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# Time budget pressure in New Zealand audits

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issue confronting auditors”, and citing one example he says: “We put in a bid for \$400,000 but we were beaten up by [another Big Five firm] who offered \$240,000”.<sup>4</sup>

Despite these concerns on the perceived value of audits, and audit firms’ attempt to lower fees to win audits, the accounting profession seeks to control the quality of audits through its standards and guidelines (e.g., New Zealand Codified Audit Standards<sup>5</sup>). Procedures laid

and dysfunctional measures for dealing with this pressure. The remainder of the paper is arranged as follows. The meaning of time budget pressure and related literature are discussed briefly in the next section. This is followed by a description of the data collection process. Results of the study are presented and discussed next. Conclusions and suggestions for future research are presented in the final section.

## Executive Brief

This study shows that many New Zealand auditors perceive that they conduct audits under serious time constraints and they resort to both functional and dysfunctional measures for dealing with these constraints. This raises important questions about the likely adverse impacts of time budget pressure on audit quality, attempts to normalise questionable practices and their ethical implications on the one hand, and the welfare of the audit personnel on the other. Audit firms therefore have reasons to consider the effects of time budget pressure seriously. Some solutions may include placing a realistic value on the audit function and creating an environment in which auditors are encouraged to discuss time budget attainability problems with their superiors.

down in the standards are based on the expectation that various personnel involved in an audit are free to conduct their work in accordance with the standards. Yet audits are conducted within time constraints and audit firms impose these through audit time budgets. Therefore, whilst time budgets are likely to be based on the type and extent of necessary audit procedures, lower audit fees may introduce a tension between cost and quality of audits.

**Audits are conducted within time constraints and audit firms impose these through audit time budgets.**

If these tensions translate into stricter time budgets bringing audit personnel under severe pressure to meet budgets, then this may compromise the level of freedom auditors need to conduct the standard audit procedures. Accordingly, time budget related pressures present a *hidden danger* to the quality of audits for several reasons. Firstly, stricter time budgets have the potential to impair audit staff’s freedom to carry out the necessary audit procedures. Secondly, the impact of time budget pressure on audit quality might be difficult to predict, and finally, the adverse impacts may remain uncovered so evading corrective measures.

The results of this study show that many audit personnel in New Zealand perceive that they conduct audits under severe time constraints and they resort to both functional

## TIME BUDGET PRESSURE

Time budget pressure “refers to those time constraints that arise or may arise, in engagements from limitations of resources (time) allocable to perform tasks”.<sup>6</sup> Normally audit firms communicate these time limitations to audit personnel through time budgets. Research shows that time budgets have the potential to create pressure because these act not only as control mechanisms but also as performance measurement tools within the firm, thus making it difficult to discuss these for fear of being seen as incompetent.<sup>7</sup>

The results of a number of US studies show that auditors believe that time budgets are difficult to attain and this can affect audit quality.<sup>8</sup> Similar results are reported in New Zealand,<sup>9</sup> in the UK<sup>10</sup> and Australia.<sup>11</sup> Also, some studies show that auditors believe this pressure is escalating.<sup>12</sup> In contrast, a recent study has shown that time budgets are becoming more realistic.<sup>13</sup> This conflict in research findings and the absence of recent time pressure related studies in New Zealand warrant new investigations into the issue. This study attempts to gain insight into the presence of time budget pressure and factors that contribute towards stricter time budgets in New Zealand audit firms.

A recent study has shown that time budgets are becoming more realistic.

## DATA COLLECTION

Participants for the study are auditors in public practice. A random sample of 594 auditors was obtained upon request from the New Zealand Institute of Chartered Accountants (NZICA formerly ICANZ). Participants were assured of the anonymity of their responses to the survey. One hundred fifty one usable responses were collected from auditors currently in public practice (response rate = 26%). A modified version of the questionnaire used by Otley and Pierce<sup>14</sup> was used to collect data.

