness among practicing members to the need to maintain such a level of professional standard and ensuring the highest standard of audit quality in their work regardless of whether they are practicing as sole practitioners or as partners of large firms.

The Practice Review System is mandatory to all MIA members. Although it is a mandatory requirement in MIA By Law, as of now there is no disciplinary mechanism to monitor non compliance among members firms as the proposed first five-year cycle of the

Practice Review System should be educational in nature with the shift in emphasis from the second cycle onwards. This would allow more time for smaller practices to upgrade their standards of work to the necessary standards set.

. 1.2 Problem Statement

In auditing the financial statement of clients, the auditor is required to review the quality of the internal control system of the client. Upon evaluation of the internal control system, the auditor will then determine the type of tests that would be carried out in auditing the financial statement. Internal control system is the system established by the company to enable the company to achieve the objectives set. Hence internal control system evaluation is indeed an important step to be undertaken by an auditor.

With the various downfall of corporation globally, it is a timely request by the profession to examine the quality of audit conducted by audit firms. To ensure that there is quality audit performed, there is a need to examine the control systems of the audit firms and ensure that there is compliance with the intended quality control procedures.

Hence, the objective of the Practice Review is to ensure all MIA members in public practice maintain, observe and apply the relevant professional standards and ensure a high quality audit is delivered to all relevant stakeholders. Primarily, the practice review is intended to be educational and to assist members in public practice to improve their professional standards where necessary. Essentially through a review of current engagement files, the Practice Review will identify areas where a member in public practice may require assistance in maintaining professional standards.

In view of the decrease of public confidence towards the profession after the down fall of giant corporations, for example Enron, and the increase in the number of malpractices lawsuit against audit firms, the enforcement of Practice Review will ensure the continuous development of members' professional work standards and to ensure the high standard of the accountancy profession are monitored and maintained.

The practice review system is mandatory to all MIA members, however the acceptance rate of Practice Review System is still very low and the implementation is still in the early stage despite being included as a monitoring mechanism for the auditing profession in the MIA by law issued in 2002.

Some of the key concerns raised with regards to the Practice Review System among members can be explained firstly, confidentiality of firms reviewed should be safeguard; secondly, the chosen reviewer must be objective in the assessment and should give constructive feedback without any bias or malicious intention; thirdly, Practice Review Risk where by the reviewer may failed to identify the weaknesses or inappropriate review is given which may be detrimental to the firm under review and fourthly, concern of the professional fees charged during a review which is perceived as burdensome by audit firms.

The initial Acceptance of Practice Review System among auditors is the important driving force to further influence the adoption and of the system. The success of the Practice Review System would particularly be dependent on the acceptance of the system among the auditors and the public must be convinced that the practice review system would ensure accountant in public practice is carrying out professional work at the highest quality standard. Thus this study discussed the factors influencing auditors' acceptance of the Practice Review System. By identifying the factors will assist MIA to understand the reasons why auditors are

willing or not willing to accept the Practice Review System and what are the measures needed to increase their acceptance level to use the system. Therefore it will lead to better planning and implementation of the Practice Review System.

1.3 Research Objectives

The study aims to investigate the auditors' beliefs, attitudes, and behavioral intention to accept the Practice Review System. The study will also identify factors that influence the auditors' intention in accepting the Practice Review System using the Decomposed Theory of Planned Behavior (DTPB) model. Specifically, this study focuses on several objectives which can be summarized as below:-

1. To determine whether Perceived Usefulness, Perceived Ease of Use, Professional Commitment and Rule Observant Behavior will influence Attitude
2. To determine whether Self Efficacy, Perceived Financial Cost and Facilitating Resources Condition will influence Perceived Behavior Control
3. To determine whether attitude, subjective norm and perceived behavior control will influence intention to accept the Practice Review System
4. To examine whether attitude mediates the relationship of Perceived Usefulness, Perceived Ease of Use, Professional Commitment and Rule Observant Behavior to behavioral intention
5. To examine whether perceived behavior control mediates the relationship of the Self Efficacy, Perceived Financial Cost and Facilitating Resources Condition to behavioral intention

1.4.1 Research Questions

This study will analyze and determine the following questions:-

1. What is the relationship of perceived usefulness, perceived ease of use, professional commitment and rule observant behavior to attitude?
2. What is the relationship of self efficacy, perceived financial cost and facilitating resources condition to perceived behavior control?
3. What is the relationship of attitude, subjective norm and perceive behavioral control to intention to accept the Practice Review System?
4. Does attitude mediates the relationship of perceived usefulness, perceived ease of use, professional commitment and rule observant behavior to behavioral intention
5. Does perceived behavioral control mediates the relationship of self efficacy, perceived financial cost and facilitating resources conditions to behavioral intention

