

Auditors' deviant decision-making model based on conflict of interest

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Abstract

When auditors intentionally or unintentionally approve financial statements in line with the views of their employers, the public interest and the auditing profession are at serious risk. The purpose of this study was to examine the process by which auditors' interests will influence decision making. To achieve this goal, first in the qualitative part of the research, by studying the background of accounting research and interviewing experts through the fuzzy Delphi method, the effective components on conflict of interest were identified. In the second part of the study, using social-cognitive meta-theory and operational decision-making power in the stimulus-organism-response (S-O-R) paradigm, data obtained from 362 certified public accountants. Smart-PLS software and Structural equations have been implemented for data analysis and hypotheses testing. Cognitive processes, including expected positive outcomes, understanding the problems of consistent decision-making, and ethical judgment, play a mediating role between the conflict of interest and deviant decision-making, and through these intervening variables, conflict of interest

can be monitored and reduced. The results show that professional ethics with the confirmation of all hypotheses are considered as the most effective component. It also showed that reducing the expected positive results, increasing the understanding of problems, and reducing the auditors' ethical judgment in the assigned tasks will lead to deviant decisions. By implementing the proposed algorithm, cognition processes can be directed towards consistent decision making.

Keywords: Conflict of interest, Deviant decision making, Expected positive results, Problem understanding, and Ethical judgment.

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Introduction

In countries where accounting and auditing standards play a role, scandals by companies such as Enron in 2001, WorldCom in 2002, and other corruption scandals have called into question the integrity of professional accounting and professional accounting firms (Tepalagul and Lin, 2014; Church et al., 2015). Ethical scandals have increased the expectations of auditors to strictly and comprehensively follow ethical guidelines. Hence, issues related to ethical decisions and ethical financial reporting have received increasing attention. Regarding the importance of auditors' ethical decisions in promoting the credibility of the profession, the issue of what factors cause auditors' ethical decisions is raised (Saghafi, A. et al., 2011). Corporate scandals are a matter of serious concern to legislators, politicians, auditing firms, professionals, and the general public. Although accounting regulations and standards have increased, large and small auditing firms are still exposed to a conflict of interest. The main motivation of this study was the auditors' deviant decision due to conflict of interest, due to the important role of the profession in various corporate scandals (Clement et al., 2012; Crump, 2013). Examination of empirical research in this field shows that auditors' deviant decisions have occurred due to conflicts of interest due to weaknesses in existing standards and regulations for managing conflicts of interest (Florio, 2012; Williford and Small, 2013; Tepalagul and Lin, 2014).

Audit contracts are unique because the third party, who covers a wide range of people in the community, is a beneficiary. They are also highly sensitive to ethical oversight in the actions and comments of auditors to respect the rights of different groups. Personal, social, and psychological characteristics of individuals are the most important factors influencing the

judgment and opinion of auditors. Recognizing and managing these factors, in which the roots of conflicts of interest are hidden, requires in-depth and sufficient study and will reveal and control reasons other than financial interests. Conflict of interest due to personal or group interests in disregard of public laws and interests has targeted the credibility of the profession. Past research has generally focused on the apparent independence of auditors, and the criteria and rules set have not been able to achieve the true independence of auditors (Moore, Tanlu, & Bazerman, 2010). Therefore, paying attention to professional ethics, studying and recognizing the decision-making stages and environmental conditions affecting it is considered by many studies in the field of auditing. This reflects the need to take care of and reduce conflicts of interest as the main purpose of this study.

The most fundamental question in psychology is “what is the cause of human behavior?” People like Skinner believe that behavior is a function of the environment. If environmental reinforcements change, behavior changes. Some, like Piaget, emphasize a person's previous nature or preparation, traits, or even hereditary traits. The existentialist approach emphasizes the free choice and will of individuals, that is, they do more or less what they want. Bandura answers this question comprehensively. He answers that the person, the environment, and the person's behavior interact to determine the person's next behavior; That is, none of these three can be considered separately as determinants of human behavior. If it is possible to influence the cycle of the person, environment, and behavior and provide better conditions for this relationship through cognitive psychology and review the decision-making path, the results will tend towards decisions that are consistent with professional ethics. In this study, by combining two social-cognitive theories and decision-making power on the stimulus-organism-response paradigm, intervening factors in the form of cognitive processes on auditors' decisions were studied. In this study, some unknown aspects of maladaptive behaviors can be revealed, acceptable context and empirical evidence can be provided to change the situation and further research, and the main research question, "what is the auditors' deviant decision model based on conflict of interest?" can be answered.

Theoretical Foundations

The mystery of the survival of professions throughout the history of human civilization emphasizes three factors: inclusive professional organization, the code of professional conduct and philosophy and theoretical foundations, and the principles and standards of professionalism. Recognizing the responsibility

of a professional towards society, the employer, other members of the profession, and oneself can be examined. If a professional ignore any of the above or upsets the balance between the above responsibilities, he/she has failed to perform his / her responsibilities properly. This is known as the responsibility to observe professional ethics or to continue professional services to the community. Maintaining the profession of the independent auditor for the future requires the interests of all, and value and ethical issues must be resolved. Otherwise, our right to have a professional social status will be waived and the final professional destiny will not be suitable for us (Hasas Yeganeh, 2014).

The audit judgment process is a complex one. A large part of audit activity involves perceptual (cognitive) skills that are difficult to observe (Hogarth, 1991). One of the influential factors on the judgment is individual characteristics and psychology of individuals and decision making is currently one of the most important issues in behavioral studies (Khajavi and Noshadi, 2012). The information helps people in the decision-making process, but we are usually unable to understand how decisions are formed and describe the decision-making process (Libby, 1981). Ethical decision-making results from two levels of behavioral reasons:

Personal feelings and opinions of people about the rightness, wrongness of a particular situation and the level of their critical evaluation, which consists of logical judgment and evaluation of the situation (Hajjiha and Rashki Gazmeh, 2017. 156). In recent years, research has led to significant advances in measuring and recognizing some aspects of the ethical decision-making process. In this regard, researchers have identified various factors that affect the way people make moral decisions and try to explain how they relate to each other in the form of moral decision models (Greene, et.al., 2001).

The conflict of interest is so entwined in the spirit and work environment that it is not easily recognizable and its treatment is very complex and unknown. However, this weakness should not be abandoned to spread and destroy the roots of the profession and ultimately the collapse of investment with the public's distrust of the auditing profession. Defining conflict of interest in simple language is the distance of professionals from the principles and ethics of their profession; For example, a physician who prioritizes his or her income over the treatment of a patient, a lawyer who prioritizes personal interests over his or her client, or an auditor who, for a variety of reasons, prioritizes personal interests or bias over professional ethics (Sunita Sah, 2017).

Studies of the impact of psychological barriers on moral decisions and the study of decision-making in the face of moral dilemmas show that existing regulations to control the effects of conflicts of interest are limited. Focusing on the root causes of conflict of interest and the lack of analysis of the psychological and cognitive barriers that auditors face in the conflict of interest incidents are major reasons for the manifestation of weak conflict of interest management. Researchers emphasize an ethical behavioral approach to address this problem. Therefore, in this study, a solution or model was proposed that can be understood while understanding the relationship between conflict of interest and deviant decision, relying on the mental processes of auditors.

