



The Influence of Audit Time Budget Pressure on Reduced Audit Quality Behavior

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Abstract

Objective – The purpose of this study is to examine the effect of audit time budget pressure on audit quality reduction behavior conducted by auditors in Indonesia.

Design/methodology – 240 respondents for current study where auditors in Indonesia served as the sample. Multivariate technique was deployed to data analysis using AMOS - structural equation modeling.

Results – The results of this study indicate that the audit quality reduction behavior occurs in the audit assignment practices and this is becoming a concern in audit profession. Research finding statistically highlighted that there is a positive and significant relationship between time budget pressure and audit quality reduction behavior.

Keywords Audit Quality, Time Budget Pressure, Reduce Audit Quality Behavior.

1. Introduction

Audit functions as a corporate governance system and therefore, the audit quality must be maintained (Coram et al. 2000). Audit quality is a fundamental element that explains the demand of audit services (Hyatt and Prawitt, 2001). Meanwhile, audit quality cannot be verified by users of other financial information so any consideration regarding the value of the audit is based on the auditor's perception (quoted from DeAngelo in Soobaroyen and Chengabroyan, 2006). The purpose of an audit of the financial statements is to express the unqualified opinion of the audited financial statements in which the opinion is based on the evaluation of audit evidences obtained through the implementation of audit procedures (Herrbach, 2005).

Standard field work requires the auditor must plan and control the work effectively and efficiently. Therefore, prior to conducting the audit, the public accountant must prepare, firstly, an audit program which is a collection of audit procedures to be performed during the audit process. Secondly, the public accountant must establish an audit time budget which is the estimated time allocated in carrying out the audit process (Arens and Loebecke, 2002). Both of these aim to obtain sufficient and competence evidences (Sweeney et al, 2010).

Standard Section also stated that adequate and competence audit evidence must be obtained through inspection, observation, inquiry and confirmation as a sufficient basis for expressing an opinion on audited financial statements. However, previous research results on the accounting profession indicated that the work performed by the auditor was not always in the right standards, which is a threat to the quality of audit (Coram et al., 2003; Soobaroyen and Chengabroyan, 2006; Ling et al., 2010). Any behaviors or actions of auditors that are not always in the right standards during the course of the audit program will threaten the quality of the audit, the validity of the opinion and the behavior is categorized as audit quality reduction behavior and is now often referred to as irregular audit practice (Pierce and Sweeney, 2004). Audit quality reduction behavior is also referred to as dysfunctional behavior of the auditor which is an individual reaction to the work or situational environment (Ling et al, 2010; Sweeney et al, 2010).

Audit quality reduction behavior is auditor's actions taken to reduce the effectiveness of gathering evidence during the involvement in the audit process (Coram et al., 2003; Shapeero et al., 2003; McNamara and Liyanarachchi, 2008). The main factors that resulted in auditor acceptance of audit quality reduction behavior were time budget pressure (Kelley and Margheim, 1990; Coram et al. 2003, 2004; Pierce and Sweeney, 2004; Margheim et al. 2005; Soobaroyen and Chengabroyan, 2006; Liyanarachchi and McNamara, 2007, McNamara and Liyanarachchi, 2008; Kelley et al., 2005; Troy and Taylor, 2013; Yuen et al., 2013). Auditors in Australia and Ireland recognized that time budget pressure is a major factor that stimulates auditor acceptance of audit quality reduction behaviors (Margheim et al, 2005); Coram et al., 2003; 2004 and Pierce and Sweeney, 2004).

The results of several studies conducted in the United States (eg Malone and Robert, 1996; Coram et al., 2003; 2004), New Zealand (eg Liyanarachchi and McNamara, 2007; Guandry and Liyanarachchi, 2007; McNamara and Liyanarchchi, 2008) Australia (such as Coram and Woodliff, 2003), Malaysia (eg Paino et al., 2012) It is illustrated that auditor performance is not always in the right standards, mainly due to time budget pressure. They stated that the audit time budget had a potential effect in creating pressure (Liyanarachchi and McNamara, 2008). This, due to the audit time budget is not only a control mechanism but also as a performance appraisal tool for public accountant (Pierce and Sweeney, 2004; Liyanarachchi and McNamara, 2008).

