

The Effect of Machiavellian Characteristics and Auditee Pressure on Ethical Decision Making of Government Auditors in Palembang Municipality

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Abstract: This study aims to examine the relationship between the variables of Machiavellian characteristics and auditee pressure on ethical decision making of government auditors in Palembang Municipality. The research sample is government auditors of Palembang. Whereas, the data is obtained using Partial Least Square method. The study results indicate that Machiavellian Characteristics had a significant negative effect on auditor ethical decision making, while auditor pressure did not inflict any influence on the ethical decisions making.

1 INTRODUCTION

An auditor is a person who assesses and affirms an opinion on the fairness in all material respects, financial balance of business activities and cash flows that are in accordance with Generally Accepted Accounting Principles (GAAP) in Indonesia (Arens, 2003). In Indonesia, government auditors can be classified into two group, namely Government External Auditors or Auditors of the Audit Board (BPK) who are auditors working for the Audit Board of the Republic of Indonesia (BPK), an body established under the Indonesian constitution. Whilst the Government Internal Auditor, better known as the Government Functional Supervisory Apparatus (*Aparat Pengawasan Fungsional Pemerintah/APFP*) that is carried out by Finance and Development Supervisory Agency (*Badan Pengawasan Keuangan dan Pembangunan/BPKP*), Department of Inspectorate General/LPND, and the Regional Supervisory Agency, serves the government needs.

Based on Law Number 15 Year 2004, decision making is a part of the principal duties and functions of the auditors of BPK of the Republic of Indonesia, especially those related to the assignment of auditors in examining both the Financial Statements and other examinations. The success in ethical decision making of the Audit Board of Republic of Indonesia (BPK RI) is referred to the Law, whereas the

inspection standard is the benchmark for evaluating the management and responsibility of state finances. The inspection standards consist of general standards, implementation standards, and audit reporting standards that must be conducted by the BPK and/or the auditor.

BPK Regulation number 1 Year 2017 is a regulation stipulated by the BPK as the State financial audit standard that serves as auditor's main guideline in carrying out audits. The regulation becomes a manual on the procedures for auditing the management of State finances.

Richmon (2001) examined the relationship of a trait that forms a personality type namely machivellian characteristics as measured by *Mach IV Score* instruments with behavioral tendencies of accountants in facing ethical dilemmas. The machiavellian charateristics have an effect on the tendency of accountants to accept dilemmatic behaviors that are related to their professional ethics. It shows that the higher the tendency of machiavellian characteristics of an accountant, the higher the tendency to accept ethically dilemmatic behaviors or actions. Machiavellian charateristics tend to be selfish, manipulative and aggressive. Machivellian character is a trait that is likely to exist in all business professions, especially accountants and auditors. A person who works as an accountant or auditor is required to have more ethical responsibilities, compared to other professions. As

an auditor, the profession is highly dependent on public trust as the users of this professional services.

Machiavellianism as a construct that symbolizes a series of behaviors, including lack of morality, negative attitudes and emotional detachment. Richmond (2001) explains that the higher tendency of machiavellian characteristic, the more likely a person to behave unethically. On contrary, if the tendency of machiavellian is low, then a person will tend to behave ethically. Murphy (2012) found that machiavellian accountants are more likely to report inaccurate financial statements compare to those of lower machiavellianism. Purnamasari (2006) explains that individuals with high machiavellianism tend to take advantage of situations to gain personal benefits and more willingly to disobey the rules. Existing studies have consistently found that machiavellians show low ethical values.

In recent years, many cases involving violations of law and codes of ethics against government auditors occurred in 2016, among others, the case related to big motorbike bribery, the providence of Senior Auditor at Sub-Auditor VIIB2, Sigit Yugoharto is now being studied by the Honorary Council Code of Ethics of the BPK. Cited from Tempo Newspaper in 2016, in the Panama Papers it was stated that Harry Azhar Aziz (Chairperson of the BPK of Republic of Indonesia) is the owner of one of the offshore companies, Sheng Yue International Limited. Whilst, Sheng Yue International Limited is believed to be a company established in a tax haven with the purpose of avoiding tax payments in its home countries.

