Determinant factors of cognitive moral development in audit activities: Ethical decision perspective (Empirical study on public accounting firms)

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Abstract- *This study was aimed to investigate the influence of each variable (Machiavellian, Cognitive Moral Development and the Need for Achievement) either directly or indirectly on Premature Sign Off (PSO). For this purpose, a survey method was applied to gather information. The unit of analysis was junior auditors, senior auditors, supervisors and managers in the Public Accounting Firms (PAF) located in the city of Jakarta affiliated with leading foreign Public Accounting Firms (in the category of The Big Four). Relationship between the variables was tested by applying Structural Equation Model (SEM) through AMOS software to prove validity of each proposed hypothesis before. Through hypothesis testing procedures, the research findings showed that Need for Achievement and Cognitive Moral Development negatively and significantly influenced Premature Sign Off. Then, Machiavellian positively and significantly influenced Premature Sign Off. But, Machiavellian negatively and significantly Cognitive Moral Development. In the other side, Need for Achievement positively and significantly influenced Cognitive Moral Development. The conclusion of this research also indicated that the direct influence of Machiavellian on Premature Sign Off was weaker than its indirect influence through Cognitive Moral Development. Conversely, without being mediated by Cognitive Moral Development, Need for Achievement performed the stronger direct influence than its indirect influence.*

Keywords- *Ethical Decision; Machiavellian; Cognitive Moral Development; Need for Achievement; Premature Sign Off*

1. INTRODUCTION

Information asymmetry between management and shareholders stimulates the demand of auditors as an independent party to measure the accuracy of financial information resulted by management to reduce the risks of losses due to the financial statement errors faced by shareholders (Otley and Pierce, 1996). An auditor must perform a series of audit process to achieve it.

Audit process conducted by the auditor is part of assurance service (Robertson and Louwers, 2002; Arens et al., 2003; Ricchiute, 2003). Robertson and Louwers (2002) defined assurance services as "independent professional services that improve the quality of information or its content for the decision makers". This definition includes some important concepts. One of them is the concept of quality improvement by increasing trust in information reliability and relevance. Therefore, auditors should be able to improve the quality of information for decision makers through their services.

Based on theory, when entire audit procedures are able to be carried out by an auditor as well as possible, it will increase the quality of information resulted. But, the real and present phenomenon has often suggested the opposite. The emerging of cases in large number even have indicated audit quality reduction deliberately by auditors which caused error in judgment. Some previous studies indicated that adequate quality of audit results were not always achieved. Even, indicated that the behavior of reduced audit quality/RAQ tended to increase (Alderman and Deitrick, 1982; Malone and Robert., 1996; Margheim and Pany, 1986; Raghunathan , 1991; Reckers, Wheeler, and Wong-On-Wing, 1997; Soobaroyen and Chengabroyan, 2005; Weningtyas, 2006).

One of reduced audit quality is premature sign-off procedures (PSO) (Donnelly et al., 2003; Malone and Robert., 1996; Weningtyas, 2006). PSO is the termination of the audit procedures required without doing complete job and ignoring the other audit procedures.

The focus of this study was PSO which was influenced by the personal characteristics of the auditors. Previously, there were few studies which examined personal characteristics factors as the cause of PSO. While internal factors of individuals could be the cause of PSO. As Donnelly et al (2003) stated, the difference of auditor's personal characteristics was one factor that could potentially influence the auditor in doing PSO. In addition, according to Jansen and Glinow (in Malone and Roberts,1996), individual behavior was a reflection of personality which was stated in behavioral accounting literature that personality variables might interact with cognitive style to influence decision-making (Siegel and Marconi, 1989). It indicated that individual characteristics factors within auditors should not be neglected in the study.

This study incorporated Cognitive Moral Development (CMD) as an intervening variable in the model, beside as an independent variable in previous researches. The underlying argument to incorporate Cognitive Moral Development as an intervening variable referred to the model developed by Shapeero (2003) which explained that the accountants would not do unethical actions (such as PSO) if They had a high level of Cognitive Moral Development.