Identification of factors affecting conflict of interest: The results of the research in the first part using fuzzy Delphi technique led to the identification of the most important factors affecting conflict of interest, including cancellation or conclusion of an audit contract, experience, rule of law, professional skepticism, individualism versus collectivism, ambiguity avoidance, compliance pressure, obedience pressure, rules and regulations, corporate governance, professional ethics, ethical sensitivity, ethical judgment based on intuition and emotion, institution size, privacy or non-privacy, professional reputation, organizational culture, and transparency of the auditor's responsibilities (Ghaznavi Doozandeh, J et al., 2020).

Theoretical Framework

The theoretical framework for defining the boundaries of this work is through defining cognitive processes and points to the integration of Bandura (1986; 2006; 2008) social-cognitive theory with the model of operational decision-making ability (Rodgers, 1997; Rodgers and Gago, 2001; 2006; Rodgers, 2006; 2009; Guiral et al., 2010). The cognitive approach reflects an understanding of the processes by which interests influence auditors' decision-making behavior.

Social-cognitive theory (Bandura, 1986) describes how a person acquires and maintains a particular behavior. The social-cognitive theory is based on a three-dimensional causal model of the individual, behavior, and environment. This model addresses the interrelationships between behavior, environmental effects, and individual factors (cognitive, emotional, and biological factors) that refer to an individual's perception to describe psychological functions. According to this theory, individuals in a system of threefold causality affect their motivation and behavior.

Bandura (1997) rejected the one-dimensional effects of the environment on individual behavior, which has been one of the important hypotheses of

behaviorist psychologists. Humans have a kind of system of self-control and self-regulatory power and by it, they control their thoughts, feelings, and behaviors that play a decisive role in their destiny. Thus, human behavior is not only in control of the environment, but also cognitive processes play an important role in human behavior.

Human performance and learning are influenced by cognitive, emotional, and emotional tendencies, expectations, beliefs, and values. Man is an active being and influences the events of his life. Man is influenced by psychological factors and actively influences his motives and behavior. According to Bandura individuals are not driven by internal forces, nor are environmental stimuli driven to action, but by psychological functions, performance, behavior, environment, and stimuli (Abdollahi, 2006).

The structures and concepts of social cognitive theory related to this study are:

Self-efficacy: This means that people trust their ability to take action and overcome obstacles (Bandura, 2006). When self-efficacy beliefs are measured, they are understood as perceived problems. This theory shows that the more auditors have difficulty performing a particular task, the less likely they are to perform that task.

Expectations: These are the values that a person attributes to a particular motivation or outcome of behavior (Bandura, 1986). For example, if auditors feel that the positive consequences of performing a particular behavior outweigh the negative consequences, they have an incentive to accept such behaviors.

Ethical Judgment: Judgment involves evaluating behavior for or against ethical standards and perceived conditions. These ethical standards draw attention to another important cognitive structure of the socio-cognitive theory, namely, the "individual's desire to free oneself from moral restraint," which has accepted the tendency to engage in immoral behavior. This theory also states that moral judgment represents a situational cognitive process and that professionals may behave morally if they reach moral judgment (Bandura, 1996; 2002; 2006; 2008).

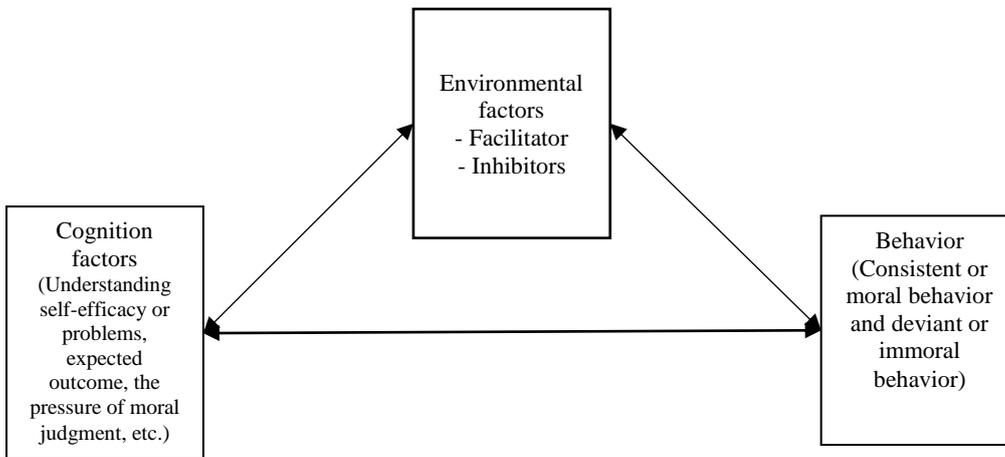


Figure 1. The structure of social cognition theory (Bandura, 1986)

In general, the discussion in this section shows that when faced with conflicts of interest, auditors' performance behavior (adaptation versus incompatibility) is affected by their context (text) and cognitive processes.

Decision-making power model: Decision-making power model (Rodgers, 1997) is based on the concept of process thinking, which states that decision-making is characterized by the interaction of the four concepts of information, perception, judgment, and decision-making. This approach provides a constructive way to shape ideas into a successful strategy. The immediate usefulness of process thinking is that it can inform people of the particular path they are taking to make a decision. In general, success is achieved when the individual and those who are in line with the behavior of individuals are aware of the obstacles and shortcuts that are encountered when making decisions (Rodgers, 2006; Rodgers and Gago, 2006). The operational power model shows that six main ways of decision making include information and perception according to the weight of the decision-maker. Psychological autonomy, conscientiousness, relativism, profitability, moral virtue, and care ethics represent the six salient philosophies of ethics in the operational power model. Understanding these six philosophical-ethical pieces of knowledge can help in financial and managerial decisions across cultures. As shown in Figure 2, the model shows operational ability, information interaction (available to the individual), perception (skepticism), judgment (analysis), and decision making. One of the most important reasons for using the operational power model to manage conflict of interest is the concept of parallel cognitive processing compared to serial information processing and decision making (Rodgers and Gago, 2001; Rodgers, 2006).

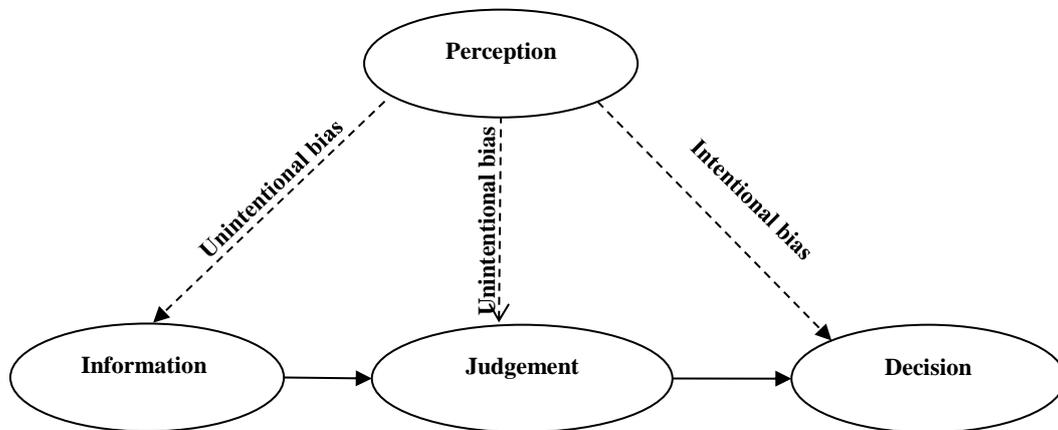


Figure 2. Decision-Marketing Capacity Model (Rodgers, 1997)