1.5 Significance of the Study

Despite being a mandatory requirement set by MIA to all its members, most auditors are unwilling to subject their firm to the practice review system. Hence understanding the factors influencing the behavioral intention to accept the system is critical in order to ensure the success of the practice review system. As relationships between various factors become clearer, practitioners specifically MIA can start to implement intervention programs to-better promote and increase the acceptance and implementation of the Practice Review System. Ultimately Practice Review System can help to improve efficiency and effectiveness in business operations.

This study will extend the Decomposed TPB model to an accounting related decision specifically to auditors' behavioral intention towards acceptance of the Practice Review System. Hence this study hopes to contribute to the literature on behavioral intention relating to the accounting profession in Malaysia.

Most research on users' intentions to accept various applications usually are conducted in environments in which usage is voluntary (Davis, 1989, 1993; Jackson, Chow, & Leitch, 1997; Ventakesh & Davis, 2000), the question arises as to whether findings of those studies are generalizable to mandatory systems. While previous results from prior studies provide consistent support for relationships among perceptions, attitudes, behavioral intention, and usage, it is unclear whether these relationships will hold when behavior is mandatory. As most business systems are in fact mandatory, it is important to extend study of user behavior into these environments (Rawstorne, Jayasuriya & Caputi, 2000). User resistance to mandatory systems imposed by employers has implication whether short term or long term implications that could be detrimental to organizational efficiency and effectiveness. Thus, it is important to provide theory based investigations of user behavior in mandatory system context (Bedard, Ettredge & Johnstone, 2003). Brown, Massey, Montoya-Weiss and Burkman (2002) note that while results from prior studies provide consistent support for relationships among perceptions, attitudes, behavioral intention and usage, it is unclear whether these relationships will hold when behavior is mandatory, hence it is important to extend study of acceptance behavior into mandatory setting.

1.6 Definitions of Key Variables and Key Terms

Attitude towards behavior “an individual’s positive or negative feelings (evaluative affect) about performing the target behavior” (Fishbein & Ajzen 1975).

Subjective Norm “the person’s perception that most people who are important to him think he should or should not perform the behavior in question” (Fishbein & Ajzen 1975).

Professional commitment is the relative strength of identification with and involvement in a profession as cited in Lord and DeZoort (2001). Professional commitment entails the (1) belief and acceptance of the goals and values of the profession, (2) a willingness to exert effort on its behalf, and (3) a desire to maintain membership into the profession (Aranya, Pollock & Amemic,. 1981; Aranya & Ferris, 1984).

Rule Observance Behavior relates “obedience to authority” (Trevino, 1986)

Perceived Behavioral Control “the perceived ease or difficulty of performing the behavior” (Ajzen 1991, p. 188). In the context of IS research, “perceptions of internal and external constraints on behavior” (Taylor & Todd 1995).

Perceived Usefulness “the degree to which a person believes that using a particular system would enhance his or her job performance” (Davis 1989).

Perceived Ease of Use “the degree to which a person believes that using a particular system would be free of effort” (Davis 1989).

Facilitating Resources Conditions “Objective factors in the environment that observers agree make an act easy to accomplish. For example, returning items purchased online is facilitated when no fee is charged to return the item. In an IS context, “provision of support for users of PCs may be one type of facilitating condition that can influence system utilization” (Thompson, Higgins & Howell, 1991).

Intention is a measure of the strength of one's intention to perform a specified behavior. It is also determine whether the person intent or not intent to perform the actual behavior

1.7 Summary and Organization of Chapters

In order to discuss this study in an efficient manner, a total of five chapters have been developed. The first chapter presents an overview of this study and reasons of conducting the study had been clearly explained. Chapter two presents an overview of literature on behavioral intention model and the factors influencing the acceptance of the practice review system leading to theoretical framework and hypotheses. Chapter three describes the research methodology, research design, data collection, measurement instrument used and statistical analyses conducting in testing the hypotheses. Chapter four discuss the goodness of measurement used and the results of the tested hypotheses. Last and foremost, chapter five will present the overall findings and implications of the research will be discussed, limitations as well as suggestions for future research and conclusions.

Chapter 2 Literature Review

2.1 Introduction

The study aims to investigate on the auditors' beliefs, attitudes, and behavioral intention to accept the Practice Review System. Therefore the literature review will cover behavioral intention and the factors. Towards the end of the chapter, the theoretical framework and hypotheses will be presented.