## RESULTS AND DISCUSSION

Figure 1 shows that more than half the respondents believe that last year’s time budgets were either very difficult to attain or simply unattainable. The comparison shows that Big-Four (PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young and KPMG) auditors experience greater time pressure than their

FIGURE 1: Last year's time budgets

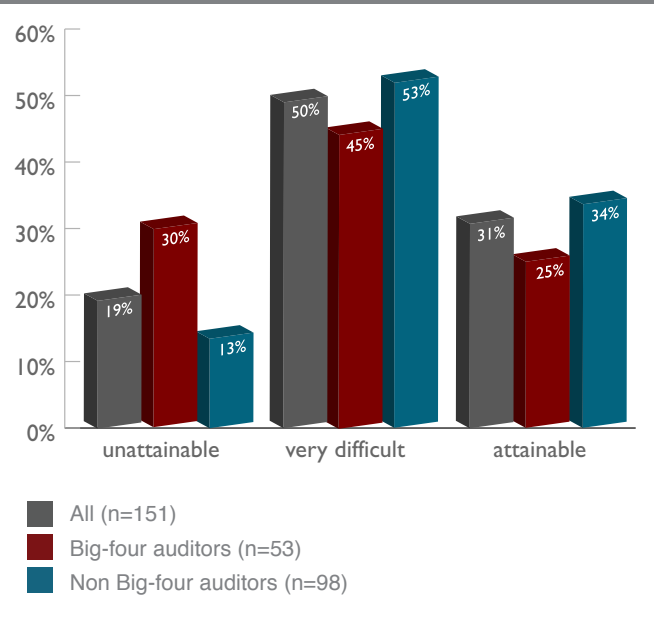
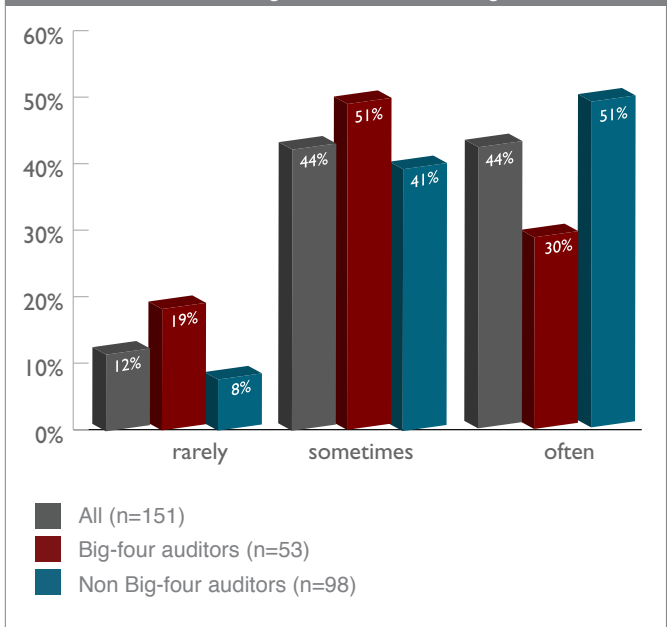


FIGURE 2: Time budgets are achieved in general



Non Big-Four counterparts. For example, 30% of Big-Four auditors indicate that last year's time budgets are unattainable whereas only 13% in Non Big-Four auditors indicate so.

Figure 2 shows that participants are unable to achieve time budgets most of the time. For example, while 44% of all participants say they meet time budgets sometimes, another 12% say that they do so rarely. Whilst 51% of the respondents in Non Big-Four say that they meet time budgets often, only 30% do so in Big-Four firms. The differences in responses between the two groups are statistically significant. Therefore,

though many auditors participated in this survey believe that they experience time budget pressure, the problem seems to be more severe in Big-Four firms than in Non Big-Four firms.

