



**THE EFFECT OF TIME BUDGET PRESSURE AND DYSFUNCTIONAL
AUDITOR BEHAVIOR ON AUDIT QUALITY:
A CASE STUDY IN AN AUDIT FIRM IN INDONESIA**

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ABSTRACT

Purpose The aim of this research is to examine the effect of dysfunctional auditor behaviour on audit quality under time budget pressure. This research also investigates the relationship between dysfunctional auditor behaviour and time budget pressure.

Design/ methodology/approach This research was conducted by doing structured interviews with 4 auditors at Chris Hermawan Public Accountant Firm, which located in Bandung, Indonesia.

Findings The results explain that time budget pressure has impacts on dysfunctional audit behaviour, such as premature sign-offs, the lack of audit procedure, and gathering insufficient evidence. Pressure (time budget) is the condition that has both positive and negative effects on individual behaviour. Pressure may cause people to act dysfunctionally or motivate them to give their best even though their work requires a lot of energy and effort to solve problems. However, if the individual suffers any excessive pressure, it will decrease their job performance, such as dysfunctional behaviours. These results also indicate that dysfunctional audit behaviour has an adverse effect on audit quality. The increase in dysfunctional behaviour will reduce the auditor's ability to identify material misstatement in the financial statement. Therefore, dysfunctional audit behaviour can reduce audit quality that has an impact on the auditing profession. This research also offered recommendations for the audit firm to reduce the time budget pressure, dysfunctional auditor behavior, and poor audit quality.

Keywords Time Budget Pressure, Dysfunctional Auditor Behavior, Audit Quality.

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PROBLEM DESCRIPTION

Nowadays, in the development of business entities there have been many legal cases involving accounting cases. One of the biggest scandals was Enron Corporation, which at that time was ranked as the 7th largest company in the US, involved in a fraud scandal on its investors. Since then, the accounting profession has been in the public spotlight in recent years, globally. Audit quality becomes the most crucial part in many businesses. Quality in general and audit quality in particular is still the primary priority of many businesses. Several experts have been working to identify audit quality for more than 30 years; the form in which these variables are measured has an impact on quality and the impact of quality on competitive capabilities. Therefore, as other activities, audit findings need to meet certain standards. In 2005, the International Accounting Standards Board (IASB) dedicated itself to creating a set of high-quality, understandable and enforceable international accounting standards. Auditing standards are made with the aim that auditors, including public accountants who do auditors' work, are able to carry out their jobs properly, so that the quality of the audit results can be measured clearly because it already has existing standards.

However, audit quality is not only about the standards, but there are many factors which can influence the auditors' performance. Several studies have been conducted to identify the factors affecting audit quality. According to Hameed (1995), the auditing background, competence and knowledge of accounting and auditing practices are the most significant factors influencing quality auditing. Whereas Dunn, et al., (2004) suggested there is a positive relationship between industry-specialized audit firms and analysts' rankings of disclosure quality in unregulated industries, but there is no relation in regulated industries. De Angelo (1981) suggests that larger companies have better performing audits because larger audit firms have less incentives to compromise their standards to ensure the retention of clients compared to smaller firms. Moreover, several empirical studies have examined the relationship between audit quality and audit fee. DeFond et al (2002) found that higher audit fees can lead to a reduction in the independence of the auditor, since higher audit fees can represent the intention of clients to provide a specific audit report. The auditors could lose their integrity, and therefore their credibility. There can also be a detrimental impact on the credibility of the auditor and on audit fees (Tomczyk, 1996).

The failure of several large companies, such as World Com and Enron in the United States, as well as Cadbury Nigerian plc and Lever Brothers plc in Nigeria, has been linked

with poor audit quality due to the perceived lack of auditor independence. Wright and Wright (1997) argued that the independence of the auditor is at the core of the credibility of the audit process. Other than that, the auditors also face pressure from tight time budgets, a condition that originates at least partially from offering for audit contracts. The possible tension between cost management and the achievement of high-quality audits (McNair, 1991) is compounded by the enormous weight that audit firms place on the accomplishment of time budgets as a measurement of performance (Anderson-Gough et al., 2001). Pierce and Sweeney's (2004) empirical study showed that the acceptance of dysfunctional behavior is significantly related to time pressure and performance evaluation. Arising from this, this study attempts to bridge the gap by investigating among others, the effect of time budget constraints and auditors' independence on auditors' dysfunctional behavior that could influence audit quality in one of small audit firms in Indonesia.