2.2 Audit Profession

Arens, Elder and Beasley (2003) defined auditing as the accumulation and evaluation about information to determine and report on the degree of correspondence between the information and established criteria. Financial statement audit requires the auditors to determine whether the financial statements of a company show a *true and fair* view. Hence the end in mind of an audit is the issuance of an audit opinion i.e. qualified or an unqualified, on the financial statements of business entities.

Quality of services is the number one driving force for sustainability of a business (Carlzon, 1987). In today's globalize and competitive market place, it is recognized that high quality service is essential for firms that want to be successful in their business (Rust & Oliver, 1994). In the context of auditing, DeAngelo (1981) defines audit quality as the joint probability that a given auditor will both discover a breach in the accounting system and report the breach. Quality of services provided by audit firms is a very important issue when many signal of dissatisfaction on the services arise (Sutton, 1993). It is generally associated

that high quality audit translates in high earnings quality (Teoh & Wong, 1993). Kane and Velury (2001) found in their study that audit firms may increase their attractiveness to institutional investors when they provide high quality audit services.

The marketing for auditing services, and perceptions of how audit quality might best be obtained, are rapidly changing in the wake of recent events such as the collapse of Enron, World Com and so forth. Hence the ongoing public scrutiny of the profession's behavior and the quality of its product (Chow, Kramer & Wallace, 1998) and the intensifying dialogue around the concept of an "expectation gap" and its impact on the value of auditors' services (Chow, Kramer & Wallace, 1998) had implied that audit quality is a pertinent issue.

Audit quality is important in the rendering of audit services. Some previous researches examined the attributes of audit quality (Carcello, Hermanson & McGrath, 1992; Sutton 1993). However a majority of previous research measured audit quality by proxy of size i.e. "big 6" and non "big 6" audit firms. Behn, Carcello and Hermanson (1997) introduced a new proxy for measuring audit quality by examining the attributes of audit quality and whether the audit quality will determine client satisfaction. Several of the audit qualities found to influence client's satisfaction were responsiveness to client's needs, effectiveness and on going interaction with the audit committee, industrial experts and the appropriate conduct of audit field work.

Ensuring high quality audited financial statements is one of the mechanisms of corporate governance itself. High quality audited information would boost investors confidence and ensure efficiency and effectiveness of the overall economy. Therefore effective monitoring or oversight of the auditing profession is critical to ensure the highest quality of audited financial statements is maintained and simultaneously building trust and

reliance on the financial statements. By having effective oversight mechanism, investors are assured that skilled professionals operating under high ethical standards and stringent quality control procedures are auditing financial statements. Strong oversight helps to strengthen audit practice and to detect and deter any weaknesses that could detract from an accountant's ability to fulfill the goal of having financial statements audited by competent, independent auditors. Further, when oversight is compromised, the quality of financial information can be affected and investors' trust in quality of financial information is compromised as well.

A series of laboratory experiments conducted in the United States in 1996 by Grant, Bricker and Shiptsova have demonstrated the difficulties of obtaining a high level of audit quality without the regime of self regulation within the profession (Yong, 1999). Although the study did not make particular reference to practice review, the conclusion supported the notion of self regulatory, which can be similar form as the Practice Review System. As part of the effort of ensuring effective oversight of the accounting profession, MIA has, on 26th July 2002, approved the implementation of the Practice Review System.

Practice Review System attempts to assure quality audit performance and to reduce or eliminate substandard performance. It requires member firms to understand what is necessary for quality practice, establish appropriate policies and procedures for quality performance as per the standards set by the MIA such as the ISQC, subject their compliance to an independent quality review and take remedial or corrective actions as needed. Receiving a qualified or adverse opinion is an indication that the firm's audit quality does not meet professional standards and hence changes must be made.

The advantages of practice review in the Malaysian accounting context can be summarized as follows

- a. To inspire a greater confidence in the Profession by the Malaysia Community.
- b. The need for Self regulation. In the past, MIA has been instrumental in the setting, developing and implementation of various accounting and auditing standards and guidelines. However the adherence to such standards and guideline are rarely subject to monitoring by MIA. Therefore there is a need for self regulation within the profession.
- c. Obligation for Continuous Improvements of Professional Standards. The accounting profession has an obligation to continue to improve its standards on professional work. The Practice Review System is aimed at helping members to raise their professional work standards. It is aimed at improving internal quality control system of audit firms that will enable the firm to develop and refine the technical skills of their employees. Hence, enabling the firm to deliver high quality professional services and products to their clients.