Linking social-cognitive theory and decision-making power model: The brain is an incredible network of information processing during decision-making, and the input information (stimulus) in it is examined as cognitive elements that behave specifically to produce results (Bandura, 2006; 2008). Similarly, the operational decision-making model is a cognitive model that provides a path for the decision-maker to process the processed information through various decision-making ways (Rodgers, 2006). Thus, it is clear that both the social-cognitive theory and the operational decision-making model have close conceptual foundations, and there is a logical connection between the two. Sutton (1998) argues that although social-cognitive models are intended to predict behavior, many variances in behavior remain unexplained, and individual differences and the effect of emotional responses on behavior are largely ignored. However, the operational power model can overcome these limitations due to its ability to explain unintentional and unconventional probabilities in the decision-making process.

Conceptual Model

Social-cognitive theory and operational power model logically deal with the stimulus-organism-response (S-O-R) paradigm behavior that forms the conceptual framework of this research. This paradigm (Holt et al., 2015) places the cognitive markers of organisms in the universe (O) between stimuli (S) and response (R) (Figure 3). It can therefore be argued that the combination of social cognitive theory and operational power model is a practical picture of the S-O-R paradigm that states that in the face of stimuli, organisms form the cognitive representations (perceptions and judgments) of the world, and through them, the behavior of their actions can be examined.

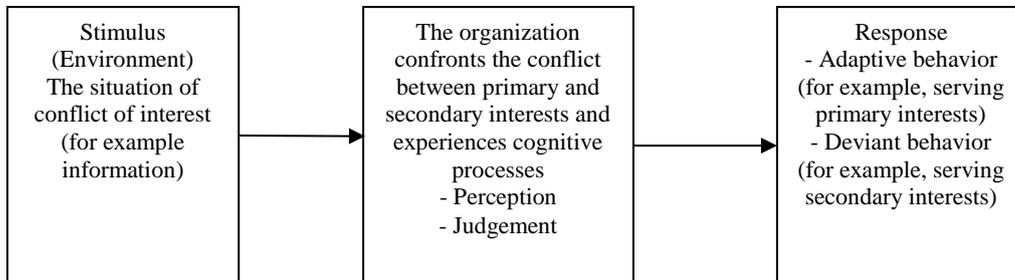


Figure 3. Conceptual structure (stimulus-organism-response): a combination of social cognition theory and operational power model (Holt et al., 2015).

The stimulus-organism-response paradigm means that behavior is the result of cognitive processes that occur in response to given conditions, including conflicts of interest. At the boundary of this conceptual framework, the theoretical model identifies the variables and the relationships between them against each of the components, namely stimulus (information), organism (diagnosis), and response (behavior).

The theoretical model of this study is a model through which "conflict of interest" (independent variable) explains its effect on "decision behavior" (dependent variable) in auditing firms, through cognitive processes related to the status of auditors, including positive expectations of consistent decision-making, perceived difficulty in routine decision-making, and ethical judgment as intermediaries.

Hypotheses

The hypotheses were divided into three groups. The first group examines the relationship between auditors' conflicting interests and the possible behavior of deviant decisions. The second group is about the role of cognitive processes (the expected positive results of professional accounting, their comprehension problems, and ethical judgment) in auditors' decisions in conflicts of interest. Finally, the third group is the role of bias in the face of a conflict of interest (this part of the hypotheses will be presented in a separate article).

Hypothesis 1: There is a positive and significant relationship between conflict of interest and decision making.

Hypothesis 2: There is a significant relationship between conflict of interest with the expected positive results.

Hypothesis 3: There is a significant relationship between conflict of interest

and understanding of problems.

Hypothesis 4: There is a significant relationship between conflict of interest and moral judgment.

Hypothesis 5: There is a positive and significant relationship between understanding problems and making decisions in the field of conflict of interest.

Hypothesis 6: There is a negative and significant relationship between moral judgment and decision making in the field of conflict of interest.

Hypothesis 7: There is a significant negative relationship between the expected positive results and decisions in the field of conflict of interest.

Hypothesis 8: There is a negative and significant relationship between the expected positive results and understanding the problems.

Hypothesis 9: There is a positive and significant relationship between the expected positive results and moral judgment.

Hypothesis 10: There is a negative and significant relationship between understanding problems and moral judgment.

Research background

Maria Eshaque (2019) examined the conflict of interest in the four largest UK companies with international codes of ethics for accountants. The key message of this research for professional accounting firms and regulators to effectively manage conflict of interest was that behavioral interventions should be performed by the subconscious (automatic) conscience of professionals as well as their conscious (controlled) cognitive processes. This study looks at the conflict of interest in a professional accounting environment through behavioral risk management lenses. In addition, the framework adopted for reviewing existing articles provided a comprehensive overview of issues surrounding inefficient conflict of interest management.

Gregory Jenkins and Jonathan Stanley (2018) systematically assessed independence as a fundamental element of the current auditing profession in the United States. This article concludes that the current path is not sustainable even for the profession with the expansion of the law. Instead of continuing undercurrent supervision, two possible options were offered. First, increasing the resources and authority of audit committees under SOX will allow the audit committee to have more responsibility and flexibility to manage auditor

independence. Second, they suggested that additional disclosures about threats and guarantees for the auditor's independence might be beneficial to stakeholders. The combination of these two approaches is valuable in addressing several problems and challenges related to the current regulatory regime. This study examined the apparent and esoteric independence of the auditor in the United States. This study considers the problem as different goals of observers and their focus on apparent independence and lack of attention to real independence due to the complexity of implementation and the emergence of conflicts of interest. The study referred to the individual characteristics, the audit work, and the auditing organization along with the rules and regulations on ethical decision making. In the present study, decisions from two dimensions consistent or deviant with psychological models were explored.

Ahmadi Hesar, Pakdel, and Rezaii Sharif (2017) examined the psychological characteristics affecting the skills of auditors of the Court of Audit. Their results showed that the variables of responsibility, perceptual skills, communication skills, simplification of complexities as important factors, and variables of stress tolerance and inability to describe the decision process are unimportant factors. This study examined psychology in increasing the skills of auditors and emphasized the effectiveness of psychology in auditing.

Modares, Ebrahimi, and Azizkhani, (2016) concluded that factors such as reputation, size of the institution, allocation of jobs in the audit market through legal (professional) authorities, establishing appropriate disciplinary systems for auditors' violations, review of peers, increase the level of knowledge of users of audit services independent of the view of users of audit services, obligation to communicate with former auditors, the joint liability of partners with the auditing firm, limiting the ratio of remuneration received from an employer, obligation to disclose the reasons for auditors' change of employers, and periodic changes of auditors. Affect the auditor's independence from the employer threatening to replace him.