Company

Chris Hermawan Public Accountant Firm, located in Bandung, Indonesia.

Management Problem

How can the audit firm "Chris Hermawan" tackle the time budget pressure to prevent any dysfunctional auditor behaviour?

Research Problem

How can time budget pressure and dysfunctional auditor behaviour within an audit firm affect audit quality?

Research Question

In this research, the following sub questions need to be answered to support the main question:

1. Does tight time budget on a small audit firm cause auditors engage in dysfunctional behaviour when auditing big clients?
2. To what extent, if any, can the dysfunctional auditor behaviour have detrimental effect on audit quality?

Research Methodology

In order to collect sufficient amounts of primary data for the purpose of this study, the literature review and structured interview method are selected. The respondents were the external auditors from a small audit firm. With these two method, it was possible to answer the research problem as well as the research questions. The main source of data for this case

study were 4 structured interviews with different auditors of the Chris Hermawan Public Accountant Firm, which one interview was conducted through Microsoft Teams that lasted around forty minutes and other three interviews were conducted through email. The interviews mainly with 2-5 years experienced auditors and one auditor who works more than 10 years within the firm. The second method of this study is the literature review. In this study, literature review is used to support the interview's result to make the research more precise. It is also useful for answering the research problem and research questions and enhance the state of knowledge in the topic of this research.

Research Objective

This research paper is aimed to:

1. Analyse the impact of tight time budget in audit firm on auditors' behavior.
2. Identify the relation between the time budget pressure and audit quality.
3. Assess the effect of dysfunctional auditor behavior on audit quality.
4. Propose recommendation to audit firm for preventing time budget pressure, dysfunctional auditor behavior, and poor audit quality.

THEORITICAL FRAMEWORK

Audit Failure

Audit failure happens when there is a major distortion in the financial statements that is not represented in the audit report and the auditor has made a substantial error in conducting the audit (Arens, 2002). Audit failure does not occur if the auditor implemented Generally Accepted Auditing Standards, regardless of the financial statements' fairness and accuracy. A properly conducted audit does not guarantee that substantial financial statement distortions have not happened. On the other hand, a well-conducted audit makes serious distortions unlikely. As a result, audit failure can only occur if there is serious auditor error or misjudgment. The AICPA Quality Control Committee discovered that audit failures appeared three times more frequent in the first two years of an engagement than in subsequent years in an investigation conducted by the American Institute of Certified Public Accountants (AICPA, 1992). Audit failures by some large audit firms have received a considerable attention in the midst of several major accounting scandals involving Enron, WorldCom, and other companies.

The most interesting thing about the audit failure case is the fraud in the company's financial statements involving public accountants. Mulyadi (2009) in Suseno (2014) defines an auditor or public accountant as a profession whose main service is attestation. It is undeniable that public accountants play a vital and strategic role in realizing a healthy, efficient, and transparent national economy. Hence, the quality of the audit produced by the auditor is very important for a company to going-concern. One of the cases in Indonesia itself was the case of PT. Tirta Amarta Bottling which began in 2015, where the auditor and PT. Tirta Amarta Bottling worked together in manipulating audit reports and financial statements in which the company's receivables and inventories increased. PT TAB and the auditors deliberately changed the financial statements and audit results to obtain creditor facilities from Bank Mandiri.