The facts found in various countries showed that 78.2% of auditors in New Zealand claimed to be involved in one or more audit quality reduction behavior caused by time budget pressure (Liyanarachchi, 2007). As many as 54 percent of auditor staffs in California committed to at least one of the audit quality reduce behavior during their engagement in auditing (Kelley and Margheim, 1990). Auditors in Australia claimed that time budget pressure had the greatest impact contributing to the tendency of auditors to commit to audit quality audit behaviors (Coram et al., 2003). The high perceived time budget pressure drives more than 50% of auditors in Australia to perform multiple audit quality reduction behavior. Auditors in Malaysia found that significant time budget pressure affected auditor acceptance of audit quality reduction behaviors (Paino et al., 2012).

Time budget pressure had the potential effect of increasing the stress of individual auditors (Margheim and Kelley, 2005). The stress experienced by individual auditors will have an impact on the physiological, psychological and behavior individuals (Mojahan, 2012; Larson, 2004; Robbins, 2003). Time budget has a very potential effect in creating pressure, because it is not only as a control mechanism but also as an auditor's performance appraisal tool and time budget pressure has a potential effect of increasing the stress of individual auditors that will impact on auditor acceptance of audit quality reduction behavior.

Previous studies have been documenting the relationship between time budget pressure with audit quality reduction behavior which showed that high time budget pressure has a positive and significant effect on audit quality reduction behavior such as premature sign off (Pierce and Sweeney, 2004; Coram et al., 2003; Pierce and Sweeney, 2004; Liyanarachchi and McNamara, 2007; Paino et al., 2011; Yuen et al., 2013). In contrast to previous studies, auditors in Australia found that the high time budget pressures perceived by auditors were negatively and significantly related to audit quality reduction behavior performed by auditors (Coram et al., 2004). Other studies have also shown that time budget pressure is not related to audit quality reduction behavior (Malone and Robert, 1996). Studies in New Zealand and Mauritius found inverted U-shaped relationships between time budget pressures for audit quality reduction behavior such as premature sign offs (Soobaroyen and Chengabroyan, 2006; McNamara and Liyanarachchi, 2008). In general, prior research is still concen-

trated on premature sign off measures as a form of audit quality reduction behavior directly.

The purpose of current study is to examine the relationship of budget time pressure audit on audit quality reduction behavior and the affect of locus of control served as moderating on the relationship. The model used Ivancevich and Matteson's Organizational Stress Model (1980) models. Current study does not discuss the causes of organizational outside stress.

2. Literature Review and Hypotheses

2.1 Audit Quality Reduction Behavior

Audit quality reduction behavior is defined as a deliberate act by the auditor during his involvement in the audit process which reduces the effectiveness of gathering audit evidence (Coram et al. 2004) so that the evidence collected is unreliable, false or inadequate both quantitatively and qualitatively (Herrbach 2001) even affected overall company performance and economic user decisions (Nor et al, 2009; Kasigwa, 2013).

In this study the audit quality reduction behavior examined as a premature termination of audit procedures. Reduced audit work from what should be done is an action performed by the auditor by reducing the audit work from being supposed to be performed in the procedure. Not investigating the suitability of the client's accounting treatment is the action taken by the individual auditor by not further assessment the suitability of accounting treatment applied by the client to the accounting principles. A poor review of client documents is the act of an auditor who paid no attention to the accuracy and validity of documents from clients. Accepting an inadequate or poor client explanation is an action taken by the auditor by accepting the client's explanation as the substitution of the audit evidences which is not obtained during the audit.