Al Nawaiseh¹ and Alnawaiseh (2015) examined the effects of threats on the auditor's mental and physical independence. The results showed that threats (self-interest, self-assessment, advocacy, acquaintance or intimacy, and intimidation) affect the auditor's mental and physical independence and the variables of expertise and experience do not affect the auditor's awareness of the importance of threats to his independence. This study identified the factors affecting independence and studied its effect on both aspects of actual and apparent independence, but no research was conducted to control the effects of

threats on auditors' decisions.

Afifah and et al (2015) examined four independent variables of conflict, self-efficacy, professional ethics sensitivity, and emotional factors (empathy, personal discipline, and initiative) on the auditor's performance as dependent variables. They concluded that auditors with high levels of self-efficacy and sensitivity to professional ethics are more efficient, and conversely, the role of conflict will reduce the auditor's performance. The analysis data also proved the mediating role of emotional factors concerning the role of conflict, self-efficacy, and sensitivity of professional ethics to the auditor's performance that these emotional factors will strengthen the auditors' performance even in a situation of job dissatisfaction. Therefore, it was emphasized that by training them, the auditor's performance can be strengthened. Although in this study, the model of the social-cognitive theory was chosen by selecting its most important factor as self-efficacy, the independent variable of the conflict only referred to the conflict caused by bureaucracy between orders issued by officials or responsible organizations.

Clements, Neill, and Scott Stovall (2012) conclude three reasons for conflict of interest in auditing: (1) the auditor's fee is paid by management; (2) the existence of conflicting requirements in the Code of Professional Conduct, because according to the Code of Professional Conduct, on the one hand, the auditor is responsible for maintaining the trust of the employer and on the other hand, will be responsible for maintaining the trust of the community; and (3) In the audit literature, the employer is equated with the management of the unit, not the stakeholders, as shareholders; therefore, instead of advocating or defending the interests of the stakeholders, it will advocate or defend the interests of management.

In this study, only the inherent reasons for conflict of interest were presented.

Saghafi and et al (2011) using the theme analysis method concluded that the personal characteristics of the chartered accountant, the characteristics of the audit work and the characteristics of the auditing organization along with rules and regulations are among the factors that certified public accountants have mentioned in their professional ethics decisions. Also, the Iranian Society of Certified Public Accountants and auditing firms can prioritize them in planning and supervising their organizations.

Moore and et al (2006) presented a two-tier analysis of errors. At the lower level, they proposed the theory of moral misguidance, which explains why experts often do not know how much conflict of interest makes them morally vulnerable. At the broader level, they proposed the "problem cycle"

theory, which explains why this kind of conflict of interest that hurts large accounting firms is so pervasive. They believe there are two possible ways to improve the US audit system. In the first solution, the current auditor-client relationship remains largely intact, but its rules are extended in five important ways (failure to provide other services associated with the audit, the auditor's stability over five years and then change the auditing company and not the auditor's partner, banning the employment of auditors in the companies under review, creating an independent evaluation set by the auditor and not approving client accounting and selecting the auditor by Finance Committee of the Board). Because the five steps of regulation are likely to be costly, they recommend a second possible solution: restructuring and rooting out the entire auditing industry (insuring published company information). This article emphasizes the importance of examining conflicts of interest and the need to recognize and control them, despite the existence of political obstacles, the nature of the audit structure in terms of professional credibility and maintaining public trust.

An examination of the empirical background in this field shows that despite the consideration of ethical issues and the independence of auditors in the research conducted, the focus has been mainly on the apparent independence resulting from the structural structures of the audit. Therefore, it is very important to pay attention to controlling conflicts of interest or esoteric independence due to the pervasiveness of corruption in all countries. In some cases, refusing to disclose non-compliance with laws and regulations can lead to environmental degradation and misuse of public resources. Therefore, to control the conflict of interests from different angles by using tools and techniques of other sciences, including psychology, and understanding the impact of the cognitive process on auditors' decisions, it is necessary to conduct proportionate and extensive research and despite the complexity of the issue, to provide some control.

Research Methods

Type of research method: Due to the application of its results in auditing firms, this research was fundamental in terms of purpose and was a mixed approach of qualitative and quantitative methods. By exploring the components affecting the conflict of interest through library studies and asking experts, the qualitative part was placed in the category of exploratory research. In this study, the phenomena were studied in a natural state without manipulation, so it can be called a descriptive research method. Deviant decision making was considered the central category of research that during the research process, the

relationship between conflict of interest and deviant decision making and its consequences are determined.

Data collection method: To collect data and obtain information about views, behaviors, opinions, beliefs, or characteristics, a group of members of the statistical community was considered, so the data collection method was a survey.

Data collection tool: The statistical population was 2300 auditors who were members of the Society of Certified Public Accountants in 2019. Sampling was performed using a simple random method and Cochran's formula showed the required sample size of 329 people. The questionnaire, which contained the identified variables and was measured based on a five-point Likert scale, was distributed among the study population. The questionnaire was placed on a link and the answers could be received electronically with WhatsApp, Telegram, and email. The software recorded the received records and prepared the answer in Excel output for analysis. Questionnaires were sent to 586 certified public accountants via WhatsApp. At the same time, 250 emails were sent to all auditors working in auditing firms via the e-mail contained in the stock exchange information. E-mails were sent to 800 members of the association (the mentioned actions were repeated three times). 150 physical copies were sent to the address of the certified public accountants who requested a text message to receive it, but only 68 people returned it. It took at least 6 months to collect the questionnaires, of which 362 correct questionnaires were collected; of which 354 were members of the study community. The structural equation method was used to comprehensively examine the variables and model fit.

Data analysis method: In the qualitative part, using the Fuzzy Delphi method, the most important factors affecting conflict of interest were identified. In the quantitative part, by constructing a conceptual research model that includes a measurement model, SPSS software for descriptive analysis and Smart-PLS for inferential analysis were used by structural equation modeling.

Questionnaire structure: The first phase of the experiment was conducted with a total of 20 participants, including five professional auditors and three audit directors from auditing firms, 10 PhD students in accounting, and 2 auditors. The second phase of the experiment was performed by 5 experienced auditors and 5 accounting PhD students. The correct understanding of the questions and the removal of ambiguity from the participants' perspectives were different and good information was collected to correct the questionnaire. The questions were arranged in 20 tables, two of which are the initial tables

related to the control variable and 18 tables for the factors affecting the conflict of interest that were obtained from the qualitative part of the research. Each table contained 4 questions and can be answered through a link that was designed electronically. Each set of questions was based on the model and the conceptual framework of the research to test the relevant variables.

Operationalization variables: Dependent variables are operationalized by constructing a scale or rules for classifying observed behavior (Weimer and Dominic, 2013). All variables in this study are operationalized in accordance with audit and psychology articles. Each of the four questions included an independent variable (conflict of interest) Three intervening variables (expected positive results, understanding problems, and ethical judgment), a dependent variable (deviant decision probability) for the main analysis, and its inverse as another dependent variable (consistent decision probability) for a complimentary analysis.

The two control variables (job self-efficacy and willingness to break free from moral restraint) also included two separate sets of questions that were measured as part of the experiment.

Quantitative research results

In the first stage, gender, academic degree, age, work experience, organizational position, and field of study were studied. In the next step, how to answer the various options of questions related to each hypothesis was also specified in Table 1.