As follow up, an internal examination was conducted internally on the violations of the ethics code (in accordance with BPK Regulation No. 3 Year 2016 concerning the Code of Ethics of BPK) and violations of employee disciplinary rules (in accordance with Government Regulation No. 3 Year 2010 concerning Civil Servants Discipline). Ethical considerations is defined as the making of a deliberation/consideration regarding the exact truth of an action that is ethically correct to be taken. Wibowo in Devaluisa (2009) defines ethical considerations as the contemplation of what must be done to prevent the occurrence of ethical dilemmas.

Whereas, the auditee pressure felt by each auditor will also illustrate how far the auditor influences decision making. With the facilities provided by the auditee, the auditor may experience pressure from the auditee. The pressure from the auditee could be in the form of pressure to provide an unqualified statement (WTP) on the audit report

of the financial statements as presented by the management.

2 LITERATURE REVIEW

2.1 Theory of Perception

Perception is one of the important psychological aspects for humans in responding to the presence of various aspects and symptoms around us. It contains a very broad definition, involving internal and external factors. The term perception is often referred to as opinions, images, or assumptions, because in perception there is a person's response to something, or to an object.

Determination of perceptions is influenced by internal and external factors, which according to Robbins (2003) there are three factors that influence perception. *First*, the exclusivity, meaning that someone will have different perceptions on the behavior of other individuals in different situations. And if the behavior is considered as something unusual, then the other individuals who act as the observer will have a perception that the person is conducting a behavior generated by external factor. Contrariwise, if the behavior is considered as something that other people usually do, it is considered as an internal attribution.

Second, the consensus, meaning that people have the same perception in responding to a person's behavior in similar setting or condition. If there is a high consequences, then the attribution is generated internally. On the other hand, if the consequences are said to be low, then the attribution is created externally. The last factor is consistency, meaning that a person evaluates the behavior of others with the same reaction or response from time to time. The more consistent the behavior is, the more likely people will connect the behavior with internal factors. Therefore, this perception theory is highly reassuring for this study

2.2 Theory of Ethics

Ethics is a moral order that has been mutually agreed upon in a profession and is intended for members of the said profession. The basic motivation in carrying out ethical actions is not because of the individual's aspiration and awareness, but due to legal regulations (O'Leary and Cotter, 2000).

Duska and Duska (2003) developed three ethical theories, whereas these three theories are used to elaborate this research, that are:

1. *Utilitarianism Theory*. This theory discusses the optimization of individual decision making to maximize benefits and minimize negative impacts. There are two types of *utilitarianism*, namely
 - a. *Act utilitarianism*, for actions that are beneficial to many people.
 - b. *Rule utilitarianism*, for moral rules that are accepted by the wider community.
2. *Deontology Theory*. This theory discusses the obligation of individuals to deliver the rights to others, so that the basis for evaluating whether an action is good or bad must be based on obligations, not the consequences of an action. Deontology emphasizes that actions never turn out to be good because the results are good, but because of the obligation that must be made (Bertens, 2000).
3. *Virtue Theory*. The theory discusses the character of a person that allows him/her to behave morally correct

2.3 Machiavellian Characteristic

Machiavellianism was taught by an Italian political philosopher named Niccolo Machiavelli (1469-1527). Machiavellianism, by Christie and Greis (1970), is defined as a process in which the manipulators get more rewards compare to the time when they are not manipulating, while others get smaller, at least in the short term.

According to Richmond (2001), Machiavellian is an aggressive characteristic, and a tendency to influence and control others to achieve personal goals. Machiavellian personality, as further described by Richmond (2001) is a personality that lacks of affection in personal relationships, ignores conventional morality, and shows low ideological commitment.