Most previous studies examined the individual characteristics of auditors, PSO behavior, and the relationship between them. Only a few researchers who tried to identify and examine the mediating factors of relationship between individual characteristics with PSO. A research model to examine the intervening variable which was used as a means to identify and derivate PSO behavior in audit activities was developed in this research.

2. THEORETICAL REVIEW

2.1. Cognitive Moral Development Theory

Cognitive Moral Development theory is a determinant factor in ethical decision making (Kohlberg, 1971). Curzer (1989) stated that there were nine ethical theories which played an important role related with the decision-making process including Cognitive Moral Development. Curzer (1989) explained that Cognitive Moral Development theory was most often used to describe the process of ethical decision making and used to understand individual reason in ethical decision-making. This theory was developed by Kohlberg (1969, 1981).

The theory of moral development (Kohlberg, 1969) tried to explain the underlying cognitive framework of individual decision making. The theory was not addressed to classify whether a behavior a right or wrong action. But, it was proposed to understand individual cognitive reasoning processes in ethical dilemma solving.

Based on Cognitive Moral Development theory, an auditor's personal decision to perform the PSO behavior could be influenced by cognitive moral action involving the auditors. Therefore, how to motivate ethical behavior which led to the auditor's ethical behavior depended on the individual level of moral development.

2.2. Hypothesis Development

2.2.1. The Influence of Need for Achievement on Cognitive Moral Development

Need for Achievement refers to a strong push on a person to achieve a success. Generally, an individual with high need of achievement always want to face the new challenges. They tend to chase personal achievement more than (financial) rewards for their success. Their main characteristic was always trying to do something in creative and innovative ways and to take personal responsibility on his actions.

Cognitive Moral Development is a change in reasoning, feelings, and behaviors about the standard of right and wrong. An individual with a high level of Need for Achievement tend to take responsibility on his actions. It indicates that individual's moral development is good and tend to perform ethical behavior. Thus, the Need for Achievement is positively related to cognitive moral development. The higher an individual's need for achievement, the better his cognitive moral development.

Based on the explanation above, the first hypothesis formulated as follow:

H1: High level of Need for Achievement positively influences Cognitive Moral Development.

2.2.2. The Influence of Machiavellian Nature on Cognitive Moral Development

Machiavellian is a belief or perception about inter-personal relationships which is believed. This perception will build a personality which underlies attitude in dealing with others. Machiavellian personality was described by Christie and Geis (1980, in Richmond, 2001) as the personalities which had less affection in personal relationships, ignoring conventional morality, and performed a low ideological commitment.

Cognitive moral development is a change in reasoning, feelings, and behaviors about the standard of right and wrong. Machiavellian personality tends to manipulate others and to perform very low esteem to the others.

Therefore, Machiavellian is negatively related to Cognitive Moral Development because if an individual performs a high level of Machiavellian behavior, He tends to behave unethically. Such unethical behavior indicates that this individual has the low cognitive moral development.

Thus, the second hypothesis was proposed as follow:

H2: Machiavellian negatively influences Cognitive Moral Development.

2.2.3. The Influence of Need for Achievement on Premature Sign Off

Need for Achievement is an opportunity to compete with the standard of excellence associated with positive outcomes (Pinder, 1984). McClleland (1988) also explained that an individual with a high need of achievement would not make the task too easy and he/she would like personal achievement such as feedback clarity (job relevant feedback) more than money as the rewards for him (Champan, 2001).

A person with a high level Need for Achievement will finish the task assigned with satisfactory results (Luthans, in Malone and Robert, 1996) and he/she has a strong commitment to the goals He has achieved although the goals are more difficult than the goals given to individuals with low level Need for Achievement (Hollenbeck et al. , 1989). Malone and Robert (1996) explained that an auditor with high level of Need for Achievement had a high tendency to take no action over the premature termination of the audit procedures although he/she was in the pressure of circumstances.