Table 1. Demographic characteristics of respondents

| Position | | Experience Level of | | Education | | Work Place | |
|--------------------|------|---------------------|------|-------------------|------|----------------|------|
| Board of Directors | 25.7 | 5 to 10 years | 36.1 | Bachelor's degree | 22.3 | Private sector | 53.4 |
| Partner | 22.3 | 11 to 20 years | 44.3 | | | | |
| the manager | 29.9 | 21 to 30 years | 14.4 | Master's degree | 61 | | |
| Auditor | 18.1 | 31 or more | 5.1 | PhD | 16.7 | Public sector | 46.6 |
| Other | 4 | | | | | | |

Structural equation model results

If the Cronbach's alpha coefficient is 0.7 or more, the questionnaire has good reliability and can be assured of the internal correlation of the questions. Table 2 shows the Cronbach's alpha coefficient of the research variables.

Table 2. Cronbach's alpha coefficient of research variables

| Variables | Cronbach's alpha |
|----------------------|------------------|
| Conflict of interest | 0.917 |
| Positive result | 0.748 |
| Understand problems | 0.867 |
| Decision | 0.864 |
| Judgment | 0.861 |
| Total Alpha | 0.820 |

As can be seen in the table above, the alpha coefficient of all hidden variables is higher than 0.7, and this indicates that the measurement model of this research has good reliability. Cronbach's alpha of the whole questionnaire was measured by 0.964.

Because Cronbach's alpha provides a more rigorous estimate of the internal compatibility reliability of latent variables (alpha), another version called (composite reliability) was used in the pls path models. Composite reliability also takes into account the variable factor load on each item and provides reliable results on the reliability of a measuring instrument, which is a preferred choice for measuring the reliability of measuring instruments. Convergent validity exists when the CR is greater than 0.7. CR must also be larger than AVE. Table 3 shows the combined reliability of each of the research variables.

Table 3. Composite reliability of research variables

| Variables | CR |
|----------------------|-------|
| Conflict of interest | 0.941 |
| Positive result | 0.840 |
| Understand problems | 0.918 |
| Decision | 0.917 |
| Judgement | 0.935 |

Considering that all the values in the table are higher than 0.7, it can be said that the questionnaire has good reliability.

Structural model test

A structural model is a model in which the relationships between latent (independent or exogenous) and dependent (endogenous) variables are considered. Since the structural model is a model derived from the relationship between the measurement models in the model, after evaluating the reliability and validity of the measurement models, it is time to evaluate the structural model. Thus, a general model of structural equations consists of several measurement models and only one structural model (Hensler et al., 2009: 293). Structural model test criteria include the coefficient of determination (R^2) of endogenous latent variables, path coefficients (beta), and its significance and predictive correlation index of Q^2 .

The basic criterion for evaluating endogenous variables of the path model is the coefficient of determination. This index shows what percentage of changes in the endogenous variable is made by the exogenous variable. The number of observable variables as well as the relationships established or entered into an endogenous latent variable affects the coefficient of determination of that variable. This is summarized in Table 4.

Table 4. Coefficients for determining endogenous variables of research

| Variables | The coefficient of determination |
|----------------------|----------------------------------|
| Conflict of interest | * |
| Positive result | 0.135 |
| Understand problems | 0.326 |
| Decision | 0.606 |
| Judgement | 0.174 |

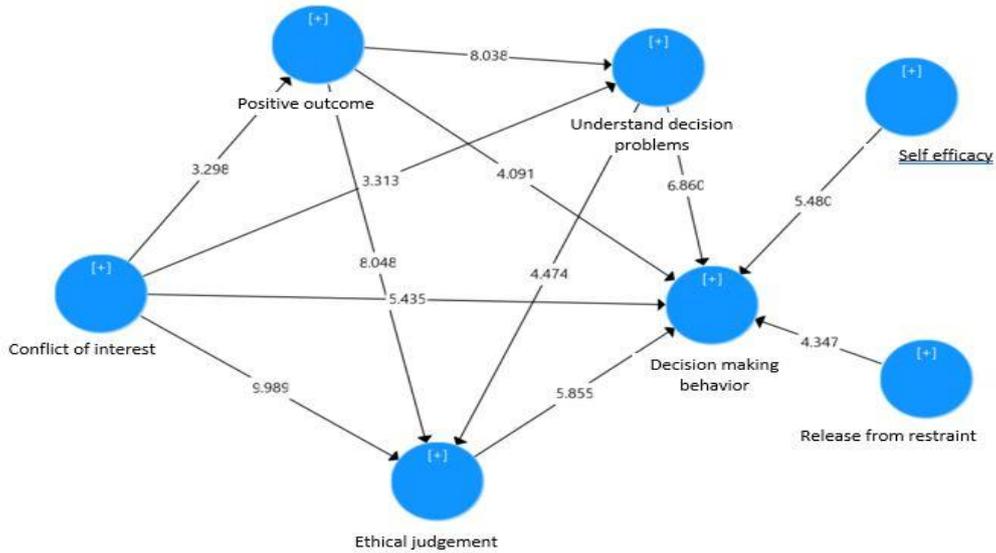
* The coefficient R^2 is not calculated for latent exogenous variables

Measurement model quality test

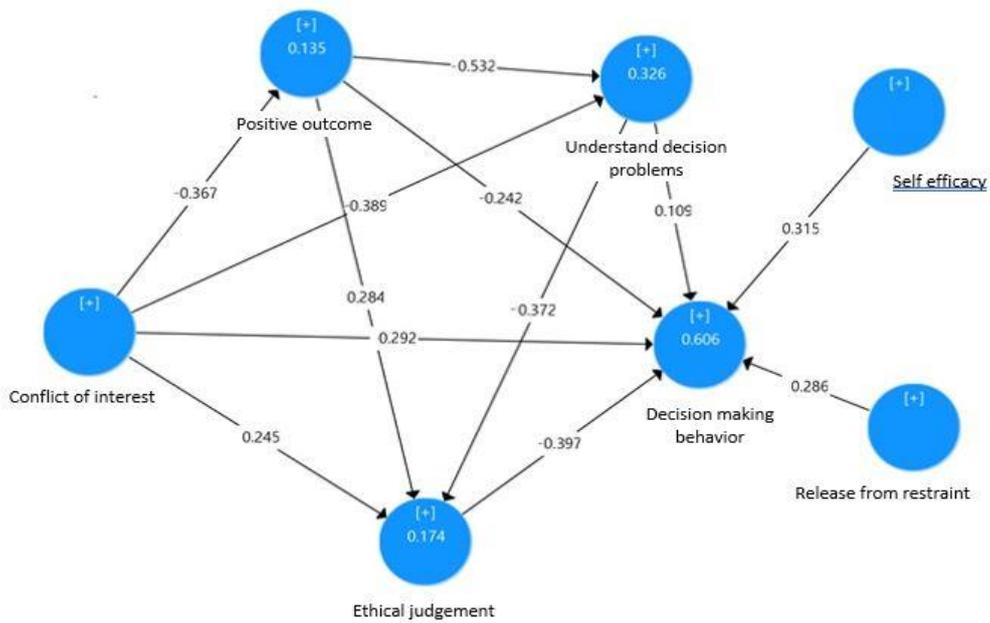
Another test to evaluate the measurement model is its quality test. The quality of the measurement model is calculated by the subscription index with cross-validity. This index measures the ability of the path model to predict observable variables through the values of their corresponding hidden variables. Table 5 shows the values of this index for research variables.