Machiavellian personality has a tendency to manipulate others, having a very low appreciation for others. Shafer and Simmons (2008) identify three underlying factors of machiavellianism, namely:

1. Advocate for manipulative tactics such as deception or lies
2. A hostile opinion of humans, that are weak, weakling, and easily manipulated; and Lack of consideration for conventional morality

2.4 Auditee Pressure

In carrying out their functions, auditors often have a conflicts of interest with the company's management. The management possibly would like the company's operations or performance to appear profitable, that is reflected through higher profits, with the intention of obtaining awards.

To achieve these objectives, it is not uncommon for the company management to put pressure on the auditor so that the audited financial statements produced are as the requests of the auditee. In this situation, the auditor encounter dilemmas. On the one hand, if the auditor respects the auditee's request, she/he violates the professional standards. But if the auditor does not go along with the auditee, the auditee may terminate the assignment of the auditor.

Auditee's financial state also influences the auditor's ability to overcome auditee's pressure (Knapp, 1985) in (Harhinto, 2004). Auditees having a strong financial state may provide substantial audit rewards and valuable facilities for the auditors. In addition, the probability of bankruptcy on the auditee that having good financial state is relatively small. In this situation, auditors become complacent so they are less careful in conducting audits.

Based on the description above, the auditor is in a strategic position both in the viewpoint of company management and the users of financial statements. Furthermore, the users of financial statement are maintaining a great trust in the results of the auditor's work in auditing financial statements. To be able to fulfill a reliable audit performance, the auditor as an examiner in carrying out his/her profession must be guided by the code of ethics, professional standards and financial accounting standards that are applied in Indonesia. Each and every auditor must maintain their integrity and objectivity in performing their duties by acting honestly, firmly, without pretension so that they can act fairly, without being influenced by the pressure or request from any particular party to fulfill his/her personal interests.

2.5 Ethical Decision Making

Individual decision making is an important part of organizational behavior. But how these individuals in the organization making their final decisions and the quality of their decisions are mostly influenced by their perceptions. According to Robbins et al (2007), decision making occurs as a reaction to problems. In this case, there are differences between

the existing and the expected conditions, which then require other actions as the alternative.

Model Rest (1986) has been widely used in ethical accounting research. Rest, Moon and Getz (1986) states that, there are four stages that a person must do to combine ethical dimensions in decision making, so called the Four Component Model, including ethical sensitivity, ethical reasoning, ethical motivation, and ethical implementation.

The first stage is ethical sensitivity, that presupposes the need for moral awareness or the ability to identify moral issues. In this stage, an interpretation occurs where an individual recognizes that there is a moral issue in the situation she/he encounters, or that a moral principle becomes relevant in it (Wisesa, 2011). This stage ignites the potential to initiate and to influence an assessment process, ethical decision making and ethical behavior of an individual.

After the moral issues were identified, an individual then makes ethical decisions based on evaluation of the consequences that suppose to occur in certain situations together with the alternative actions that may be taken. Determining alternative decisions for actions to be taken must be based on appropriate reasoning that takes into account the relevant moral principles in the process of ethical interpretation in the second stage.

In conducting alternative decisions on actions that have been decided, confidence and encouragement are required, that is called ethical motivation in the third stage. Followed by the fourth stage, that is the ethical implementation in which an individual performs the chosen alternative action in reality.

3 CONCEPTUAL FRAMEWORK

In the scheme of ethical decision making, subjective attitudes and norms owned by a person are influencing the process of moral evaluation and the formation of one's moral intentions, before the ethical actions were implemented. These subjective attitudes and norms developed from individual factors possessed by a person, including the machivellian characteristics, perceptions of the importance of ethics and auditee pressure. The machivellian characteristics partially have a significant influence on subjective attitudes and norms, which in turn will affect the person's ethical decision making process. Based on this theoretical basis, the the research scheme can be described as in the following Figure 1:

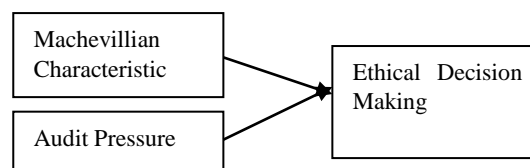


Figure 1: Conceptual Framework

The independent variable consists of machievellian charateristics and pressure from the auditee. While ethical decision making is the dependent variable which its relationship will be tested against the independent variables. Each independent variable causes distinctive influence on the ethical decision making process, both positive and negative ones.