From some underlying arguments above, the third hypothesis formulated as follow:

H3: High level of Need for Achievement negatively influences Premature Sign Off.

2.2.4. The Influence of Machiavellian on Premature Sign Off

High level of Maciavellian causes an individual perform manipulative, persuasive, and spurious behavior to reach his final goal (Hunt and Chonko, 1984). In theoretical review, a Machiavellian tends ignore moral judgements and he/she prefers to act in ethical or unethical ways to reach his final goals (Tiffany, 2009). Preceding researches indicated that Machiavellian was significantly related to ethical decision making (Hegarty and Sims, 1979 in Richmond, 2001).

Richmond (2003) investigated the relationship between Machiavellianism that formed Machiavellian personality type and ethical considerations with behavioral tendencies in facing ethical dilemmas (ethical behavior). His research showed that the higher an individual's tendency of Machiavellian, the more possible for him to behave unethically. It meant that an individual who had a high tendency of Machiavellian was very possible to behave unethically, such as performing PSO.

Therefore, the fourth hypothesis of this research was:

H4: Machiavellian positively influences Premature Sign Off.

2.2.5. The Influence of Cognitive Moral Development on Premature Sign Off

Cognitive Moral Development theory is helpful in the depiction of making ethical considerations psychology in public accounting domain (Ponemon, 1992). Ponemon (1992) stated that the development stage to a higher ethical considerations would help an individual sensitivity to further criticize the events, issues and conflicts.

An auditor with high level capacity in ethical considerations would be better in facing conflict and ethical dilemmas. Ponemon and Gabhart (1990), Trevino (1986), and Trevino and Youngblood (1990) suggested that individuals who were more morally evolved (with higher ethical considerations) would be less likely to approve unethical behavior.

Ponemon and Gabhart (1993) noted that the auditors with a higher level of ethical reasoning tend to view Premature Sign Off as a negative action than the auditors with a lower level of ethical reasoning. Based on these conclusions, it was expected that the level of Cognitive Moral Development negatively influenced the intention to not perform an audit prematurely.

Therefore the fifth hypothesis was proposed as follow:

H5: Cognitive Moral Development negatively influences Premature Sign Off.

3. RESEARCH METHODS

3.1. Population and Samples

The population of research was auditors who worked on the leading Public Accounting Firms (PAF) in the city of Jakarta affiliated with the foreign Public Accounting Firms (in the category of The Big Four). Respondents consisted of managers, supervisors, senior auditors (auditor in charge) and a staff assistant.

This research was endorsed by survey method through distributing questionnaires. Questionnaires were delivered directly to PAF where the respondents worked. The questionnaires were remitted to contact persons in each PAF. Data collecting process was done through directly picking up, postal delivery, and e-mail.

3.2. Data Analysis Techniques

Data analysis was conducted by applying Structural Equation Modeling (SEM) with AMOS software. SEM is a statistical technique that analyzes the indicator variables, latent variables, and measurement error (Jöreskog & Sörbom, 1996).

3.3. Operational Definition and Variables Measurement

Variables involved in this research were the Machiavellian, Cognitive Moral Development, Needs for Achiement and Premature Sign Off. To measure Machiavellian constructs, the Mach IV scale developed by Christie and Geis (1970) was used. Defining Issues Test (DIT) developed by Rest (1979, 1999) was applied to measure Cognitive Moral Development. DIT is an objective test concerned with how people who are at different stages of moral development choose the most important issues of a case of moral dilemmas (Tarigan and Satyanugraha, 2005).

The instrument used to measure Need for Achievement construct were adopted from measurement scale which was used and built and McClelland (1988). This instrument consists of three items of question. Premature Sign Off constructs were operationalized by measuring the level of respondents agreement on several audit procedures established by the Public Accountant Professional Standards (PAPS). According to Weningtyas et al., (2006), it was easy to do premature termination practices by applying it.