Table 5. Subscription index with cross validity

| Variables | CV COM |
|----------------------|--------|
| Conflict of interest | 0.612 |
| Positive result | 0.494 |
| Understand problems | 0.519 |
| Decision | 0.513 |
| Judgment | 0.485 |



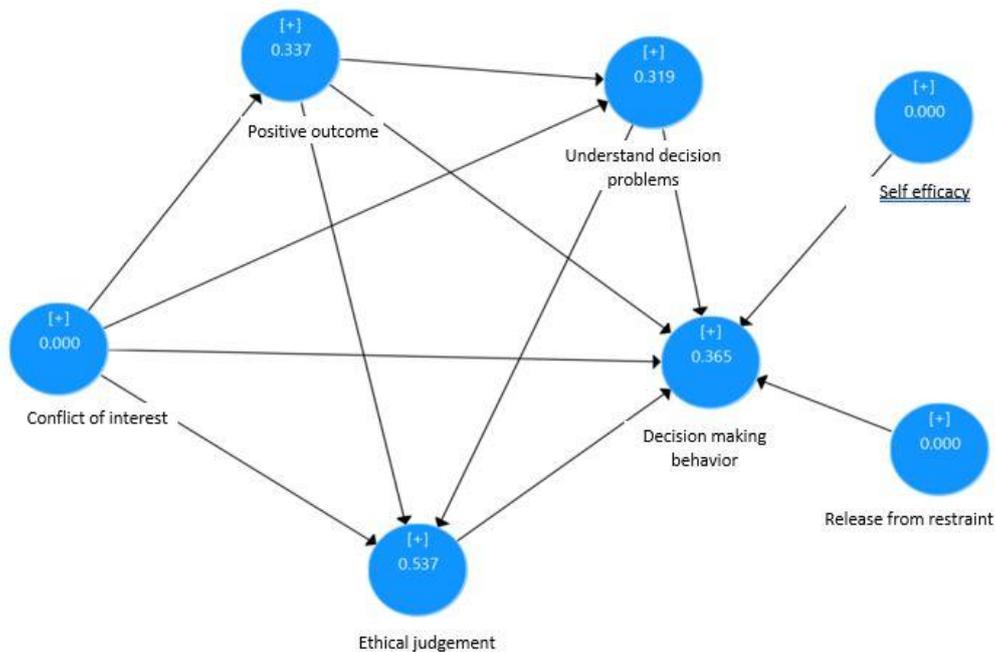
Model 1. Graphic model of research (showing path coefficients and coefficient of determination)



Model 2. Graphic model of the research (shows the significance of the path)

Table 6. T-statistic values for research variables

| Row | Variable effect | On the variable | Path coefficient | T statistic | Result |
|-----|---------------------------|---------------------------|------------------|-------------|-----------|
| 1 | Conflict of interest | Expected positive results | -0.367 | 3.29 | Confirmed |
| 2 | Conflict of interest | Moral judgment | 0.245 | 9.98 | Confirmed |
| 3 | Conflict of interest | Deviant decision | 0.292 | 5.43 | Confirmed |
| 4 | Moral judgment | Deviant decision | -0.397 | 5.85 | Confirmed |
| 5 | Understand problems | Deviant decision | 0.109 | 6.86 | Confirmed |
| 6 | Expected positive results | Understand problems | -0.532 | 8.03 | Confirmed |
| 7 | Expected positive results | Deviant decision | -0.242 | 4.09 | Confirmed |
| 8 | Conflict of interest | Understand problems | -0.389 | 5.43 | Confirmed |
| 9 | Understand problems | Moral judgment | -0.372 | 4.47 | Confirmed |
| 10 | Expected positive results | Moral judgment | 0.284 | 8.04 | Confirmed |



Model 3. Graphic model of research (representing cv red)

The predictive relationship is another indicator in evaluating the structural model and its quality, which aims to examine the ability of the structural model to predict by ignoring. The most famous and well-known measure of this ability is the Q^2 index of Stone Geisler, according to which the model should

predict the indicators of endogenous latent variables. Q^2 values above zero indicate that the observed values are well reconstructed and the model can predict. In other words, if all the values obtained for the CV Red index are positive, it can be said that the structural model is of good quality.

Table 7. CV RED index values

| CV RED | Variables |
|--------|----------------------|
| * | Conflict of interest |
| 0.327 | Positive result |
| 0.319 | Understand problems |
| 0.367 | Decision |
| 0.537 | Judgment |

* The value of CV Red is calculated for endogenous latent variables.

As can be seen in the table above, all endogenous variables of the study obtained positive Q^2 values. This indicates that these variables are well reconstructed in this study and can predict.

PLS General Model Test Criteria

In structural equation modeling, it is an indicator for the overall measurement of the model in PLS analysis called goodness of fit, which was proposed by Tenenhaus et al. (2005). In other words, gof criterion or index was used to check the validity or quality of the model in the pls analysis. The gof index is a number between zero and one, the closer it is to one, the higher the validity and quality of the model. This index considers both measurement and structural models and is used as a measure of the overall performance of the model. This index is calculated as follows:

$$GOF = \sqrt{\text{average (Commonality)} \times \text{average (R}^2\text{)}} \quad (1)$$

$$GOF = \sqrt{\text{communality} \cdot R^2} = 0.403$$

$$\text{Communality} = 0.524$$

$$R^2 = 0.310$$

Hensler et al. (2009) set three values of 0.15, 0.2, and 0.35 as low, medium, and strong predictive power. According to the value obtained from the above formula, a strong model fit was determined.

Results of hypothesis tests

The results of testing the first hypothesis show that there is a positive and significant relationship between conflicts of interest with decisions and with increasing the variable of conflicts of interest, the rate of deviant decisions increases. In situations where there is a potential for conflict of interest, auditors are more likely to make deviant decisions.

The test results of the second hypothesis show that there is a significant relationship between the conflicts of interests with the expected positive results. This relationship indicates that auditors tend to perceive positive outcomes versus negative outcomes inconsistent decision making.

The results of testing the third hypothesis show that there is a significant relationship between conflicts of interest and understanding problems. This relationship indicates that in the event of a conflict of interest, auditors tend to understand the level of difficulty in making consistent decisions.

The results of testing the fourth hypothesis show that there is a significant relationship between conflicts of interest and moral judgment. This relationship shows that auditors tend to judge the ethics of a consistent decision in the area of conflict of interest.

The results of testing the fifth hypothesis show that there is a positive and significant relationship between perceiving problems and decision making, and with increasing the variable of understanding problems, deviant decisions increase. The assumed relationship means that in the event of a conflict of interest, auditors are more likely to make deviant decisions who expect to understand more problems in the consistent decision. Similarly, deviant decisions are less likely to be made by auditors who expect to understand fewer problems in making consistent decisions.