Some of the key challengers which may have resulted in concerns among auditors are mentioned below (Yong, 1999).

- a. **Confidentiality.** As Practice Review requires the reviewer to have access and view another accounting firm's procedures and working documents, such as specific files and work done on a particular client, care must be given to ensure the confidentiality of the firm reviewed is safeguarded. The audit firms being reviewed also challenges whether MIA has the right to access the documents as according to them, the documents of their audit clients are confidential and the audit firms are bound by duty of confidentiality to their clients under the Accountant Act 1975. Hence by providing access to MIA the duty is breached. Under the MIA by Law, MIA is given the right to perform the practice

review audit to ascertain whether quality audit was performed. Due to this conflict, audit firms are posing a question as to whether the Accountant Acts 1975 is more superior than the MIA by Law.

- b. **Objectivity.** The reviewer for a Practice review should also be seen and act objectively when conducting the Practice Review. Also as part of the improvement objective or practice review process, firms are required to take corrective actions to overcome their weaknesses after a practice review is conducted. If firms fail to take the appropriate corrective action then various sanctions can be imposed. As such, the chosen reviewer must be objective in the assessment and should provide constructive feedback without any bias or malicious intention.
- c. **Practice Review Risk.** In addition, there may be the Practice Review Risk whereby the Practice Review team may fail to identify significant weaknesses in the reviewed firm's system of quality control or compliance with it, or issuing an inappropriate opinion on the reviewed firm's system of quality control for its accounting and auditing practice and/or compliance with that system. Therefore, steps should be taken to reduce or mitigate this risk to an acceptable level.
- d. **Professional Fees.** The professional charges for the practice review audit may range from RM3000 to RM5000 per review conducted. This is expensive especially to small audit firms.

The objective of the Practice Review System is to ensure that all members in the public practice maintain, observe and apply the relevant professional standards. Primarily the Practice Review System is intended to be educational and assist member in public practice improve their professional standards and audit quality where necessary. Essentially through a

review of current engagement files, the Practice Review System will identify the areas where a member firm may require assistance in improving or maintaining professional standards and audit quality.

As in the ISQC, the member firm's system of quality control should include policies and procedures, appropriately documented and communicated to the firm's personnel, addressing each of the six key elements.

- a. Leadership responsibilities within the firm
- b. Ethical requirements
- c. Acceptance and commitment of clients' relationships and specific engagements
- d. Human resources
- e. Engagement performance and engagement quality control review
- f. Monitoring

As part of the quality control system designed to provide member firms in public practice with reasonable assurance that the firm and its personnel comply with professional standards, regulatory and legal requirements and that auditors' reports issued by the firm are appropriate in circumstances. The Practice Review System qualifies as an information system as it provides strategic information to management and MIA by virtue of being a self-regulatory mechanism aimed at monitoring and ensuring audit quality and auditors' independence are at all times adhered to and maintained, which ultimately enhance the confidence of the business community toward the accounting profession. It is an information system, whether automated or manual, that comprises of people, machines and/or methods organized to collect, process, transmit and disseminate data in ensuring member firms operate at least to the required

professional and ethical standards needed to enhance audit effectiveness by emphasizing audit quality control processes.

Information system researchers have suggested the use of behavioral intention models from social psychology as a potential theoretical foundation for research on the factors of user behavior (Swanson, 1982).

2.3 Theory

Rogers (1995) tries to explain the observed adoption behavior using characteristics of the innovation being introduced. He also describes the diffusion process as consisting of four elements; an innovation or new technology, a social system, the communication channels of the social system and time. Of these elements Roger (1995) focuses on the innovation, the social system and the communication channels when explaining the observed adoption behavior. Three model stands out as the most widely applied models of attitude and behavior – the technology acceptance model (TAM) originally proposed by Davis (1989), the theory of reason action (TRA) originally proposed by Fishbein and Ajzen (1975), and the extension of TRA into a theory of planned behavior (TPB) originally proposed by Ajzen (1985).

This study adopted the Decomposed TPB as the model used to study the factors influencing auditors' acceptance of the Practice Review System. Hence the underlying theories and assumptions were discussed in the following section.