Previous research into the differences between the work environment of Big-Four and Non Big-Four may offer some explanations for these results. For example, research has identified that the work environment of Big-Four firms is "highly competitive" with "extreme work pressure" and sometimes "hostile internal/external control and supervision".<sup>15</sup> In contrast, small firms have been identified as less stressful, with greater work diversity, greater job

FIGURE 3: Under-report time by working on personal time

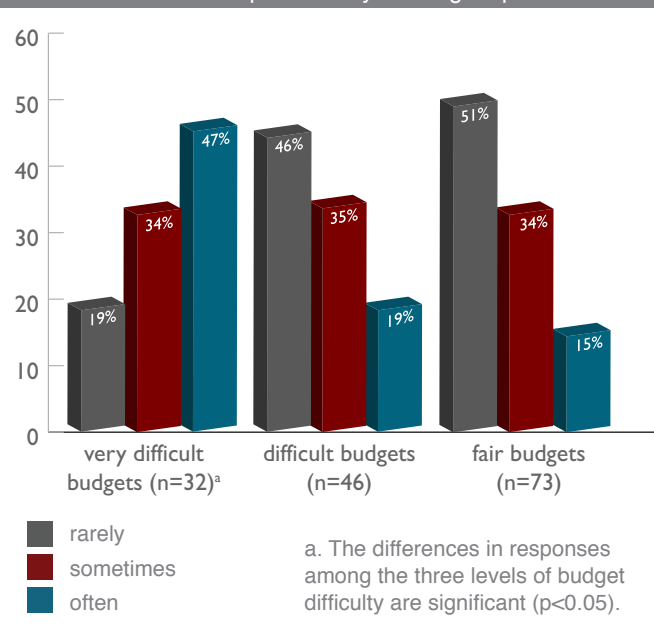
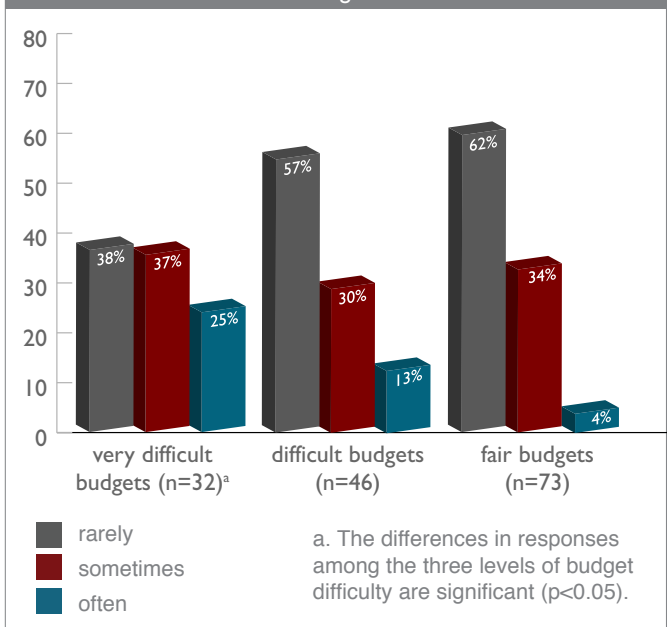