This study tries to examine how the machivellian characteristics and auditee pressure influence ethical decision making of the government auditors. In line with previous studies, a person with high tendency of Machiavellian characteristics is believed to make less ethical decisions.

4 RESEARCH HYPOTHESIS

Based on theoretical review and previous researches that have been mentioned above, the hypotheses of this study are as follows:

H₁: There is a negative relationship between Machiavellian characteristics and ethical decision making of government auditors.

H₂: There is a negative relationship between auditee pressure and ethical decision making of government auditors.

5 RESEARCH METHOD

5.1 Population and Sample

The population to be used in this study are the Auditors of Audit Board (BPK) and the Auditors of Finance and Development Supervisory Agency (BPKP) of South Sumatra Province. The sampling technique of this study is using purposive sampling by the following criteria:

1. Government auditors who have conducted audits at least 2 times.
2. The auditor has worked for at least 2 years.

3. The auditor has applied his/her knowledge in the audit domain in practice

Based on the questionnaire that has been distributed, 68 questionnaires are used as research data

5.2 Data Collecting Method

The data to be used in this study are primary data. Data will be collected using survey method, by providing questionnaires directly to government auditors

5.3 Analytical Technique

Based on the explanation of the relationship between Machiavellian Characteristics and auditee pressure on ethical decision making, the research model is formulated as follows:

$$\eta = -\gamma_1 - \gamma_2 + \varepsilon$$

whereas

η = Ethical Decision Making

γ_1 = Machiavellian characteristics effect

γ_2 = Auditee pressure

ε = error

The data analysis technique is using Structured Equation Modeling (SEM) with Partial Least Square (PLS) approach.

6 RESULT AND DISCUSSION

6.1 Research Result

The results of the tabulated data were then tested using Outer Model to get a model that is suitable for the study. Based on the results of data processing a fit model was obtained, which is then further checked for the inner model.

The testing for inner model is conducted to confirm the research hypotheses that have been proposed earlier. Table 1 show the results of inner model testing. Based on the Table 1, it can be seen that the first hypothesis declaring that there is a significant positive relationship between Machevilian Characteristics and Auditor Ethical Decisions is accepted, because arithmetic t is 4.87 greater than t table of 1.96.

Table 1: Inner model and Path Coefficient Testing

	Original Sample (O)	Standard Error (STERR)	T-Statistic (O/STERR)
SM -> PKE	-0,392024	0,080441	4,873429
TA -> PKE	-0,203261	0,183863	1,105498

Whereas, the second hypothesis stating that there is a significant negative correlation between Auditee Pressure and Auditor Ethical Decision Making is rejected, because the arithmetic t of 1.10 is smaller than t table of 1.96.

Based on the above data, a research equation to describe the research model used in this study is then formulated. The research model produced is as follows:

$$AED = -0,39SM - 0,20TA + e$$

By the equation above, it can be explained that every change in one additional machevillian character will reduce Ethical Decision Making by 0.39 and an addition of one Auditee Pressure will reduce Ethical Decision Making by 0.20.

6.2 Discussion

6.2.1 The Effect of Machevillian Characteristics on Auditor's Ethical Decision Making

Based on the results of research data processing, Macheavillian Characteristics are found to have significant negative effect on auditor ethical decisions. This indicates that government auditors who are the sample of the study are having a low Machevilian characteristics. Where based on these results, government auditors respond negatively to the possibility of fraud that they can do during the audit. Thus, they are capable of making ethical decisions that do not oppose to the applicable regulations.

The low machevillian charateristics of government auditors is inseparable from the code of ethics that is always maintained by government auditors. Strict sanctions contained in the code of ethics for government employees, particularly the auditors, are contributing to the integrities held by government auditors to avoid acts that are against the regulations (machevilian characteristics) even

though the decision may provide individual and financial benefits to the relevant auditor.

