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TEKNOLOGI
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Cawangan Terengganu
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FACULTY OF ACCOUNTANCY

(AC220)

PAC 671

INDUSTRIAL TRAINING FIELD REPORT:

The Study to Explores the Role of Cognitive Biases in Decision-Making as A Contributing
Factor to Non-Compliance Auditing

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SUBMISSION DATE:

10th JULY 2024

TABLE OF CONTENT

No	Particular	Page
	Table of content	2
1.0	Section A	
	1.1 Introduction	3
	1.2 Summary of work done	4-5
	1.3 Strengths and weaknesses of training	5
	1.4 Self- reflection	6
2.0	Section B	
	2.1 Issue on accounting field	7
	2.2 Discussion on the issue	7-9
	2.3 Recommendation	10-11
	2.4 Conclusion	11
3.0	Appendices	12
4.0	References	13

1.0 Section A

1.1 Introduction



Registered under the number LLP0024228-LGN, ZES Consultancy and Services PLT (ZESCS) came into existence on June 26, 2020, in accordance with the Limited Liability Partnership Act of 2012. Prior to this, ZESCS, also known as Zahra Energy Sdn Bhd, was founded on December 29th, 2017 and is located at Lot PT8201, Jalan Terengganu Lama Bukit Kuang. Its business types include automotive workshops, mechanical and electrical contractors, and financial consultation.

Prior to this, ZESCS was initially established on December 29, 2017, under the name Zahra Energy Services Sdn Bhd. Its current address is Lot PT8201, Jalan Terengganu Lama Bukit Kuang, and its commercial activities include financial consulting, mechanical and electrical contracting, and automotive workshops. Up to now, ZESCS has been operating out of its new location in Lot 17 and 18, Wisma Serangkai Jalan Sulaimani 24000 Kemaman, Terengganu, since May 2021. ZESCS is now focused on providing full-service financial management, which encompasses tax preparation, financial advising, accounting, and the “Office Central” system. Our services included ‘outsourcing’ monthly and annual accounting to customers, as well as assisting with the production of audit reports and tax calculations for the firm's or individual's operation.

Customers were able to "outsource" their monthly and yearly accounting needs to us, and we also helped them prepare audit reports and tax calculations. Also, ZESCS is an authorized distributor and trainer for the “Office Central” system, which offers cloud-based, integrated solutions for human resources, payroll, customer relationship management, accounting, point-of-sale, and procurement to businesses and entrepreneurs. Customers can manage their businesses from anywhere using “Office Central” technology. With the “Office Central” solution, clients may run their companies from any location with ease. Because of its formidable resources, extensive expertise, and dedicated staff, ZESCS will keep satisfying its valued clients with first-rate service. Maintaining an air of professionalism is important to us, and we will always strive to do our best. Maintaining an air of professionalism in all of our dealings with customers is crucial to our success, and we firmly believe that this will ensure their complete satisfaction.

1.2 Summary Of Work Done

I had the honour of receiving industrial training at ZES Consultancy and Services PLT (ZESCS) for the last six months. ZESCS is a well-known consulting and services company that was founded in Kemaman and is well-known for its dedication to excellence in accounting, financial advising, tax preparation, and the "Office Central" system. I have been assigned to the accounting department, where my job as an accountant is to complete a full set of accounts for an enterprise company over a 12-month period. A brief summary of the tasks that I completed for my industrial training is provided below.

Accounting

In ZESCS, all trainees are required to hold one client account and review all document provided by the client for a one-year period. As an intern, I handled accounting for an enterprise company and for the private limited company's (Sdn Bhd), due to its complex account and stringent document specifications I have only been given a certain part to learn which is key in data in OC system. Before keying in all transactions, I will collect documents needed at the client's office. Then, I will rearrange documents by separating them into four categories: payment vouchers, cash sales, invoices, and petty cash. I will use the office central system to key in transactions by referring to the statement bank as well as details in the document provided. It also required me to classify the debit and credit for each transaction. Next, I must cross-check all account codes, such as petty cash, hire purchase, debtor, and overhead, to ensure its tally debit, credit in balance sheet and profit and loss. Lastly, complete documents must be done before submission to the tax department.