Audit Quality

Audit quality is defined as the level of compliance with auditing standards, as well as the level of assurance regarding the ability to identify and report on essential errors in financial statements (Brown et al., 2016). The quality of audit is described as the market-assessed joint probability that a given auditor will both (a) discover and disclose a breach in the client's accounting system. The probability that a given auditor will discover a breach is determined by the auditor's technological capabilities, the audit procedures used with a given audit, the extent of sampling, and so on. To summarize, audit quality involves a wide range of interconnected important factors reflecting the role of professional standards, auditor effort, and independence of the auditor, as well as input, process, and output characteristics. Audit Quality factors include audit firm size, industry expertise, audit fee, non-audit services, audit reputation, and audit tenure.

Audit Fees and Time Budget

According to surveys, as fee pressure increases, planned audit investment decreases, however (1) efficiency increases and (2) personnel underreporting of audit time increases, resulting in the view of audit effectiveness remaining unchanged (Margheim and Kelley 1992; Kelley and Margheim 1987). Auditors must find a balance between cost control and effectiveness when planning audit time budgets that represent the planned audit investment. Preparing preliminary audit plans that properly respond to risk is crucial because differences in initial audit plans may lead to differences in subsequent audit tests and, as a result, impact

overall audit quality (Joyce, 1976). Audit seniors frequently plan preliminary time budgets for audits of continuing clients. Auditors prepare audit time budgets, which determine the planned audit investment.

Time Budget Pressure

Budgets are a form of management control device that are defined as financial plans that facilitate in directing and evaluating the performance of individuals and subunits within organizations in order to effectively control and coordinate their activities (Bruns & Waterhouse, 1975). The audit time budget is a time estimate for completing an audit assignment. Time budget pressure may occur as a result of time constraints caused by a limitation in the resources (time) allocable to task performance. (DeZoort and Lord, 1997). To meet the target, audit jobs must be completed within a specific timeframe. According to research, time budgets have the ability to increase job pressure on individual auditors since they act as both control mechanisms and performance measurement tools (McNair, 1991). The audit time budget has the potential to put pressure on because this action appears not only as a control mechanism, but also as a tool for performance measurement in Public Accounting firms (Liyanarachchi, 2007). An increase in quality almost certainly means an increase in labor hours, and therefore an increase in audit costs. As a result, auditors are under pressure to perform all sorts of dysfunctional auditor behaviors in order to keep budgets low (Bedard & Ettredge, 2008).

Dysfunctional Auditor Behavior

Dysfunctional Audit Behaviour refers to the auditor's behavior during the audit period where there is a mismatch between the audit programs that have been established and the audit programs that have been carried out (Anita et al., 2018). In other words, dysfunctional audit behaviour is described as any activity that deviates from established standards. These behaviors pose a serious threat to audit quality since the audit evidence gathered during the implementation of audit procedures is incompetent and insufficient as a basis for the auditor to express an opinion on the reasonableness of the audited financial statements. Otley and Pierce (1996a) stated that there is no correlation between dysfunctional behavior and a performance evaluation emphasis on meeting time budgets. Beekes et al. (2014) investigated this correlation in a specific UK audit company and found a significant positive relationship between being target-focused and quantitative in auditor performance

evaluations and dysfunctional behavior. According to Pierce and Sweeney (2004), a budget focus in performance evaluations is not related to dysfunctional behavior.

Performance Evaluation

According to research on evaluating performance quality, auditors have a propensity to engage in or avoid audit dysfunctional behavior. If the evaluation of the quality of performance declines, the dysfunctional audit behavior increases, and vice versa, if the evaluation of performance rises, the dysfunctional audit behavior falls (Johansen & Christoffersen, 2016). Dysfunctional behaviour in the workplace has a detrimental impact on overall organizational performance, such as decreased productivity, increased job dissatisfaction, higher turnover, and higher levels of work-related stress, all of which may harm overall organizational performance. Auditors generally believe that their performance evaluation and career advancement in an audit firm are strongly influenced by their ability to complete an audit assignment on time rather than the quality of audit performed (Willet & Page, 1996). Lautania (2011) found that audit dysfunctional behavior has a significant influence on auditor performance, which means that the greater the dysfunctional audit behaviour, the lower the auditor's performance.