FIGURE 4: Shift to non-chargeable



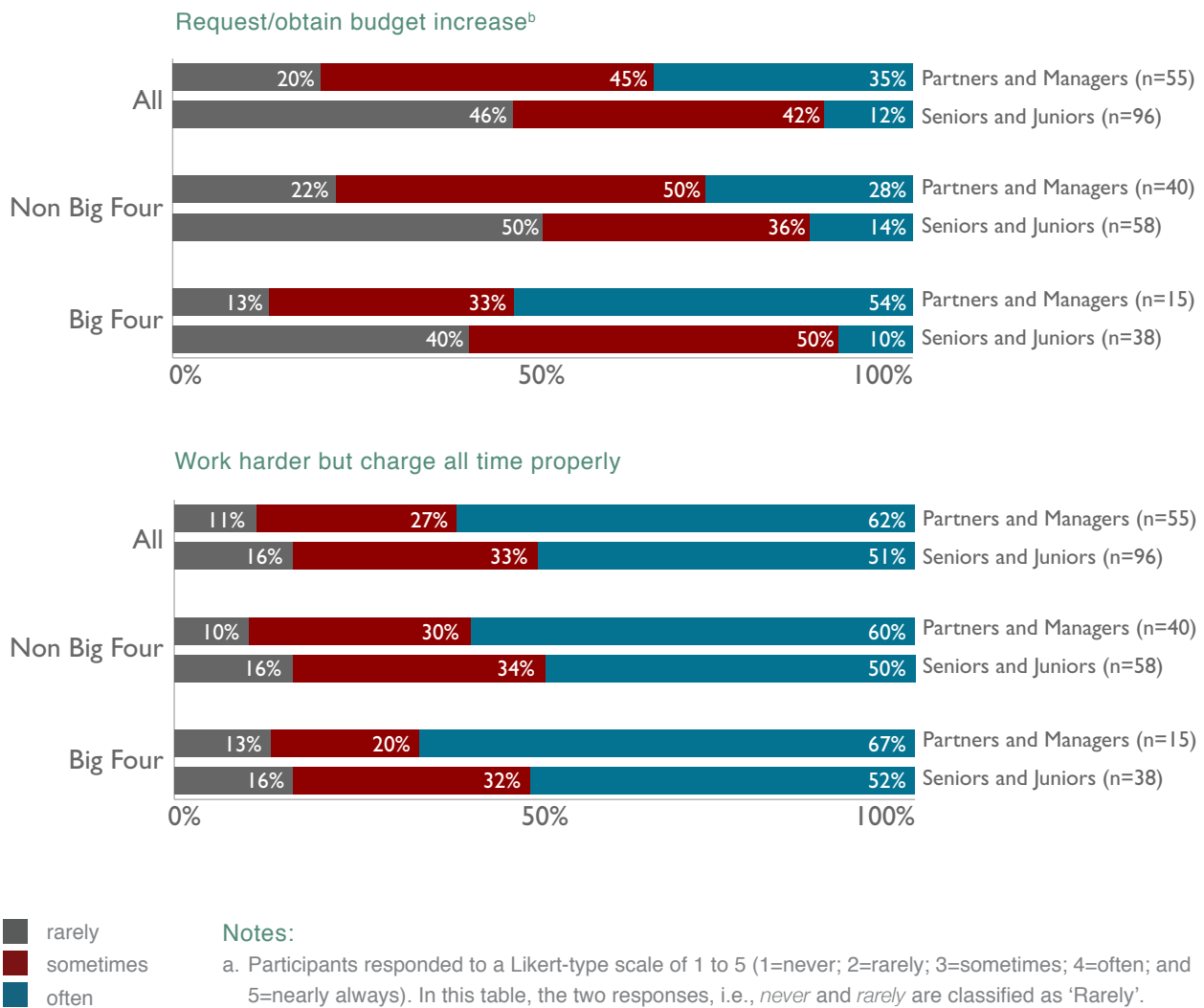
security, and a more personal work environment that permits closer contact with senior staff.<sup>16</sup> These differences may suggest that the work environment of Big-Four is closely controlled through time budgets (and other management control measures) than that of their non Big-Four counterparts.

Figure 3 shows that when faced with *very difficult* time budgets, many auditors often under report time by working on personal time. When budgets change from being *difficult* to *very difficult*, the situation changes substantially. The under reporting of time differences among the three levels of budget difficulty are statistically significant.

Another response to difficult time budgets is to shift this time to non-chargeable time. When dealing with *very difficult budgets*, 25% of respondents engage in this practice, whilst 13% indicate that they do this when faced with *difficult budgets* (see Figure 4). Similar to the under reporting of time by working on personal time, many auditors tend to engage in this practice when budgets move from being *difficult* to *very difficult*. There is a statistically significant difference between the auditors' responses to *very difficult* budgets and *fair* budgets. Therefore,

The under reporting of time differences among the three levels of budget difficulty are statistically significant.