2.3.1 Theory of Reason Action

One of the most widely studied models of attitude and behavior is the Theory of Reason Action (Fishbein, 1967; Fishbein & Ajzen, 1975). The underlying concept of TRA is

based on the influence of attitude on behavior which is mediated through behavioral intentions. Thus TRA is a model developed to predict and explain a consciously intended behavior. TRA is a theory of attitude towards behavior relationships, which links attitudes, subjective norms, behavioral intentions and behavior in a fixed causal sequence (Ajzen & Fishben, 1980). Sheppard, Harwick and Warshaw (1988) in a meta-analysis research concluded that the predictive utility of the TRA was strong across various conditions. Throughout the years numerous attempts have been made to refine the model in order to ensure it will better predict behavioral intention and behavior.

2.3.2 Theory of Planned Behavior

Ajzen (1985, 1987, 1989, 1991), has formalized the adaptation of the Theory of Reasoned Action (TRA) which he refers to as the Theory of Planned Behavior (TPB) to account for conditions of variable control (Taylor & Todd, 1995). The TPB has an additional construct, the Perceived Behavioral Control in addition to the subjective norm and attitudinal components of TRA. TPB extends the TRA to consider perceived behavioral control for reflecting user perceptions regarding possible internal and external constraints on behavior, and is directly related to both behavioral intention to use and actual use (Hung, Cheng & Chang, 2003). Consequently, actual use is a weighted function of intention to use and perceived behavioral control (Taylor & Todd, 1995). Therefore TPB predicts intentions to perform behaviors in various situations which are influenced by attitude towards behavior, subjective norms and perceived behavioral control. Behavior intention and perceived behavioral control are posited to predict actual behavior (Ajzen, 1991). One of the key strength of TPB is its broad applicability. Applications of the model can be found across

numerous disciplines, including nursing, information technology, social policy and sociology. Madden, Scholder and Ajzen, (1992) and Man (1998) all found that TPB has a better predictive power of behavior than TRA.

2.3.3 Technology Acceptance Model (TAM)

The Technological Acceptance Model (TAM) is commonly used to explain and predict the acceptance of a specific technology. Fred Davis pioneered this adaptation of Fishbein and Ajzen's (1980) well known Theory of Reasoned Action (TRA) in 1986; and it has since shown to model user acceptance of information systems successfully (Davis, Bagozzi, & Warshaw, 1989). The model posits that perceived ease of use (PEOU) and perceived usefulness (PU) are primary factors of an individual's behavioral intention to system usage. Perceived usefulness and perceived ease of use are two factors that determine one's attitude. Social norms as well as other control beliefs are considered to be external factors that are mediated through one's perceptions of usefulness and ease of use. A key purpose of TAM is to provide a basis for tracing the impact of external factors on internal beliefs, attitudes and intentions. TAM is one of the most influential research models in studies of factors of information systems/ information technology acceptance (Chau, 1996). Many attempts have been made to extend and refine the model in order to ensure it's robustness in explaining behavioral intention for system usage. Although originally designed for the acceptance of computer based technology, due to its robustness, it can be applied to many applications with appropriate adjustments (Philips et al, 1994). The model has also investigated the applicability of TAM to other cultures (Straub, Gothrie & Sheppard 1997; Veiga, Kohno & Potter 2001).

2.3.4 Decomposed Theory of Planned Behavior

Ajzen (1991) cited in Jackson *et al.*, (2003) suggested that the Theory of Planned Behavior was open to further expansion if additional predictors could be identified that accounted for significant variance over and above the TPB variables. An increasing number of studies have identified additional variables that might improve the predictive power of the Theory of Planned Behavior (Conner & Armitage, 1998). Attempts have been made to refine the various models to enhance the prediction of behavioral intention and behavior. Studies have been attempted to find more precise ways to represent the attitudinal and normative belief components of the models through decomposition (Burnkrant & Page, 1998; Davis, Bagozzi & Warshaw, 1992; Shimp & Kavas, 1984).

Mathieson (1991) and Taylor and Todd (1995) refined the TPB model by integrating it with Technology Acceptance Model (TAM) described earlier and by decomposing the attitude, subjective norm and perceived behavioral control constructs. Therefore by decomposing the belief structures of TPB, their relationships can be clearer and more understandable for practical purpose (Taylor & Todd, 1995). Decomposed TPB focused on decomposing beliefs structures into multidimensional belief construct.

In a choice of models, parsimony is an essential consideration. While the decomposed TPB adds complexity when compared to TAM, several studies have shown that the increased complexity of the TPB model is a small price to pay for its explanatory power. DTBP have been used primarily to provide an understanding of the factors of Information System usage behavior. It has also been tested for usage behavior of mobile Commerce Service Acceptance (Pedersen, 2002).