The machevillian character of every government auditor could be repressed through continuous training for the auditors. The training should not only related to the auditor's technical abilities but also to instill an attitude that maintain the ethical code of government auditors.

To prevent the growing of machevillian characters in government auditors, Peer Review by superiors or by a team formed by the government is conducted as well, that is based on the results of audits performed by government auditors. Review on the audit results becomes a detection control carried out by the government to ensure that the implementation of the audits that have been carried out are free from the possibility of code of ethics violations that might be conducted by the auditor during the auditing process.

The prevention should not only organized by the internal government, but also by the community. The audit results that are accessible by the public are factors that are accounted for by government auditors. The audit results, that are not in line with the facts, will lead to negative opinion in the community so that public may submit complaints to request a review on the results of the audit been conducted

6.2.2 The Effect of Auditee Pressure on Auditor Ethical Decisions

Based on the results of this study, it can be confirmed that the pressure imposed by the auditee during and after the audit did not significantly influence the Ethical Decision of the Auditor. The pressure made by the auditee was responded negatively by government auditors. This indicates that government auditors are free from auditee pressure in making their decisions, or in other words, the auditors are independent in their decision making.

The self-determination in decision making is made possible by the incentives obtained by government auditors has fulfilled the auditors needs. The amount of incentives gained by the auditors has made them invulnerable to be affected by the facilities offered by the auditee during the audit.

A strict code of ethics also influences government auditors to be free from the pressure imposed by the auditee. The civil servants' code of ethics regulates the relationship between the auditor and the auditee during the audit, where the auditor is prohibited from having any relationship that may

disrupt the auditor's objectivity and is prohibited from receiving any facility provided by the auditee.

The pressure made by the auditee to manipulate the audit is also becoming an indicator for the auditor that the auditee being evaluated has the possibility of committing serious violations. By this assumption, the auditor will respond negatively to the pressure, because if the auditors adhere to the auditee's request, the audit results will not be independent and the opinion produced is not objective, in addition, there might be a possibility of ethical violations by the auditor that will lead to sanctions for the auditor's actions.

7 CONCLUSION

Based on the data that has been collected and the testing that has been conducted by model testing using PLS analysis, the conclusions taken are as follows:

1. Machevillian Characeristics has a significant negative effect on Ethical Decision Making of government auditors in Palembang.
2. Auditee pressure does not significantly influence Ethical Decision Making of government auditors in Palembang municipality.

8 LIMITATION AND FUTURE RESEARCH

1. The sample of this study is covering only government auditors in the BPK and BPKP in Palembang so that the results of the study cannot be generalized.
2. The number of variables used in this study is very limited so that it greatly affects the suitability of the model being used.
3. It is recommended to expand the research population and sample to cover external auditors from the Public Accounting Office (KAP) who have examined government financial reports.

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APPENDIX

AP-1 Outer Loading

	PKE	SM	TA
PKE1	0,934650		
PKE3	0,702175		
SM10		0,595644	
SM14		0,562902	
SM15		0,585038	
SM17		0,693328	
SM5		0,562477	
SM6		0,640265	
SM8		0,561457	
SM9		0,625661	
TA1			0,747037
TA2			0,697947
TA4			0,727148
TA8			-0,615385

AP-2 AVE

	AVE
PKE	0,683310
SM	0,552578
TA	0,588160

AP-3 Composite Reability, R-Square, Cronbach Alpha, Communnality

	CR	R Square	CA	C
PKE	0,808795	0,608023	0,574605	0,683309
SM	0,811808		0,756002	0,552578
TA	0,542062		0,596453	0,588159

AP-4 Inner Model

	PKE
SM	4,873429
TA	1,105498

AP-5 Path C

	Original Sample (O)	Standard Error (STERR)	T-Statistic (O/STERR)
SM -> PKE	-0,392024	0,080441	4,873429
TA -> PKE	-0,203261	0,183863	1,105498

Coefficient

AP-6 Path Diagram