RESULTS AND DISCUSSIONS

Audits in Chris Hermawan Public Accountant Firm are typically planned for three months from beginning to end, with four weeks of planning, four weeks of fieldwork, and four weeks of audit report preparation. One of the primary tools used by auditing firms to estimate and control costs is the audit time budget. Managing audit time is critical since audit fees are often based on reported time. Time budgets are also used to motivate employees to work efficiently and effectively, as well as to evaluate performance. It is also important to make an audit time budget, as stated by one of the auditor in Chris Hermawan Public Accountant firm, in each time budgeting is made according to the number of incoming audit service engagements. The audit agreement between the client and the KAP typically takes place from March to December. At that time, the Public Accountant Firm and partners will schedule an audit plan which includes the number of manpower per job and the time period for the audit divided by interim audits conducted before December and year end audits conducted after 31 December 20xx. Therefore, in making a budget plan, the audit time is part of the audit planning. Success or failure in conducting an audit, depends on the maturity

of the audit plan. Time budget forms differ depending on the firm's preferences and needs. Some companies use different formats for time budget reports and job progress reports or analyses.

The basis for calculating the time budget in Chris Hermawan Public Accountant depends on the size of the auditee and the number of audit service engagement contracts entered during the current period. Auditors at the Chris Hermawan Public Accountant Firm stated that it is important to communicate the audit time budget with the client before the audit is conducted. Therefore, if there is an engagement that occurs at the end of the year, the completion of audit services is also completed at the end before the deadline for submitting reports by regulations. In addition, the audit time budget at Chris Hermawan Public Accountant is effective because of the auditors' expertise and experience for completing the audit process on time in accordance with the time budget.

However, the auditors within Chris Hermawan Public Accountant Firm sometimes experience pressure when conducting an audit especially in a peak time or busy season, typically occurs in July to the end of September. When auditors are under pressure, it will affect their performance. It can also happen if the number of audit contracts per year exceeds the number of auditors. However, they still can handle it by conducting training and seminars for increasing the auditors' skills, as well as doing a company outing before the audit work starts. These could improve the auditor's motivation and performance while increasing the relationship between each auditor within Chris Hermawan Public Accountant Firm.

The auditors also stated that the time budget pressure affects positively to the performance of the auditor, for instance when the auditors are under pressure, it encourages the auditors to become more mature when facing the problem. However, time budget pressure is a serious threat to the profession, and auditors may respond negatively to it at some point. There is a correlation between time budget pressures and auditors' job performance. Under time budget pressure, auditors have incentives to engage in undesirable behaviors, especially where time budget is perceived as a performance indicator for auditor advancement.

Many research over the last two decades have shown that using time budget as a performance goal in audit settings brings auditors under pressure and may lead to them overcoming the budgetary system through premature sign offs and underreporting of time. There are some step that Chris Hermawan Public Accountant Firm will conduct if the auditors experience the dysfunctional auditor, such as conducting seminars and training

concerning the awareness of the dysfunctional behavior. The auditor also agreed that the tight time budget contributes to dysfunctional auditor behavior. Auditors at Chris Hermawan Public Accountant Firm believe that dysfunctional auditor behavior will decrease the quality of the audit as this behavior could make an audit risk. The auditors also stated that if there is a failure in making an audit plan in the beginning of the audit, there is also a possibility that the audit process will fail too. To prevent the decrease in audit quality, the Chris Hermawan Public Accountant firm frequently do an evaluation after finishing the audit by crossing audit of audit work papers conducted by other teams, in addition to evaluation of audit work papers conducted by Chris Hermawan Public Accountant Firm.

The Chris Hermawan Public Accountant Firm has conducted several action in order to increase their audit quality, which include reducing the pressure face by the auditors and preventing dysfunctional behavior. They listed in the list of Public Accountant Firm made by Indonesian Service Authority with the total of 12 auditors inside the company. They have been audited more than 50 clients, and they never been included in any auditing scandals. Every audit in this firm is in accordance with the audit plan and schedule that hasve been made by the company and agreed by the clients, so mostly they can complete the audit without any problem. Until now, there are no complaints from the clients related to the completion of the audit.