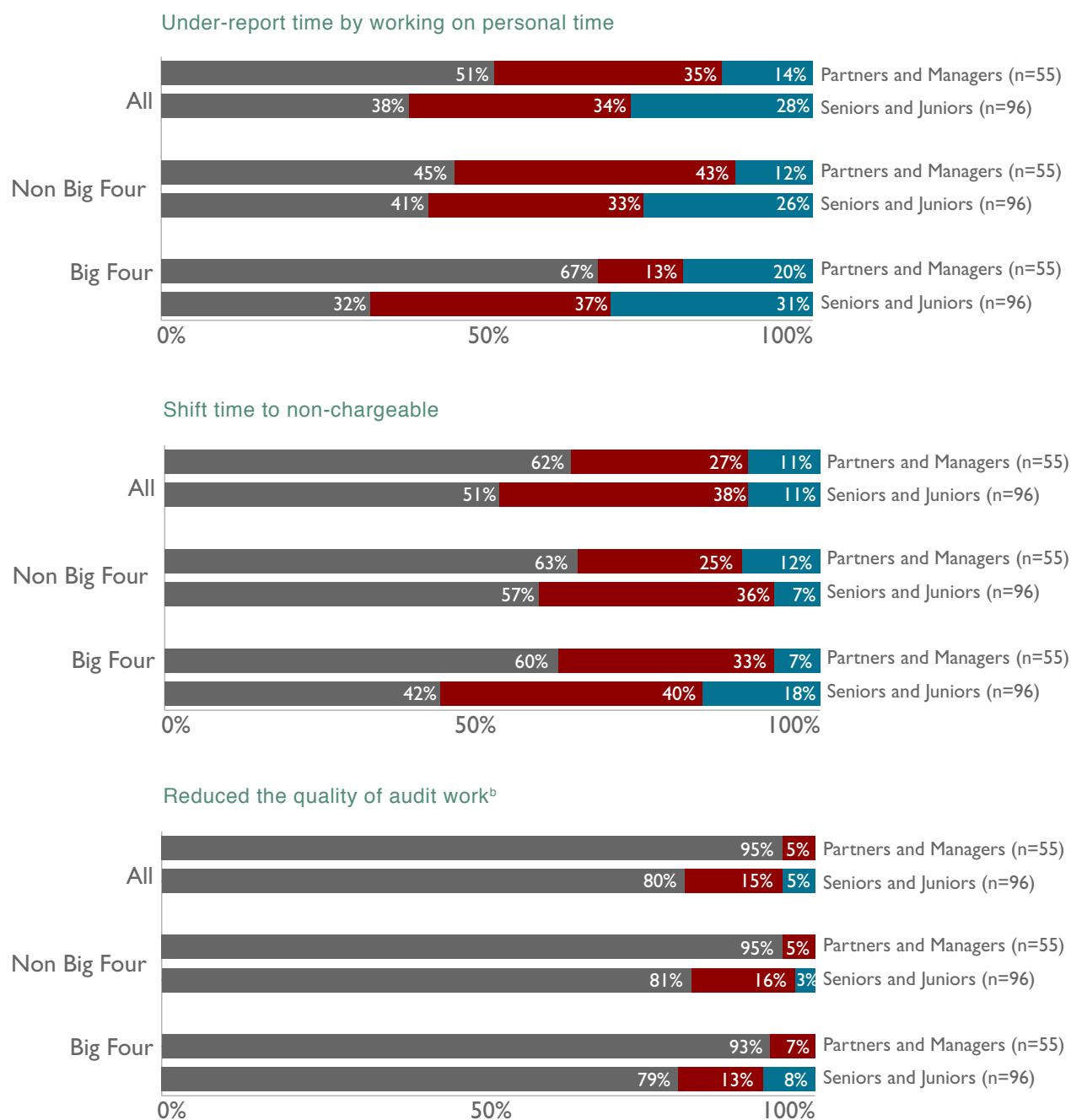
FIGURE 5: Responses to budget pressure by type of firm and type of position<sup>a</sup> - Functional responses



Notes:

- a. Participants responded to a Likert-type scale of 1 to 5 (1=never; 2=rarely; 3=sometimes; 4=often; and 5=nearly always). In this table, the two responses, i.e., *never* and *rarely* are classified as 'Rarely'. Similarly, the category 'Often' includes two responses *often* and *nearly always*.
- b. The responses of the two groups (partner/manager and senior/junior) are significant at the 0.01 level, where auditors in partner/manager group admitting to making requests for budget increases more often than their senior/junior counterpart.