The results of the sixth hypothesis test show that there is a negative and significant relationship between moral judgment and deviant decision and with increasing the variable of moral judgment, deviant decision decreases. In the realm of conflict of interest, the deviant decision of auditors, who, by ethical judgment, consider the selection of a consistent decision to be an ethical act, is reduced, and vice versa.

The results of the seventh hypothesis test show that there is a negative and significant relationship between the expected positive results and the decision, and with increasing the variable of the expected positive results, the amount of deviant decision decreases. The hypothesized relationship shows that in the domain of conflict of interest, the deviant decision of auditors who are more

inclined to perceive the negative consequences of a consistent decision than its positive results, and vice versa. In fact, the type of expectation and the view of the auditors form a deviant or consistent decision.

The test results of the eighth hypothesis show that there is a negative and significant relationship between the expected positive results and perceived problems, and with increasing the variable of expected positive results, the amount of perceived problems decreases. The assumed relationship means that if auditors expect more positive consistent decision results than negative ones, less understanding of consistent decision problems is expected, and vice versa.

Table 8. Summary of component affecting conflict of interest of confirmed in the hypotheses.

| Factors | *H1 | H 2 | H 3 | H 4 | H5 | H 6 | H 7 | H8 | H 9 | H10 | Number |
|---|------|-----|-----|-----|----|-----|-----|----|-----|-----|--------|
| Cancel or conclude an audit contract | **Ok | Ok | Ok | Ok | - | Ok | - | - | - | - | 5 |
| Professional skepticism | - | - | - | Ok | - | - | - | - | - | - | 2 |
| The rule of law | - | - | - | - | Ok | - | Ok | Ok | - | - | 3 |
| Individualism vs. collectivism | Ok | Ok | - | - | Ok | - | Ok | Ok | - | - | 5 |
| Avoid ambiguity | Ok | Ok | - | Ok | - | - | - | - | Ok | - | 5 |
| The pressure of obedience | Ok | - | Ok | - | - | - | - | - | Ok | - | 4 |
| Adaptation pressure | Ok | Ok | - | Ok | - | - | - | - | Ok | Ok | 5 |
| Terms and Conditions | Ok | Ok | - | - | Ok | - | - | - | Ok | Ok | 6 |
| Exercizing corporate governance | Ok | Ok | Ok | - | Ok | - | Ok | Ok | - | - | 6 |
| Ethics | Ok | Ok | Ok | Ok | Ok | Ok | Ok | Ok | Ok | Ok | 10 |
| Intuition-based judgment | Ok | - | Ok | - | Ok | - | Ok | Ok | - | - | 5 |
| The size of the institution | - | - | - | - | Ok | - | Ok | Ok | Ok | - | 4 |
| Privacy or non-privacy | Ok | Ok | Ok | Ok | - | - | - | - | Ok | Ok | 7 |
| Professional reputation | Ok | - | - | Ok | - | - | - | - | - | Ok | 4 |
| Organizational Culture | Ok | Ok | Ok | Ok | - | - | - | - | Ok | Ok | 7 |
| Clarification of the auditor's responsibilities | Ok | Ok | Ok | - | - | - | Ok | Ok | - | - | 5 |
| Experience | Ok | Ok | Ok | - | - | - | - | - | - | - | 4 |
| Ethical sensitivity | Ok | Ok | Ok | - | Ok | - | Ok | Ok | - | - | 6 |
| Number of hypotheses confirmed | 15 | 12 | 10 | 8 | 8 | 2 | 8 | 8 | 8 | 6 | |

*Hypothesis

**Confirmed

The results of the ninth hypothesis test show that there is a positive and significant relationship between the expected positive results and moral judgment, and with increasing the variable of the expected positive results, the number of moral judgment increases. The assumed relationship means that in

the event of a conflict of interest if the auditors overestimate the expected positive outcomes of the consistent decision rather than the negative outcomes, they will make a moral judgment to the contrary.

The results of the tenth hypothesis test show that there is a negative and significant relationship between understanding problems and moral judgment, and with increasing the variable of understanding problems, the amount of moral judgment decreases. A hypothetical relationship means that in the area of conflict of interest if auditors find it easy to make a consistent decision, they will make an ethical decision, and the likelihood of an ethical decision is reduced if the difficulty is found in a consistent decision.

Because the factors affecting the conflict of interest concluded from the first stage of the research are the factors causing the conflict of interest and the hypotheses for each of the factors must be examined. Table 8 below reflects the specific results of each factor in the form of each of the hypotheses.

Conclusion

A. In general, the results of testing the hypotheses on the factors affecting the conflict of interests identified from the qualitative stage of this research in Table 8 show that professional ethics with the confirmation of all hypotheses is considered as the most effective component in the research.

B. The results of this study show that the process through which conflict of interest threatens adaptive behaviors is governed by cognitive processes (expected positive results, understanding of problems, and moral judgment). Therefore, reducing the expected positive results, increasing the understanding of problems, and reducing moral judgment will lead to deviant decisions. Decisions will also be made consistent with increasing expected positive outcomes, reducing perceived problems, and increasing ethical judgment. If we can somehow manage the cognitive processes in decision making, success in curbing deviant decisions will occur.

For this care, a behavioral model is proposed by developing an algorithm as follows:

Behavioral algorithms for conflict of interest management: The findings of this study have been proposed through analysis in the form of behavioral algorithms to facilitate effective conflict of interest management for auditing firms. This algorithm potentially reinforces the existing framework that institutions use to deal with conflicts of interest. As a possible solution, this study aimed to strengthen the independence of auditors. According to Bandura

(2008), this can be done by encouraging a change in desirable behavior, by changing the environment, or by influencing personal attitudes. As the findings of this study, situational cognitive predictors of deviant decision making are: (1) Decreased expected positive results (2) Increased understanding of problems (3) Decreased moral judgment. At the same time, cognitive situational predictors of deviant decisions have a high tendency to break free from moral constraints. Cognitive situational predictors of consistent decision making include: (1) increase expected positive results, (2) decrease perception of problems, and (3) increase moral judgment. Besides, the cognitive predictor of consistent decision making is the reduction of moral freedom.

The highlights of this algorithm are as follows:

1. When setting the stage for conflict of interest management, audit firms should introduce interventions aimed at encouraging increased positive outcomes, reducing perceived problems and increasing ethical judgment. According to Bandura's (2008) theory, this event can be achieved by making changes in the environment.
2. When assessing (identifying, analyzing, and evaluating) conflicts of interest, managers should consider the risk of being able to predict professional cognitive processes.

Decreasing the expected positive results leads to deviant decision making and increasing it leads to consistent decision making.

Increasing understanding of problems leads to deviant decision making and decreasing it leads to consistent decision making.

Decreasing moral judgment leads to deviant decision making and increasing it leads to consistent decision making.

Increasing the expected positive results leads to a decrease in the perception of problems and vice versa.

Increasing the expected positive results leads to an increase in moral judgment and vice versa.

Increasing understanding of problems leads to a decrease in moral judgment and vice versa.

Increasing liberation from moral restraint leads to deviant decision making and reducing it leads to consistent decision making.

This means that identifying the sources, causes, consequences, and potential impact of conflict of interest is influenced by the cognitive processes of decision-makers. Likewise, there is a need to determine the level (up and down) of cognitive predictors.

