

## CHAPTER 1

### INTRODUCTION

#### 1.1 Background

Public accounting professions have honored the public trust for serving an assessment of financial statements. In carrying out the profession, public accountants are required to produce qualified audit reports following all applicable principles, standards, and laws. As stated in Public Company Accounting Oversight Board (PCAOB), in paragraph 2 of Auditing Standards 1001, an auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Not only find the error or fraud, but auditors must also communicate the fraud to management, the audit committee, and others (AS 1001 paragraph 79).

Unfortunately, fraud cases committed by company management involving auditors of public accounting firms frequently happen. In Indonesia, for example, PT Sunprima Nusantara Pembiayaan (SNP) Finance, a subsidiary of Columbia Group, was manipulating their financial statements, and it was involving two public accountants; Marlina Public Accountant and Merliyana Syamsul Public Accountant, also Public Accounting Firms Satrio Bing Eny & Partners (SBE), under Deloitte - Indonesia entity. Based on SNP Finance's financial report, they issued an opinion "Fair without Exception". However, Financial Services Authority (OJK) showed a different result, stated that SNP Finance experiencing default payment of medium-term notes (MTN) which was not included in the report of SBE Public Accounting Firm (Hidayat, 2018). Earlier, a similar case carried out by three Directors of PT Waskita Karya and two Public Accounting Firms. The Ministry of State-Owned Enterprises deactivated two directors of PT Waskita Karya related to the case of manipulating financial statements in 2004 - 2008 when they will conduct an IPO in 2008 (Melinda, 2017).

Numbers of fraud that occur as well as the involvement of auditors arise due to a lack of ethical awareness of auditors causing an ethical dilemma emerges that directs auditors to take actions that are contrary to ethics. As stated by Ponemon (1990), ethics is the cornerstone of public accounting practice. This is following the previous research stated the fact that occurs in the various frauds always starts from unethical behavior (Dallas, 2002). It is also supported by CIMA (2002) as cited by Wilopo (2006) which states that a company with a low ethics standard is likely to have high accounting fraud risk. Therefore, auditors in public accounting firms need to improve their ethical behavior so that the number of fraud will decrease. Ethical behavior is defined as one that is both “legal and morally acceptable to the larger community,” whereas an unethical behavior is defined as one that is both “illegal and unacceptable to the larger community” (Jones, 1991). It can be interpreted that ethical behavior is an action that can be accepted by a community and not contradictory to moral value.

In exploring human behavior, the Theory of Planned Behavior (TPB) is applied to explain various behaviors, including a study about ethical behavior. TPB has been used extensively to investigate and predict various types of workplace behaviors and is regarded as one of the widely employed theories among management researchers (Ferdous & Polonsky, 2013). Attitude, subjective norm, and perceived behavioral control are three main constructs of TPB. Dreana (2012), quoted Lu et al. (2010) defines attitude as an evaluation of confidence if it should display the desired behavior. The subjective norm is an individual's subjective normative beliefs that to what extent the significant others will approve or disapprove of her/his performing the behavior (Cheung & Chan, 2000). The belief in ones' self, also known as perceived behavioral control, is a strong predictor of decision making in social settings (I. Ajzen, 1985). The perceived behavioral control is the perceived ease or difficulty of performing a behavior under different situations when the behavior may go beyond one's controllable aspects of predicting behavior directly or through intention (I. Ajzen, 2012).

In this study, we will use PBC as the main focus. PBC is the largest domain in the individual that is formed by cognitive factors that are owned by individuals.

Knowledge becomes key in shaping the construct of perception of behavior so that good or bad behavior is determined by the merits of an individual's knowledge. Perception of control becomes a major construct for individuals who prioritize ways of thinking as a foundation in making a decision. PBC will encourage individuals to explore the knowledge they have, so it brings up the right behavior and decision for individuals.

In the era of highly business completion, there are more temptations will be faced by the auditors, so does the amount of pressure. According to the fraud triangle theory, the higher the pressure they face, the greater the intention to commit fraud. Therefore, we need a situational variable that can strengthen auditors' behavior control so that ethical behavior can increase. In this study, the variable being used is religiosity. The researchers have found a positive relationship between strong religious following an ethical behavior. Religiosity has a clear impact on human behavior and attitudes (Weaver & Agle, 2002). Moreover, one of the most interesting socio-cultural value systems that have been proposed as relevant to ethical behavior in the workplace is religiosity (Singhapakdi, Vitell, Lee, Mellon, & Yu, 2013). McDaniel & Burnett (1990) defined religiosity as "a belief in God accompanied by a commitment to follow principles believed to be set by God." Religiosity is not a unidimensional concept (Allport & Ross, 1967); rather, it pertains to various elements of religion. It includes belief, practice, knowledge, experience and the effects of those elements on daily activities (O'Connell & Connolly, 2008). It can be interpreted that religiosity is an understanding of beliefs that are manifested in daily behavior as a guide.