A decomposition approach provides several advantages over unidimensional belief structures. Firstly, monolithic belief structures are unlikely to represent a variety of dimensions that will be consistently related to the factors of intention (Bagozzi, 1981; Shimp & Kavas, 1984). By decomposition into multidimensional belief structures, relationships should become clearer and more readily understood thus pointing to specific factors that may influence behavior. In addition, the decomposition can provide a stable set of beliefs that can be applied across a variety of settings. These overcome operationalization problems that have been noted with respect to the traditional intention models (Berger, 1993; Mathieson, 1991). Lastly by focusing on specific beliefs the model becomes more managerially relevant, pointing to specific factors that may influence acceptance and usage (Icek, 1985; Fu, Farn, & Chao, 2005). The DTPB attempts to overcome limitation of the various models described earlier, particularly in relationship to attitudinal, normative and control beliefs that are decomposed into multi-dimensional belief constructs.

Attitudinal belief structure is decomposed based on the assumption that the belief structure may reflect a variety of underlying dimensions that obscure its relationship to attitude (Taylor & Todd, 1995). According to previous literature, we suggest that four attitudinal belief dimensions, (1) Perceived Usefulness (PU), (2) Perceived Ease of Use (PEOU), (3) Rule Observance Behavior, and (4) Professional Commitment.

While some studies have found support for the decomposition of normative belief structures (Burnkrant & Page, 1988; Grube, Morgan & McGree, 1986), others have failed to identify a multi-dimensional structure for normative belief (Shimp & Kavas, 1984, Oliver & Bearden, 1985). For this study normative belief is not decomposed as significant referents are expected

to be similar, hence decomposition should not provide any additional insights (Taylor & Todd, 1995).

The decomposition of control beliefs followed directive from Ajzen's (1985, 1991) discussion of the construct. He refers to both the internal notion of individual "self-efficacy" (Bandura, 1977) and the external resource constraints, similar to Triandis's (1977) notion of "Facilitating Resources Conditions." Taylor and Todd (1995) decomposed perceived control behavior into self-efficacy, technology compatibility and resource factors. In accordance with Taylor and Todd (1995) control beliefs structure is decomposed into 3 dimensions: (1) self efficacy (2) Facilitating Resources Conditions and (3) Perceived Financial Cost.

2.4 Behavioral Intention (Dependent Variable)

TPB posits that behavioral intention is a function of attitude, subjective norm, the perception that other people considered important by the person think he or she should perform the behavior and perceived behavioral control, the perception of internal and external resources constraints on performing the behavior. In this study Acceptance of the Practice Review System is defined as an individual's psychological state with regard to his or her intended use of the system (Chau & Hu, 2002; Hung, Chang & Yu, 2005). Collectively, findings from most prior research suggest that an individual's intention to use an information system can sufficiently approximately or measure his or her actual use.

Behavioral Intention has been shown to explain or predict an individual's performing a conscious act such as deciding to accept (or use) an information system (Chau et al., 2002). Behavioral Intention was chosen as dependent variable and skips the construct Actual Usage for theoretical and practical reasons. On the theoretical front, an abundance of research

studies have reported a strong and significant causal relationship between behavioral intention and usage of technology or targeted behavior (Sheppard et al, 1988; Venkatesh & Davis, 2000). Ajzen and Fishbein (1980) have reiterated that intention has a major influence on behavior in mediating the effect of other factors on behavior. Furthermore given that the study utilized a survey-based cross sectional design, using intention instead of usage avoids the potential problems of retrospective analysis (Yi, 2005). Agarwal and Prasad as cited in Cheng, Lam & Yeung (2006) also argued that for a survey-based research design, Behavioral Intention is more appropriate than actual use as they are measured contemporaneously with beliefs.

Finally as practice review system is still at the initial stage of implementation thus choosing intention over actual acceptance is more desirable allowing a timely investigation of auditors' acceptance when a growing number of audit firms are accepting and subjected to the Practice Review System. It is therefore theoretically justifiable to use Behavioral Intention as a dependent variable to examine the acceptance of Practice Review System (Mathieson, 1991). Hence the choice of Behavioral Intention rather than actual use is deemed as both appropriate and necessary.

2.5 Independent Variables

2.5.1 Attitude

Ajzen (1975) defined attitude as an individual's positive or negative feelings (evaluative affect) about performing the target behavior. Attitude can be conceptualized in terms of values whereby individual develops particular values about behaviors. Fishbein and Ajzen (1975) noted that individual attitudes towards behavior are based on estimates of the