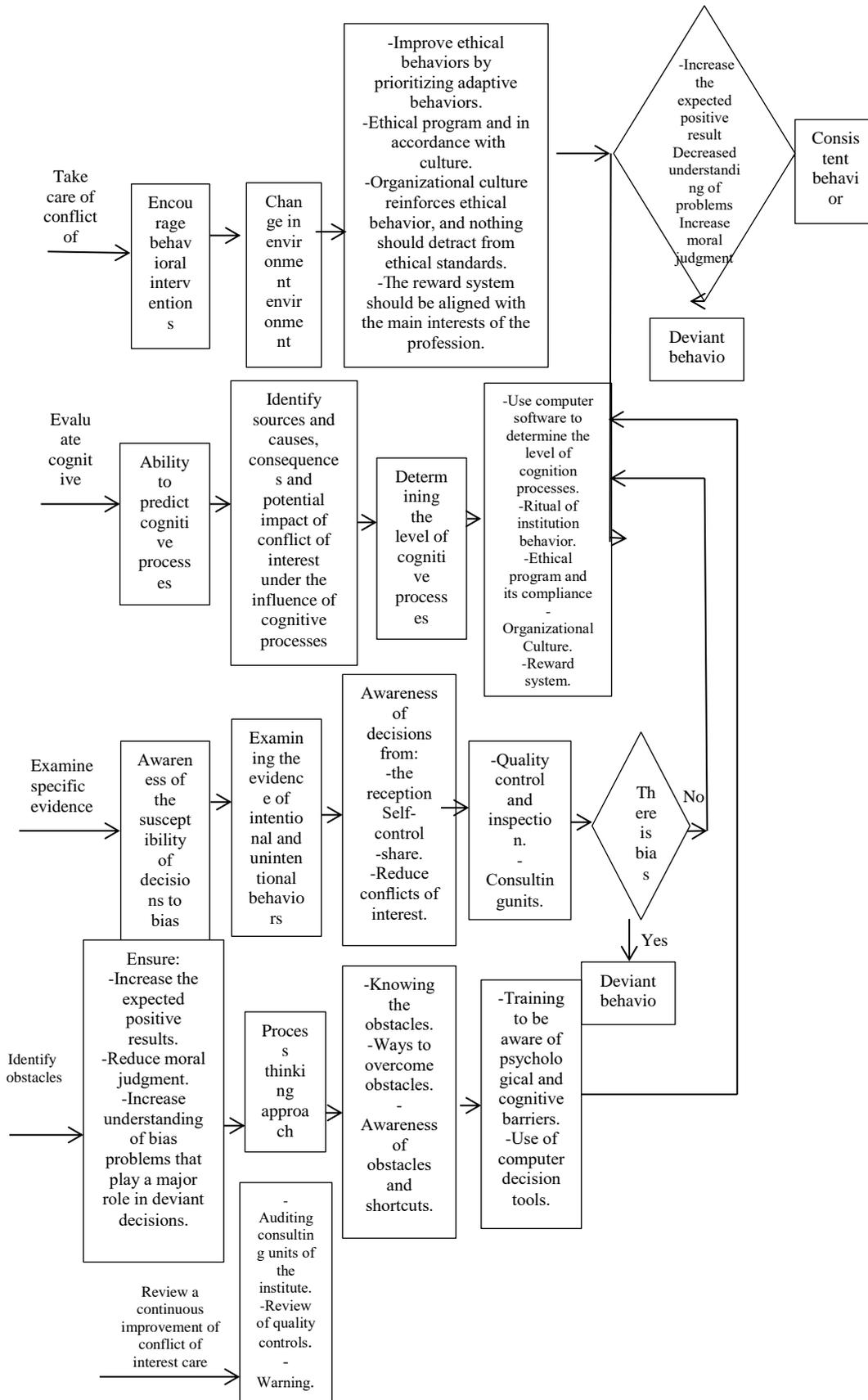


Figure 4. Proposed behavioral algorithm for conflict of interest management

3. To adopt a particular conflict of interest behavior, the decision-makers of the audit firms should be aware of the fact that the conflict-of-interest decision-making takes place mainly in a biased manner. In particular, there is evidence that unintentional and deliberate mistakes threaten consistent behavior and that decisions must be made to accept, avoid, share, or reduce conflicts of interest.

4. Evidence shows that reducing expected positive outcomes, increasing understanding of problems, reducing moral judgment, and breaking free from high moral constraints are consistent cognitive barriers to decision-making, and their perceptual bias plays a key role in this. The process (Rodgers and Gango, 2001; 2006) as a control measure seems promising.

5. Finally, the interventions introduced throughout the conflict-of-interest management process need to be continuously reviewed and improved.

C. This study provides empirical evidence for the conflict of the interest care process. The main finding is that the relationship between conflict of interest and auditors' deviant and consistent decision-making can be monitored by a professional situational cognitive process representative (Positive Expectations of consistent decision making, difficulty understanding the inconsistent decisions, and their judgments about the ethics of making consistent decisions).

Besides, situational cognitive processes are said to influence decision-making, directly and indirectly through meaningful communication with each other. Also, auditors' willingness to break free from ethical constraints (eg, unnecessary cognitive processes) has been demonstrated, which affects their likelihood of accepting their decision-making behavior. Besides, decision-making in the face of a conflict of interest has proven incredible research that decision-making is often unintentional.

All insights from the results of this empirical study are directly related to the mental state of auditors and about their real objectivity in the field of conflict of interest, the behavioral framework based on these insights helps to strengthen the real independence of auditors. Certainly, increasing true independence facilitates effective oversight of conflict of interest in auditing firms (Moore, Tenlo, & Bazerman, 2010; Bazerman and Gino, 2012; Small & Wilford, 2013).

Audiences of the research

1. Academic researchers (given the inherent difficulty in converting behavioral concepts into measurable structures, implementing the variables in this research is an achievement).

2. Individual auditors (the process thinking approach can potentially increase their awareness of the obstacles and shortcuts they face when making decisions).
3. Audit firms (promoting consistent decision-making by focusing on environmental factors to encourage the expected positive outcomes of consistent decision-making, reduce problem perception, and increase ethical judgment).
4. Legislators and policymakers (to review existing policies with important behavioral insights).
5. Effects on other professions (the proposed behavioral algorithm can be used as a guide to issues of conflict of interest of other professions).
6. Experimental collaboration (most conflicts of interest studies have been conducted in the United States and the United Kingdom, and the lack of evidence in the country's auditing firms is clearly visible).

The practical consequences

Empowerment to deal with threats, identify new factors as well as complement existing procedures implemented by auditing firms. As long as there are accounting and auditing, decisions are under threat and there must be continuous research in the auditing profession to identify new factors and discover ways to deal with it.

Limitations of future research

In addition to time, auditors are reluctant to respond to questionnaires and funding, there are specific limitations and different opportunities for future research as follows:

1. Limitations related to the theoretical model.
2. Demographic restrictions.
3. Limitations related to methodology (cognitive processes and behavior should be reported as their perceptions and goals and the post-positivism paradigm should be considered).
4. Restrictions related to the field of research (factors of cultural superiority, company size, and regulatory environment can be considered as well as a comparative study with other countries).

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