4. RESULTS AND DISCUSSIONS

4.1. Full Model Testing Results

Through data normality test and outlier test and so through modification, the results of research model was obtained as shown in Figure 4.1. The full model showed that in overall view, the model is still unfit (chi-square value of 1598 with < 0.001 probability). But according to Hair et al, (2006; 747), caused by the difficulty of getting more than 0.05 probability on chi-square test, some other model compatibility measurements were developed. They were

already eligible to be accepted on 0.060 0f RMSEA. It meant that They were less than 0.08.
Similarly, 0.902 of TLI and 0.907 of CFI were already eligible to be accepted because their values were more than 0.9. So, the model compatibility measurements of the results obtained met the criteria of goodness of fit for RMSEA, TLI and CFI. This means that full model results were acceptable, in which the model was able to be applied to test the proposed hypothesis. Furthermore, the testing procedure for indicators conformance was applied to measure the four variables through construct reliability and variance extracted approaches. The results for each latent variable indicator was outlined in the Table 4.1.

Table 4.1
Construct Reliability and Variance Extracted of Each Latent Variables

Latent Variable	Factor Weighting		C-R	V-E
	Minimum	Maximum		
Machiavellian Nature (MACH)	0,654 ($MACH_4$)	0,833 ($MACH_8$)	0,959	0,564
Need for Achievement (NFA)	0,697 (NFA_2)	0,760 (NFA_3)	0,769	0,527
Cognitive Moral Development (CMD)	0,730 (CMD_8)	0,875 (CMD_7)	0,962	0,678
Premature Sign Off (PSO)	0,664 (PSO_4)	0,832 (PSO_5)	0,931	0,577