The audit quality reduction behavior is also identified as the most unethical behavior (Arens and Loebecke, 2002; Ling and Akers, 2010; Sweeney et al., 2010; Taylor et al., 2012). Where such actions were not aligned with the provisions and rules of the professional auditing standards and applicable policies, lack of honesty and integrity by presenting false data, and manipulating performance report assignments (Arens and Loebecke, 2002), which affected audit quality degradation (Lopez and Gary, 2012). Audit quality reduction behavior is considered a coping mechanism and a method to adapt certain situations perceived by auditors in their work (Herrbach, 2005).

Several previous studies on audit quality reduction behavior were directly related to auditors' perceived perceptions related to time budget constraints in completing audit work (Kelley and Margheim, 1990; 1996; Coram et al. 2000; 2003; Otley and Pierce, 1995; Pierce and Sweeney, 2004 Coram et al. 2004, Soobaroyen and Chengabroyan, 2006). Furthermore, given that the public accounting encountered an increasingly competitive environment in which the audit efficiency is demanded, the constraint of audit time budget led to the possibility of reduction audit quality behavior reduction still remained a problematic.

A number of studies have surveyed the involvement of auditors in audit quality reduction behavior and occurred in different countries. Coram and Woodliff (2003) found that 63% of auditors in Australia were encouraged to use audit quality reduction behavior as a mechanism to mitigate the existing situation. Soobaroyen and Chengabroyen (2006) focused on one type of audit quality reduction behavior which is considered as a premature sign off and provided evidence as much as 65% of auditors in Mauritius confessed that the consequences of emergenced audit quality reduction behavior was driven by time budget pressures.

Paino et al. (2011) had proven that as many as 75% of auditors in Malaysia were involved in premature sign off practices. Kasigwa et al. (2013) reported that 94% of Uganda's auditors were involved in performing at least one type of audit quality reduction behavior. In Malaysia more than 50% of auditors "agree and strongly agree"

to premature sign off when they perceive pressure on the job (Paino, 2012). Furthermore, Yuen et al (2013) said that the practice of audit quality reduction behavior arisen from the nature of stress on auditors' duties which affected the auditor self-efficacy. Malone and Robert (1996) stated that individual behavior reflected individual personality factors of auditors and situational factors. Thus, the tendency of auditors to engage in audit quality reduction behavior could be attributed to the auditor's personality characteristics (Kelley and Margheim, 1990).

2.2 Time Budget Pressure and Audit Quality Reduction Behavior

Auditor involvement in auditing tasks is often subject to time constraints (Akers and Eaton, 2003). Time constraints often affected the accountant behavior (Akers and Eaton, 2003). Accounting profession seeks to control audit quality through standards and guidelines. However, audits were conducted within the time constraints and the public accountant firm applied them through the audit time budget. The audit time budget is estimated time allocated for audit tasks performance in an audit assignment (Margheim et al., 2005). Time budgets are arranged in detail for each stage of audit procedures (McNamara and Liyanarachchi, 2008). Fee from clients and budget realization of previous year audit time is the basis used by public accountant firm in setting the budget time (Pierce and Sweeney, 2004). The time budget is the basis for estimating or estimating audit fees, allocating audit personnel and evaluating the performance of personal auditors (Shapeero et al., 2003; Bowrin and King II, 2010).

Since the time budget is likely to be based on the type and extent of audit procedures required, lower audit costs could lead to the tension between cost and audit quality (Liyanarchchi and McNamara, 2007). If the tension is translated into the tightness of the time budget, it will direct the personnel who performed investigation under pressure to meet the budget, thus jeopardizing the auditor freedom level in performing standard audit procedures (Liyanarchchi and McNamara, 2007). Time budgets had a very potential effect in producing pressure, triggered by time budgets not only as a control mechanism but also as an inner performance appraisal tool (Liyanarchchi and McNamara, 2008). Coram et al (2000); (2003), Pierce and Sweeney (2004), Margheim et al (2005), Liyanarachchi (2007), Gundry and Liyanarachchi (2007), Yuen (2013) found a positive and significant influence between time budget pressure and audit quality reduction behavior. It showed that the higher time budget pressure perceived by auditor would impact on the high acceptance of auditors for audit quality reduction behavior as a form of coping (coping) conducted. Thus, based on the theoretical studies and earlier empirical findings above, the proposed hypothesis is as follows:

H1: Time budget audit pressure has a positive effect on audit quality reduction behavior

3. Research Method

3.1 Data Collection and Sample

The auditor worked at the Public Accountant in Indonesia which registered in the directory of the Indonesian Institute of Public Accountants in 2016. Judgment sampling method is used as sample selection, with selected junior and senior individual auditor level at public accounting firm in Indonesian. The consideration is that auditors at this level are the most stressful and most vulnerable staff to conduct audit quality reduction behavior (Kelley and Margheim 1990; Liyanarachchi and McNamara 2007).

3.2 Measurement and Statistical Analysis

This research applied three constructs, namely time budget pressure as an exogenous variable with 3 instruments (Otley and Pierce 1996; Sweeney and Pierce 2004;

Pierce and Sweeney 2004; Nor et al. 2009; Soobaroyen and Chengabroyan 2006; Svanberg and Öhman 2013), and reduce audit quality behavior as an endogenous variable with 5 instruments (Coram et al., 2004; Margheim et al. 2005; Gundry and Liyanarachchi 2007; McNamara and Liyanarachchi 2008). Likert scale with a score of 1 to 5 is used as questionnaire measuring method. Data analysis was performed with confirmatory factor analysis (CFA) estimation to assess dimensionality (validity and reliability). The calculation of CFA in this research is run through the program of AMOS (Analysis of Moment Structure) version 22.

4. Result and Discussion

4.1 Descriptive

The participation rate of auditor respondents in this research is 27.8%. A total of 240 questionnaires were valid for further analysis. The total sample, as many as 240 respondents have been adequate and meet the minimum sample required for research using structural equation data analysis. Descriptive demographics explain the age of respondents in the range of 23-42 years with an average of 29.79 years. Educational level of undergraduate auditors 83.8% and post-graduate 16.2%, work experience between 2-18 years with an average of 5.25 years. Respondents contributed in junior auditor position 75.8% and senior 24.2%. Participated auditors work for small and medium-sized public accountant firm and is not affiliated with a foreign public accountant firm.

4.1.1 Reliability and validity

Confirmatory Factor Analysis (CFA) is used to test the uni-dimensionality of the constituent dimensions of each latent variable. Convergent validity test results showed some research items are invalid because loadings factor < 0.5 , i.e. 1 item time budget pressure and 2 items reduce audit quality behavior. The reliability test of the remaining items using construct reliability (CR) at the press release time could be accepted with $0.6 < CR < 0.7$. Table 1 describes the results of validity and reliability testing. Confirmatory factor analysis meets Goodness of Fit Index with $GFI=0.964$; $AGFI=0.932$; $TLI=0.964$; $CFI=0.976$; $CMIN/DF=1.776$; $RMSEA=0.057$, whereas $X^2=42,626$; $Df=24$; $P=0.011$ marginally is accepted (Hair et al., 2013).

Construct/Items	Factor loading	CR
Time budget pressure(2 items)	0,658-0,707	0,636
Reduce audit quality behavior (3 items)	0,602-0,795	0,720

Source: Data Analyzed (2017)

Table 1
Testing Validity and Reliability

4.1.2 Test of Structural Relationship and Hypotheses Testing

The result of structural model estimation in SEM can be explained as follows: $RAQB=0.237$ TBP; $Errorvar.=1.00$; $R^2=0.063$. Where, TBP refers to time budget pressure and RAQB is reduce audit quality behavior. The results of hypothesis testing can be summarized in Table 2.

Hypothesis, estimated paths	β	CR	p-value	Outcome
H1: time budget pressure \rightarrow reduce audit quality behavior	0,270	3,005	0,003	Supported

Source: Data Analyzed (2017)

Table 2
Summary of Hypothesis Testing

H1 is accepted by showing a positive influence of time budget pressure on reduce audit quality behavior with value $\beta=0.270$, $p\text{-value}=0.003$.