Financial Advising

ZESCS will give consultancy services to their client who wish to have control over their own OC system. So, the client will be guided on how to use this system. Such as how to write descriptions for their petty cash, invoices, payment vouchers and cash sales before submitting to us to do an account, but, usually, permanent staff will carry this responsibility to consult with clients for the OC system. As an intern, I learn the process for future use. As my job, I need to remind first-time clients who hire us to do their accounts on how to sort their files separately, like invoices and petty cash in each file. It ensures that all processes become smooth if the clients can complete the proper documentation. Another responsibility that I carried in this internship journey was to explain to the client if they do not understand some part of accounting that I handle, or they want to know why their profit and loss become loss or maybe why the "savings" description in bank statement cannot be put under another code but only code of drawings for the director.

In conclusion, my internship with ZESCS, a company that specializes in accounting and consulting, has been both challenging and interesting. My understanding of the accounting profession has improved due to my involvement in various kinds of accounting tasks and my participation in a work environment that encourages teamwork. Apart from expressing gratitude for the guidance I've received; I am very committed to enhancing my skills and understanding to pursue this career in accounting.

1.3 Strengths and Weaknesses of Training

Industry training allows me to develop practical skills that are essential in my chosen field. These skills may include problem-solving abilities, communication skills, and teamwork. During my internship, I realized that a lack of communication skills can make the client less confident in our abilities, and there were high possibilities for miscommunication on the matter discussed. Hence, industrial training can act as a platform for me to improve and learn how to communicate professionally.

Besides, industrial training offers students a practical and hands-on learning experience in a real-world work environment. This is undeniable because I experienced the same things during my internship, where all the interns were exposed to the actual workings of the industry, including its processes, practices, and culture, since we were assigned tasks similar to those assigned to staff members. Therefore, this exposure is greatly assisting us in comprehending the dynamics and requirements of the industry.

While industrial training offers numerous benefits, there are also some potential weaknesses or challenges that students may encounter during this experience. One of them is a lack of staff to handle clients. In this firm, there will be clients that urgently need their account to be closed for 12 months. This has made the staff and intern that available overwhelmed with their existing clients and upcoming clients. So, they need to work overtime than the actual office hours and most of time stay back at the office until night. Directly, it will show that the staffs and intern may burn out if it repeatedly happens. This also become a challenge for staff and intern to manage their time wisely to fit all the clients' deadlines into their timetable.

Another weakness of industrial training is a lack of exposure to various roles. At my internship place, it is the accounting, taxation, and consulting firm, but the interns have only been assigned to the accounting department. As a result, the students may have a major knowledge of accounting but not of taxation or fully doing financial advice and consultancy. This limited exposure can result in a narrow understanding of potential career paths and responsibilities.

1.4 Self-Reflection

During the past six months, I had the opportunity to undergo industrial training at ZESCS as part of my academic curriculum. As I look back on this experience, I find myself reflecting on the challenges, accomplishments, and personal growth that occurred during this period. One of the major challenges I faced was adapting to the fast-paced work environment. Initially, I felt overwhelmed by the volume of tasks given by the supervisor. At my intern place, even our client is pending and urgently needed too but we still have to do another work like helping staff that handle Sendirian Berhad's account which usually need urgent submission to the auditor.

Other than that, we still be given another client even our first client still on progress. Yes, there is no doubting that we have seen circumstances similar to this during our studies, however it puts some stress and burn out on me because I worry that I will be making errors when dealing with classification of debit and credit, or the balance sheet will imbalance, or that I cannot meet the deadline. By then, I realized that time management was a skill I needed to learn quickly in order to perform well in this kind of environment.

2.0 Section B

2.1 Issue in Accounting/Auditing Field

Auditor independence is considered the most important characteristic of the audit profession due to its impact on audit quality and assurance level in financial reporting. While auditors work hard to maintain objectivity, independence, and an accurate assessment of financial statements, they might face a variety of challenges that could affect the credibility of their judgments and lead to different issues. The main issue highlighted is auditors' noncompliance due to cognitive biases, which can jeopardize the accuracy of financial reporting and the efficiency of audit procedures. Auditors are prone to a variety of cognitive biases that can impair their judgment and decision-making processes, just like any other professional.