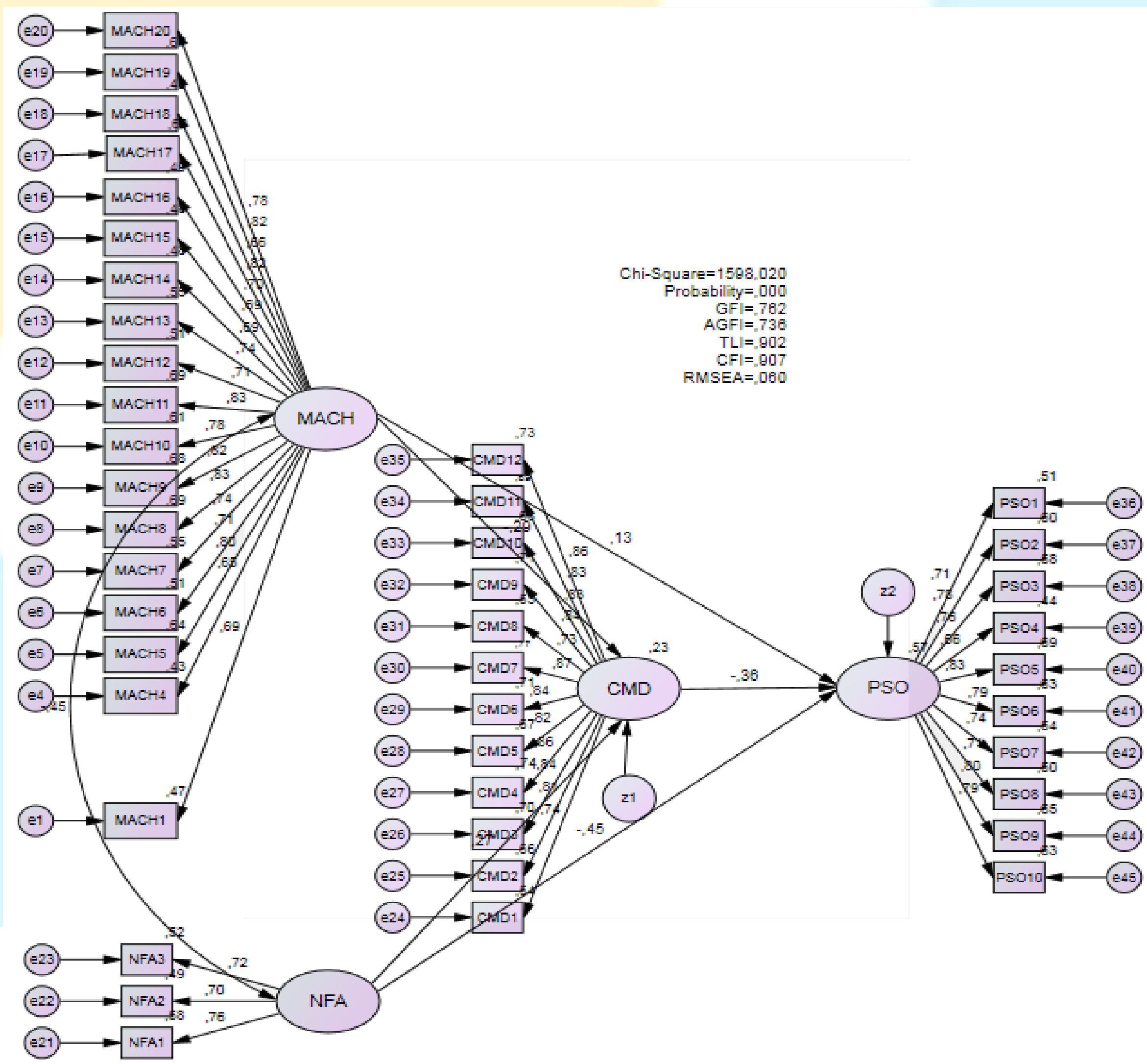

Figure 4.1 Full Model Path Diagram

4.2. Hypothesis Testing

After conformance or compatibility test, it was concluded that the research model was accepted. Later, hypothesis testing was conducted through structural model. The following is a summary of structural model estimation that described the relationship among the latent variables.

Table 4.2

Summary of Path Coefficient Estimation and Statistical Test

Model	Path	Path Coefficient	*p-value*	R-Square
First	NFA → CMD	0,270	<0,001	0,231
	MACH → CMD	-0,294	< 0,001	
Second	NFA → PSO	-0,448	< 0,001	0,567
	MACH → PSO	0,134	0,029	
	CMD → PSO	-0,356	< 0,001	

The first structural equation model for Need for Achievement and Machiavellian gave the effect of 23.1% for Cognitive Moral Development. In the second structural equation, Need for Achievement, Machiavellian and Cognitive Moral Development gave the effect of 56.7% to Premature Sign Off.

The first hypothesis was supported by the result of study. Likewise, second, third, fourth, and fifth were supported.

Table 4.3

Summary of Indirect Influence Testing

Independent Variable	Direct Influence		Indirect Influence	
	Influence	*p-value*	Influence	*p-value**
NFA	20,1%	0,001	9,6%	0,004
MACH	1,8%	0,029	10,5%	0,001

*Sobel Test

Testing results of indirect influence of Machiavellian on Premature Sign Off through Cognitive Moral Development showed the positively significant results. Similarly, the indirect influence of Need for Achievement on Premature Sign Off through Cognitive Moral Development performed negatively significant results.

5. DISCUSSION

5.1. The Influence of Need for Achievement On Cognitive Moral Development

Based on the study, the first hypothesis was supported. The Need for Achievement positively influenced Cognitive Moral Development.

Descriptive data of the respondents indicated that the motivational degree to pursue an achievement which wanted to reach (14) was higher than the average value of the theoretical range (12). It indicated that individuals with the achievement motive performed their effort to achieve it. An individual was considered to have high level of Need for Achievement if he/she utilized the time to think about how to do things better.