CONCLUSION, POLICY AND SUGGESTION

Pressure is one of the common issues face by the auditors. Auditors is expected to complete all of the audit work within the prescribed time and issue a fair audit report. As the time time budget pressure increase, the auditor's boundary of control is likely to be exceeded, especially it peaks in the busy audit season when a number of audit engagements need to be carried out in parallel, usually starts from March until December of the following year. This study found that time budgets pressure has a significant effect on dysfunctional auditor behaviour that will indirectly lead to a decrease in audit quality within a small Public Accountant Firm in Bandung, Indonesia.

Time budget pressure occurs when the firm has difficulties in completing audit procedures within the time budget limit. The time budget is made by the Chris Hermawan Public Accountant Firm's auditors and they will communicate it with the directors and Board of Commissioner of the client, therefore there is an agreement between the Public

Accountant Firm and the client regarding the time the audit will be completed as well as the audit fee. However, it appears that the auditors at Chris Hermawan Public Accountant will commit dysfunctional behaviors if the time budget is tight and the audit plan is not planned precisely. The greater the time budget pressure, the higher the probability of the auditor will commit dysfunctional behavior such as cut short audit procedures, thereby affects the fairness and the efficiency of audit judgements.

Results of this study also suggest that dysfunctional auditor behavior may play a significant role in decreasing audit quality. Although auditors within the firm tend to be more motivated when they are under pressure since the auditors believe that it will increase the maturity and ability to solve the problems during the audit, findings based on auditors' opinion indicate that the time budget pressure significantly influences to decrease the auditor's performance which leads to dysfunctional behavior. When faced with tight deadlines, auditors appear to resort to unethical practices such as underreporting time, labelling work as non-chargeable, and cut short audit procedures. Moreover, the potential consequences of such behavior is the failure of the auditor to detect accounting differences or misstatements, therefore, it may pose a direct threat to the audit quality.

Tight time budgets become a continuing issue in a common day audit, therefore, some strategies should be taken to ensure this problem does not interfere with the successful completion of an audit. From the statement above, audit planning really helps the auditor to properly organize and manage the audit. Therefore, it is important for audit firms to do the audit planning properly before conducting to estimate at what time the audit will finish so this would decrease the pressure of the auditors in finishing an audit. The Public Accountant Firm needs to increase the awareness of the importance of creating an audit plan conscientiously since the failure of making a precise audit plan will lead to a failure in conducting the audit which will affect the audit quality.

In addition, audit firms should assign a realistic time budget to the audit function in order to prevent audits being undervalued in comparison to other assignments. It is also critical to establish an environment in which auditors are encouraged to discuss time budget attainability and dysfunctional behavior issues with their managers. From the result of the interview and the prior research, it can be concluded that pressure within the audit firm leads to the dysfunctional auditor behavior. Dysfunctional workplace behavior has a negative impact on overall organizational performance, which in this case, it can reduce auditor's performance. When auditors do not perform optimally, it can damage the quality of the audit.

Therefore, it is important to maintain a healthy workplace in a high-pressure company. The organization may create a workplace wellness program to better equip the workforce to identify and help the employees who are physically or mentally struggling because of the workloads. One recommendation that explained by the interviewee was as follow:

“To prevent any workforce stress, we are doing an outing or recreation before audit work is carried out.”

The outing program helps the team grow in areas such as communication and collaboration. Moreover, this program is made as a mental-health breaks activity that could reduce employees' stress in the workplace because this program encourages employees to forget for a moment about their tasks in the firm and keep their life fresh and alive. Aside from that, the company may also create training and seminars to enable the company to better support the employees head up. Aside from that, the company may also create training and seminars to enable the company to better support the employees head up. Training and seminars could make the auditors keep up to date about the current auditing and accounting issue as well as the standards. Such participation in training activities should reduce the undertaking of dysfunctional auditor behavior and work-stress within the audit firm.

In conclusion, to reach a good quality of audit, audit firms should avoid time budget pressure and dysfunctional behavior by creating an audit plan properly, conducting seminars and training to boost auditor's performance, as well as creating workplace wellness programs to reduce auditor's stress.

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