## 1.2 Research Gap

The relationship between perceived behavioral control and ethical behavioral intention is proven by the previous research by Kashif, Zarkada, & Ramayah (2017), it stated that perceived behavioral control influences positively the ethical behavioral intentions of managers. It is consistent with Conner, Sheeran, Norman, & Armitage (2001), that if perceived behavioral control can be substituted for a measure of actual control PBC can be directly related to the overt behavior.

However, those findings are contradictory to Buchan (2005). He made a hypothesis that public accountants' perceived behavioral control will positively predict ethical intentions, but the result was not supported. Also from Anggraini (2016), they found that perceived behavioral control has a negative impact on moderating the relation of an attitude and intention to convey fraud. Madden, Ellen, & Ajzen (1992) showed that TPB explained intention and behavior better than the theory of reasoned action and that PBC had a significant influence in their study. Given the importance of the accuracy assumption for understanding the direct path from PBC to behavior, it is surprising that there is no further study about this. That is why we want to elaborate more on the relation between PBC and ethical behavior.

There are also several findings discussing the relationship between religiosity and perceived behavioral control. Religiosity is a situational factor inherent in the individual. Individuals with a high level of religiosity have good religious' knowledge and experience. Knowledge of experience and religious values will make it easier for individuals to exercise internal control over themselves, which will cause PBC to increase. Also, Magill (1992) stated that personal religiosity provides a background that interprets the ethical nature of behavior. An increase in PBC due to stimulus from good religiosity will make it easier for individual auditors to behave properly. A study by Kashif, Zarkada, & Ramayah(2017) found there is a positive relationship between PBC an intention to behave ethically when religiosity is high. However, Kidwell et al., (1987) found there is no relationship between religiosity and ethical judgments of managers.

Based on some of the gaps found in previous studies, then we are interested in conducting a further study regarding the influence of perceived behavioral control on the ethical behavior intention of auditors moderated by religiosity.

### **1.3 Research Objectives**

Based on the background of the study, the objectives of this study are as follows:

- a. Analyzing the influence of perceived behavioral control on the ethical behavioral intention of auditors.

- b. Analyzing whether religiosity is able to strengthen the influence of perceived behavioral control on the ethical behavioral intention of auditors.

#### **1.4 Summary of Research Results**

Based on the background and objectives of this study, the following conclusions can be drawn:

1. Perceived behavioral control has an influence on the ethical behavioral intention of auditors. It means that the higher the control that they have, they tend to behave ethically. PBC will encourage individuals to explore the knowledge they have, so it brings up the right behavior and decision for individuals.
2. Religiosity is proven to moderate the influence of perceived behavioral control on the ethical behavior intention of auditors. It can be interpreted that auditors who have a high level of religiosity, will also have a higher level of their behavioral control. Knowledge of experience and religious values will make it easier for individuals to exercise internal control over themselves, which will cause PBC to increase.

#### **1.5 Writing System**

This systematic writing outlines the contents of each chapter to facilitate compiling and understanding parts of the entire series of the research. The following is the systematic writing in this research:

### **CHAPTER 1 INTRODUCTION**

This chapter explains the background of the research which contains a brief description of the phenomenon of unethical behavior of auditors in Indonesia. Then, proceed with the elaboration of the research gap explaining the results of the previous study through the Theory of Planned Behavior Theory (TPB) approach in predicting the ethical behavior moderated by religiosity. Next, we will provide the research objectives, summary of research results, and systematic writing.

## CHAPTER 2 LITERATURE REVIEW

This chapter explains the grand theory used in this research, namely the Theory of Planned Behavior. Then, proceed with explaining variable definitions used in this study which are ethical behavior, perceived behavioral control and religiosity. Next, hypothesis development will be provided continued with the conceptual framework.

## CHAPTER 3 RESEARCH METHODOLOGY

This chapter explains the research approach used, namely the quantitative research approach. It also describes variable identification, operational variable and measurement, types and data source, sampling and data collection procedure, and proceeds with data analysis technique used, one of the tests namely Moderated Regression Analysis (MRA).

## CHAPTER 4 RESULT AND DISCUSSION

This chapter will present the results of the study on the moderating role of religiosity on ethical behavior intention through the planned behavior theory approach. There will be also interpretations of the results from some testing explained in Chapter 3. Then it will proceed with discussion in order to answers the problems that have been formulated.

## CHAPTER 5 CONCLUSION AND SUGGESTION

This chapter contains conclusions about the results and discussion which aim to answers the hypotheses that have been revealed regarding the moderating role of religiosity on ethical behavioral intention through planned behavior theory approach. Also, it will contain suggestions for auditors, as well as for further research discussing the same theme.