FIGURE 6: Responses to budget pressure by type of firm and type of position<sup>a</sup> – Dysfunctional responses



rarely  
 sometimes  
 often

**Notes:**

- a. Participants responded to a Likert-type scale of 1 to 5 (1=never; 2=rarely; 3=sometimes; 4=often; and 5=nearly always). In this table, the two responses, i.e., never and rarely are classified as 'Rarely'. Similarly, the category 'Often' includes two responses often and nearly always.
- b. The responses of the two groups (partner/manager and senior/junior) are significant at the 0.05 level, where auditors in senior/junior group admitting to undertaking quality reducing acts more than their partner/manager counterpart.

allowing time budgets to remain at *very difficult* level raises questions about the reasonableness of time budgets. More importantly, this may unfairly influence the future time budgets prepared for similar audit tasks as well. That is, if auditors do not report budget attainability difficulties, then future budgets may not allow extra time for similar audit procedures.

### How do different audit personnel respond to time budget pressure?

Figure 5 shows an analysis of participants' responses by positions and the type of firm. Partners and managers (auditors holding higher-ranks) as well as auditors holding lower-ranks (e.g., seniors and juniors) appear to resort to both functional and dysfunctional means for coping with pressure. Whilst about a third of the partners and managers request and obtain budget increases often, only 12% of the auditors holding lower-ranks tend to do so. This may indicate that those holding lower-rank positions are reluctant to come forward with budget increase requests. The difference in response to this question between the two groups is statistically significant. Respondents also indicate that often they work harder and charge all times properly when faced with stricter time budgets.

**Auditors also tend to reduce the quality of audit work when faced with tight time budgets.**

However, both groups also resort to some dysfunctional means to cope with time budget pressure. For example, 35% and 27% of partners/managers (34% and 38% of seniors/juniors), at least sometimes, tend to under-report time either by working on personal time or by shifting time to non-chargeable respectively. These larger percentages may be construed as a signal that under reporting of time is a common practice among auditors at all levels. More importantly, however, auditors also tend to reduce the quality of audit work when faced with tight time budgets. For example, many auditors indicate, at least sometimes, responding to stricter budgets by reducing the quality of audit work (Figure 6: 5% partners/managers and 15% seniors). The difference of response to this question is statistically significant. Accordingly, audit personnel holding relatively lower ranks (i.e., seniors and juniors) are sometimes responding to time budget pressure with extreme measures.

### How do different factors influence time budget attainability?

Four factors that are likely to influence the participants' perceptions on time budget attainability are also examined. These factors are client fees, audit programme, last year actual time spent on audits, and auditors' participation in setting time budgets. Client fees refer to the auditors' perception of the influence audit fees may have

Table 1

Factors associated with auditors' perception of time budget attainability

FACTOR	CORRELATION		
	Partners & Managers	Seniors & Juniors	All auditors
Client Fees	-0.278**	-0.247**	-0.267*
Audit Programme <sup>a</sup>	+0.249	+0.039	+0.143
Last Year Actual Time <sup>b</sup>	+0.421*	+0.126	+0.236*
Participation in Budget Setting	+0.487	+0.241	+0.317*

\* Correlation is significant at the 0.01 level.

\*\* Correlation is significant at the 0.05 level.

a&b The responses of the two groups of audit personnel are significantly different (KW, p<0.01).

on time budgets set for the audits of their clients. The audit programme contains a summary of the necessary work to be carried out in an audit. Therefore where time budgets are based on the audit programmes then these are likely to be more realistic. Prior research shows that time budgets tend to rely on last year's budget where this information is available (e.g., in repeat engagements).<sup>17</sup> As a result, one year's time budget difficulty, if it remain as uncovered, can be easily transferred to future years. As budget participation or auditors' involvement in setting time budgets provide auditors with opportunities to influence time budgets, it is likely to influence their perception of time budget difficulties.

Table 1 shows participants' perception of the influence of the above mentioned factors on time budget attainability.

As expected, client fees are significantly negatively associated with time budget attainability – i.e., the greater the perceived influence of audit fees on a time budget the smaller the perceived chances of attaining the budget. Therefore, auditors seem to think that firms base their time budgets on client fees and this make time budgets unrealistic and difficult to attain. Firms are therefore sending a wrong signal to the audit personnel about the value they place on audits. According to a former Big-Five partner in Australia, audit firms are competing for audits by reducing audit fees significantly.<sup>18</sup> Though the extent of such practices in New Zealand is unknown, there appears to be good reasons for audit personnel to believe that audit time budgets that are highly influenced by fees are difficult to attain.