As a result, the auditors will be unable to adhere to the rules and regulations. Audit inspections continue to show that the problem persists despite auditors' best efforts to increase professional scepticism. Thus, the purpose of this study is to explore the concern with "Cognitive Biases in Decision-Making as a Factor Affecting Auditor Non-Compliance." To be specific, this study seeks to answer the following delicate issues: What are the specific factors that can lead to the development of cognitive biases in auditors? How do these biases lead to instances of non-compliance with auditing standards? What methods or strategies can be used to address and mitigate the impact of cognitive biases on auditory decision-making?".

2.2 Discussion on Issue

In this recent era, cognitive bias plays a significant role in the field of auditing and has been an ongoing source of concern as it challenges auditor's compliance with regulations and standards in making decision. Cognitive bias is a systematic pattern of deviation from norm or rationality in judgment, often stemming from the way the brain processes the information. This can affect various aspects of decision making, problem solving and interpersonal relationships. Therefore, this discussion will go further details on the particular elements that may give rise to cognitive biases in auditors, as well as how these biases will result in situations of non-compliance with auditing standards.

Firstly, pressure from clients is a major factor leading auditors to make biased decisions and judgments when performing audits. The pressure from clients might cause auditors to make decisions that deviate from auditing standards. Audit firms will be pressured to keep their clients, especially in competitive markets. According to Licen, (2020), auditors who had a personal relationship with their clients were more likely to meet their demands because they trusted them to work with them again. To maintain a positive relationship

with a client, auditors may be less stringent in their examinations to maintain a positive relationship. Fear of losing a client can lead auditors to be more inclined to accept client-provided information without proper scrutiny, which results in a lack of professional scepticism (Fisher, 2022). Another thing is that clients may have expectations for the audit outcomes and reporting requirements. Hence, auditors may feel pressure to align their opinions with the client's desires, which can lead to biased interpretations of audit evidence. Both situations above have driven the auditors to practice confirmation bias and ignore certain standards and regulations while performing their audit work. Confirmation bias means auditors might focus on evidence that supports the client's assertions, ignoring or downplaying contradictory information.

In addition, auditors may fail to notice indications of financial reporting manipulation due to client pressure to reach financial objectives or expectations. This could lead to bias in the anchoring process. Even in the face of contradictory evidence, auditors who are firmly rooted in the client's initial information may be hesitant to adjust their judgments, which might result in biased findings (Gambier, 2017). Because of this, the auditors' independence and impartiality may be jeopardized, leaving them vulnerable to intimidation. Indirectly, to make sure the client is happy with the service provided and to keep the connection pleasant, auditing activities will be carried out against the standard and legal requirements.

Next factors are due to the inadequate independence policies and proper training that can lead to cognitive biases in auditors' decision-making. A lack of clear policies is when auditors rely on management representations can lead to overreliance and unintentional violations. Auditors may unconsciously rely too heavily on management-provided information, leading to biases like trust bias, which assumes accuracy without sufficient verification. Furthermore, inadequate training on auditing standards can leave auditors unfamiliar with prescribed procedures and guidelines. This unfamiliarity can lead to deviations from standard practices and increase the likelihood of cognitive biases impacting decision-making. Auditors who lack proper training may be prone to familiarity bias, can lead to the overlooking critical risks and issues. Also, poor independence guidelines may drive auditors to become biased. Without specific guidelines on evaluating and managing relationships with third parties, auditors may not be adequately equipped to address potential conflicts. The auditors might be biased toward third parties with whom they have close relationships, potentially resulting in biased assessments or overlooking associated risks with those parties. Due to that, the auditors often fail to comply with standards and regulations because of inadequate training and a lack of exposure to the

necessary knowledge, skills, and awareness to navigate complex audit engagements effectively.

Last factors are tight deadlines and time constraint. Time constraints and pressure can contribute to cognitive biases among auditors in various ways. When auditors are pressed for time, their cognitive processes may be compromised and will resulting in shortcuts, oversights, and biases. Which can impair the quality and objectivity of their assessments (McClam, 2023). This will have a significant impact on auditors' ability to comply with applicable laws and standards. Furthermore, under time constraints, auditors are more likely to be exposed to availability bias, which occurs when they make decisions based on information that is readily available or easily accessible (Almeida, 2023). This bias can result in skewed judgments and decision-making processes because auditors tend to prioritize on events or experiences that immediately come to mind or are readily available rather than seeking out all relevant information. Additionally, after making a quick decision due to time constraints, auditors may, in hindsight, view the decision as more predictable and obvious than it actually was.