The result of hypothesis test 1 showed that time budget pressure has a positive and significant effect on audit quality reduction behavior. That is, the high time budget pressure perceived by the auditor leads to higher acceptance of auditor staff for audit quality reduction behavior. The budgetary time of audit increases the level of passion and stress and has a number of impacts on decision-making behavior such as

accelerating efforts to assimilate information, shifting strategy used and information process constrain (DeZoort and Lord 1997). Time budget pressure could even lead auditor falling into higher levels of stress and cognitive impairment leading auditors to encourage to a dysfunctional performing such as audit quality reduction behavior (Margheim, 2005).

Based on the theory of coping theory, the handling of an event can be categorized into a problem-solving group or problem focus coping. Problem focus coping defined as a coping mechanism that aims to reduce stress with actions such as obtaining additional resources and reorganization of time schedules. The second form of coping is emotional oriented coping or emotion focus coping. Emotion focuses coping is a coping mechanisms that emphasize emotional and defensive behavior. At the level of pressure or high stress, emotion-oriented coping begin to dominate. Emotion-focused coping is a dysfunctional mechanism that emphasizes defensive behavior or stress-avoidance behaviors. Based on this theory, the high time budget pressure perceived by the auditor in the implementation of audit procedures causes the auditor to modify its actions by more likely to perform dysfunctional audit actions such as the behavior of reducing audit quality rather than functional audit actions (e.g. requesting additional audit time budgets or re-scheduling audit procedures).

This to indicate that the higher the time budget pressure perceived by the auditor in the implementation of the audit program will further increase the tendency of the auditor to perform the audit quality reduction behavior as a response to the time budget pressure in completing the audit task. This could be interpreted that when the auditor perceive the execution of the audit task is not possible to be completed or very difficult within the budget constraints, the auditor tends to modify his attitude to overcome the time budget by skipping the steps such as conducting the audit quality reduction behavior during audit program implementation. This was aligned with Liyanarachchi and McNamara (2007) and McNamara (2008) claimed that auditors have a tendency to reduce the quality of audit work when encountered with a strict budget audit time and probably apply both functional and dysfunctional ways to cope with audit time budget pressures. Response to time budget pressure has focused on forms of auditor dysfunctional behavior such as the practice of audit quality reduction behavior (McNamara, 2008).

5. Conclusion

Based on hypotheses testing and discussion above time budget pressure has a positive effect on audit quality reduction behavior. The results of this study provide empirical support for work stress literature which states that stress experienced by individuals in the working environment could decrease individual performance, and to overcome the decrease in performance individuals might be tempted to perform dysfunctional behavior such as reduce audit quality behavior (Choo, 1995). This result is also aligned with the theory of the transactional process that individual auditors will seek coping to reduce the perceived gap between situational demands and personal resources (Lazarus, 2006; Matthieu and Ivanoff, 2006). Folkman (1984) and Lazarus (2006) argued that coping behaviors could be categorized into problem-oriented behavior groups or problem focus coping (i.e., coping mechanisms aimed at reducing stress by actions such as obtaining additional resources and reorganizing schedules Time), and emotion-focused coping behaviors (i.e., coping mechanisms that emphasize emotional and defensive behavior such as audit quality reduction behavior).

The results of this study supported some previous studies (e.g. Coram et al, 2003, Pierce and Sweeney, 2004; Margheim et al, 2005; Liyanarachchi, 2007; Gundry and Liyanarachchi, 2007; Yuen, 2013 that found a positive and significant influence

between Time budgetary pressures with audit quality reduction behavior or reduce audit quality. The findings of this study have some implications for the management of the Public Accountant Firm. The head of public accountant firm should create a safe working environment as well as comfortable climate. The top management also could collaborate with subordinates in terms of tasking and considerations should be given in order to provide conformance for staff auditors and clear direction in achieving organizational goals.

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