This result was equal with the description of statistical variables of moral development above which showed the actual average score (40.88) which was higher than the theoretical average (36). Respondents performed the Cognitive Moral Development which confessed the importance of considering individual rights, communal rights and universal moral principles in resolving ethical problems.

This result was in line with the Expectancy Theory described by Vroom (1964) which explained that an employee was motivated to perform a high level of effort when he/she believed that his/her effort would conduct him with a good performance appraisal. Basically, the motivation of behaviorial selection was determined by expectation of results. But, the essence of theory was the cognitive process of how individuals processed the different elements of motivation. It was done before final choice making. The result was not one and only determinant factor in decision making about how to behave.

These findings showed that individuals who had a higher level of Need of Achievement tended to improve their individual Cognitive Moral Development better. An individual with high level of Need for Achievement tended to always try to do something creatively and innovatively and to take personal responsibility for his actions. It indicated that the He utilized the ability of good Cognitive Moral Development.

5.2. The Influence of Machiavellian on Cognitive Moral Development

Empirical evidences supported the second hypothesis. Indeed Machiavellian negatively influenced Cognitive Moral Development. Descriptive data of Machiavellian showed that Machiavellian of respondents was relatively low (72.85). The score was less than the average value (80). It indicated that the respondents tended to have less Machiavellian. While the descriptive data indicated that the moral reasoning level of respondents was higher than average value.

The description showed the ability of the auditors as individual in applying moral considerations based on cognitive reasoning and help them in resolving ethical dilemmas. Respondents answer also reflected that they had internalized the universal moral standards and respected individual and so communal rights.

The results of the study empirically proven that individuals who had low level of Machiavellian tended to increase their Cognitive Moral Development ability. The findings of this research were supported by Jones and Kavanagh

(1996) and Richmond (2003). They indicated that individuals with high level of Machiavellian were more likely to perform unethical acts than individuals with low level of Machiavellian. This unethical behavior indicated that those individuals had low level of Cognitive Moral Development.

Justification for this hypothesis was in line with the Machiavellian principles. Individuals with low scores of Machiavellian would belong to the people with high level of Cognitive Moral Development (Hunt and Chonko, 1984).

5.3. The Influence of Need for Achievement on Premature Sign Off

Some empirical evidences prove the validity of third hypothesis. High level of Need for Achievement negatively influenced Premature Sign Off. Descriptive data indicated that the score of Need for Achievement was higher than the average value. The respondents tended to perform achievement motivation and to have a enough effort to reach it. Meanwhile, Premature Sign Off descriptive data showed relative low score of respondents (28.57). It was less than average value (40). Suggesting that respondents were likely less to do Premature Sign Off.

This finding was in line with the principles of Need for Achievement described by Mc.Clelland (1987). Individuals who had high level of achievement motivation would perform high level of responsibility and self-confidence, be more resilient, be more active in carrying out a task, have higher expectations for success and have a desire to complete the task properly. It indicated that they were more likely to behave ethically and not to perform Premature Sign Off. The results of this study were supported by Malone and Robert (1996) which concluded that auditors with high level of Need for Achievement had a high tendency to not do Premature Sign Off action even in stressing conditions.

5.4. The Influence of Machiavellian on Premature Sign Off

The empirical evidences had proven the validity of fourth hypothesis in fact. Machiavellian positively influenced Premature Sign Off. Descriptive data of Machiavellian indicated that Machiavellian of respondents were relatively low and less than average value. Clearly, it explained that respondents were less likely to perform Machiavellian. Meanwhile, based on descriptive data, respondents Premature Sign Off was relatively low (28.57) and less than the average value (40). Indicating their low tendency to do Premature Sign Off action when implementing audit process.

This conclusion was consistent with the theory proposed by Ghosh and Crain (1996). Individuals with high Machiavellian tended to exploit the situation to get personal advantage and to have higher tendency to not obey the rules. Endorsement from other theory was proposed by Christie and Geis (1970) which stated that individuals with high Machiavellian tend to exploit the situation to get personal advantage.