This circumstance shows that auditors apply hindsight bias, which might cause them to overestimate the decision's accuracy since they thought they knew the result. It will, therefore, affect the general quality and dependability of audit opinions, potentially leading to decisions that are not entirely consistent with the audit evidence. Due professional care is a standard that auditors must adhere to during the auditing process in order to avoid inadvertently deviating due to availability and hindsight biases. For example, auditors may fail to recognize the inherent uncertainties and complexities that existed during the audit, potentially resulting in non-compliance with the requirement to exercise professional scepticism and make informed, objective judgments. Therefore, non-compliance with these standards may result in an incomplete and biased evaluation of financial statements, potentially compromising the overall quality and reliability of the audit.

2.3 Recommendation

Cognitive biases have been taken into consideration by those responsible for setting standards and policymaking, and the necessity of addressing these biases has now been incorporated into the revised standards. In Malaysia, the Audit Oversight Board would take severe action in cases where there have been multiple failures to perform audit procedures. These failures would include the auditors' conduct, the previous regulatory record, and the impact on the capital market. The Auditing and Assurance Board (AOB) has taken six enforcement actions against five audit partners and one audit firm for failing to comply with the standards and regulations until 2022.

Regarding to the abovementioned factors, here are some recommendations for mitigating and reducing auditor noncompliance. In the first place, audit firms should encourage their auditors to open communication with their clients regarding audit procedures, expectations, and the importance of adhering to auditing standards. By clearly communicating about the realistic audit completion and reporting timelines and addressing any potential conflicts early in the engagement. Apart from that, audit firms should also implement a policy of rotating audit teams periodically. By practising this policy can help to mitigate long-term relationships and dependencies between auditors and clients, reducing the likelihood of client pressure influencing decision-making.

Another suggestion is inadequate independence policies and proper training; a review process implementation can be performed to reduce auditors' non-compliance caused by cognitive bias. The firm may establish rigorous review processes involving independent audit work reviews by experienced professionals. This helps to ensure that decisions are critically examined, corrective actions are taken, and potential biases are identified before finalizing audit opinions. Apart from that, the firm should also encourage continuous professional development by supporting auditors in their continuous professional development. Providing opportunities for ongoing education, training, and professional certifications keeps auditors updated on the latest developments in auditing standards, regulations and best practices. Undeniably, the more training provided to the audit members, the firm should bear the cost, but all that training will benefit the firm in the long term. Regulatory bodies can alternatively conduct seminars or campaigns for auditors in our country to give them wide exposure to the standards and regulations they should comply with. By doing this, auditors can clearly understand and take the initiative to prevent themselves from resisting standards.

Lastly, to overcome the impact of time pressure or time constraints, the firm can practice balancing efficiency and quality. This is where the auditors must balance between efficiency and audit quality. This involves making informed decisions about where to allocate time and resources to ensure that critical audit procedures are not compromised. According to Diolas (2022), choosing the right resources is vital for achieving high quality audits and firms have an opportunity to foster the necessary change by implementing ISQM1 and ISA 220. Another mitigation steps the audit firm can apply is to conduct a strict audit programme. A well-structured and strict audit programme will provide clear planning and scoping of the audit engagement. By defining the audit objectives, key focus areas and scope, auditors can prioritize tasks and allocate resources efficiently, reducing the risk of time-related challenges.

2.4 Conclusion

In conclusion, cognitive bias poses a significant challenge to the auditing profession, leading to non-compliance with established standards and jeopardizing the integrity of the audit process. This study shed light on the significant impact of cognitive biases on auditors' decision making, the consequences of being biased among auditors, which will drive the auditors' not compliance towards the standard and law requirements and the recommendation on how to mitigate those issues. Addressing this sensitive issue requires a multifaceted approach involving not only individual auditors but also the collective efforts of audit firms, regulatory bodies and educational institutions. This is because audit quality will only improve further when all stakeholders in the financial reporting process understand how cognitive biases impact the use of information in decision making and problem-solving in both personal and professional contexts.