**Auditors seem to think that firms base their time budgets on client fees**

As expected, the audit programme too is positively correlated with the attainability of time budgets, though this association is not statistically significant. It is also noteworthy that while audit partners and managers think the audit programme has a major influence on time budgets, audit juniors think otherwise ( $p < 0.01$ ). This implies that difficulties in meeting time budgets are likely to be looked at differently by those who make decisions about the performance of audit juniors and juniors themselves. This will therefore make it harder for juniors to request and obtain more time to complete all audit work if they feel budgets are very difficult to attain.

Table 1 shows that last year's actual time budget and auditors' participation in setting budgets are significantly positively associated with time budget attainability. The views of the senior and junior auditors are however significantly different from those of the partners and managers ( $p < 0.01$ ). The partners and managers, more than other audit personnel, see that greater participation in budget setting leads to easily attainable budgets. This difference in perception may be due to a misconception on the part of auditors holding lower-ranks, especially, if their level of participation in budget setting is lower.

### Audit seniors and juniors seem to believe they have little participation in setting time budgets.

The positive significant association between the previous year's actual time and the current year time budgets is problematic (see Table 1). This is because a stricter budget in one year can be used to justify a similar budget for a subsequent year. For example, many participants who identify their budgets as very difficult to attain, nearly half indicate that they under-report actual time (see Figure 3). This indicates that one year's problems relating to budget attainability can continue into the next. These results suggest that allowing auditors holding lower-ranks to have a say in what they believe is a realistic time budget may be fruitful in ensuring that time budgets will remain reasonable. There are several reasons for this. Firstly, according to the survey participants, audit seniors and juniors seem to believe they have little participation in setting time budgets. Secondly, these auditors are likely to be conducting detailed audit procedures that involve significant amounts of audit time. Finally, auditors holding lower-ranked positions may be less willing to come forward with budget attainability issues for fear of being judged as incompetent.

### CONCLUSION

Currently many auditors in New Zealand think that time budgets are difficult to attain. Results of this study show that time budget pressure is relatively more serious in Big-Four firms than in other firms. When faced with time budget pressure, auditors seem to resort to questionable practices such as under reporting of time and labelling the work as non-chargeable. Additionally, there

is a difference of perception of partners and managers and the staff holding lower-ranked positions with respect to the influence of audit programmes and participation on budgets. This may suggest that auditors in lower positions have developed misconceptions about the budget setting process.

The auditors' perception that there is a higher level of time budget pressure in auditing raises several important questions. These include questions relating to the welfare of the audit personnel, the likely adverse impacts of time budget pressure on audit quality, the pressure to normalise questionable practices and their ethical implications, and auditors' level of involvement in the budget setting process. Audit firms therefore need to find solutions for these questions.

Some potential solutions may include the following. Audit firms need to place a realistic value for the audit function to alleviate the possibility of audits becoming relatively undervalued compared to other assignments. Firms may want to provide opportunities for auditors in lower ranks to get involved in the budget setting processes. As partners and managers also indicate that budgets are often unattainable, lowering the importance placed on budget attainability when making performance evaluation decisions seems appropriate. Finally, it is important to create an environment in which auditors are encouraged to discuss time budget attainability problems with their superiors.

Firms may want to provide opportunities for auditors in lower ranks to get involved in the budget setting.

Further research is useful for understanding reasons for higher level of time budget pressure in Big-Four firms when compared to Non Big-Four firms. Research is also useful to learn more about the budget setting processes in audit firms, the involvement of staff at different levels in the hierarchy in setting budgets, and the way budgets are used in making important decisions such as staff performance evaluation decisions.

### Further reading

Readers interested in learning more about time budget pressure and related issues in auditing in other countries may find Coram, et al., (2003) (Australia), Willett & Page (1996) (UK), and Otley & Pierce (1996) (Ireland) useful. Also, Hanlon (1994) provides a good analysis of the tension between professional versus commercial aims of the accountancy profession and how it impacts on socialisation, training, and career progression of accounting professionals.



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