Previous empirical studies of Jones and Kavanagh (1996) and Richmond (2003) concluded that individuals with high level of Machiavellian were more likely to do unethical action than individuals with low level of Machiavellian. These results were also supported by Purnamasari (2006) which concluded that Machiavellian positively influenced dysfunctional behavior. It meant that an individual who had low Machiavellian tended to not do dysfunctional behavior such as Premature Sign Off.

5.5. The Influence of Cognitive Moral Development on Premature Sign Off

Fifth hypothesis was also supported. Cognitive Moral Development negatively influenced Premature Sign Off. Statistical description on the variables of Cognitive Moral Development indicated that DIT scores of respondents were relatively more than average value of previous studies. Descriptive data indicated that respondents were concerned about the welfare or goodness of the others and did not like to harm the others. Meanwhile, PSO descriptive data indicated relatively low Premature Sign Off of respondents (28.57) and it was less than the average value (40). It suggested that respondents were less likely to do such action.

This research finding was consistent with Trevino and Youngblood (1990) which concluded that individuals with high level of moral development tended to be more sensitive to the situation and ethical issues. It meant that individuals who had high level of Cognitive Moral Development would obey the principles of universal justice and respect each other. Individuals would increasingly pay attention more equitably the interests of others. Therefore, They could be expected to view dubious behavior as less acceptable action and to have less tendency to perform unethical action than individuals with low level of moral development (Richmond, 2001).

Wilopo (2006) endorsed this conclusion and stated that moral development negatively and significantly influenced dysfunctional behavior. But, it was contrary to Shaperoo et.al conclusion (2003) who were not able to prove the influence of Cognitive Moral Development on Premature Sign Off.

6. CONCLUSIONS

Several conclusions of the research were:

1. Need for Achievement significantly and positively influenced Cognitive Moral Development. Individuals with high level Need for Achivement tends to always try to do something creatively and innovatively and to take personal responsibility for his actions. It indicated that their moral development wss good and they tended to perform ethical behavior.
2. Machiavellian significantly and negatively influence Cognitive Moral Development. Individuals with high level of Machiavellian

would obstruct their Cognitive Moral Development. Conversely, individuals with low level of Machiavellian Nature would increase their Cognitive Moral development.

The findings of this research were supported by Jones and Kavanagh (1996) and Richmond (2003). They indicated that individuals with high level of Machiavellian were more likely to perform unethical acts than individuals with low level of Machiavellian. This unethical behavior indicated that those individuals had low level of Cognitive Moral Development.

3. Need for Achievement significantly and negatively influence Premature Sign Off. Individuals who had high level of achievement motivation would perform high level of responsibility and self-confidence, be more resilient, be more active in carrying out a task, have higher expectations for success and have a desire to complete the task properly. It indicated that they were more likely to behave ethically and not to perform Premature Sign Off. This conclusion was supported by Malone and Robert (1996).
4. Machiavellian positively and significantly influence Premature Sign Off. Individuals with low level of Machiavellian would tend to not perform Premature Sign Off in their audit activities. Conversely, individuals with high level of Machiavellian would be more likely to perform unethical acts such as Premature Sign Off. The finding of this research was supported by Jones and Kavanagh (1996), Richmond (2003) as well as Purnamasari (2006).
5. Cognitive Moral Development negatively and significantly influenced Premature Sign Off. Individuals with high score of Cognitive Moral Development would consider that Premature Sign Off was unethical action because it disobeyed ethical code. It meant that individuals who had high level of Cognitive Moral Development would obey the principles of universal justice and respect each other. They would increasingly pay attention more equitably the interests of others. Therefore, they would not harm the others and through unethical actions such as Premature Sign Off in their activities of audit. This conclusion was also supported by Wilopo (2006).
6. Cognitive Moral Development could be mediating variable of relationship between Need forAchievement and Premature Sign Off. It also could be mediating variable between Machiavellian and Premature Sign Off.

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