Therefore, it is highly important for each party needs to know their roles to effectively combat this sensitive issue so that our audit quality in the future is on the top level. As all knows, it would be time-consuming, costly and invasive to completely eliminate non-compliance and bias in auditing, but every problem will have its own solutions. So, there must be an open and clear discussion about how much residual cognitive bias is acceptable to society. By doing so, it will be possible for these sensitive issues to be slowly eliminated among the auditors in Malaysia.

3.0 Appendices

TABLE 2.1: IESBA examples of potential bias that should be recognised when exercising professional judgement

POTENTIAL BIAS THAT SHOULD BE RECOGNISED WHEN EXERCISING PROFESSIONAL JUDGEMENT	
<ul style="list-style-type: none"> Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed. 	<ul style="list-style-type: none"> Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
<ul style="list-style-type: none"> Automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose. 	<ul style="list-style-type: none"> Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
<ul style="list-style-type: none"> Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not. 	<ul style="list-style-type: none"> Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
<ul style="list-style-type: none"> Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief. 	<ul style="list-style-type: none"> Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person' (IESBA 2021: 30).

Figure 1: Professional Scepticism and Cognitive Biases: Lessons Learned from Inspections
Finding – ACCA Global

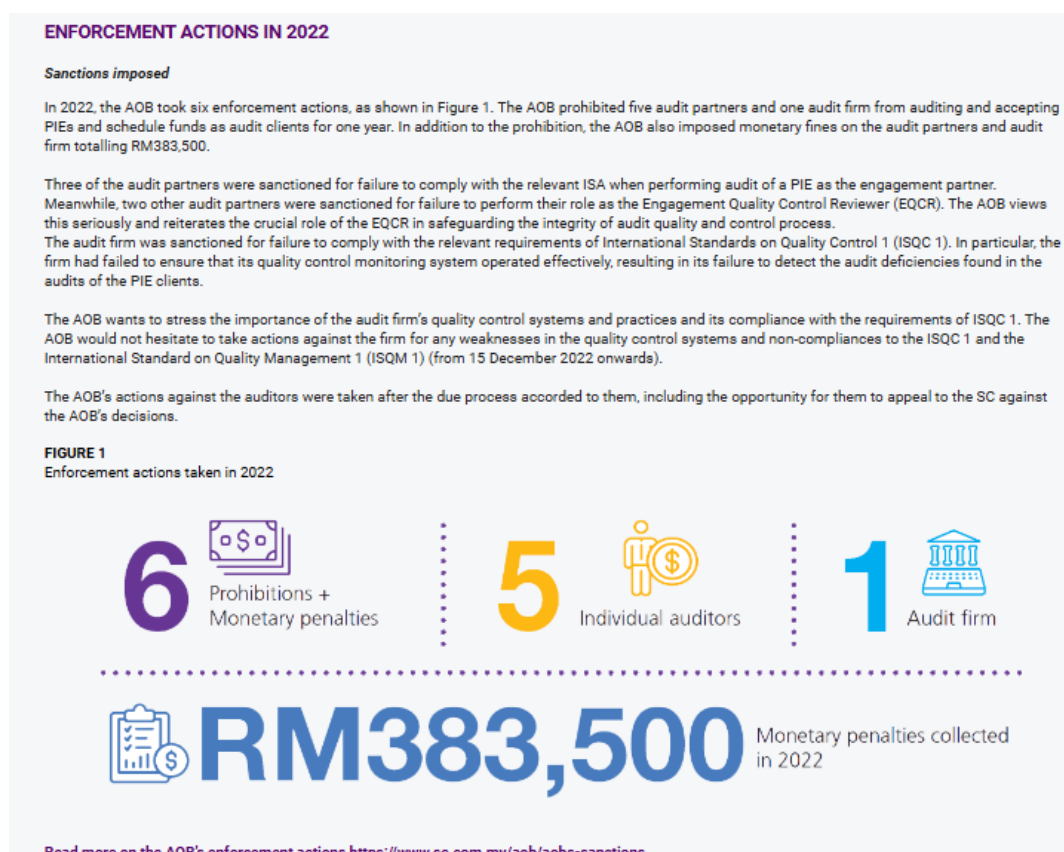


Figure 2: Enforcement Actions taken by AOB in 2022 – Securities Commission Malaysia (SCM)

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