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Midlands State University



FACULTY OF COMMERCE

Department of Accounting

**AUDIT RISK: AN INVESTIGATION INTO WORKLOAD
COMPRESSION AND MATERIALITY TOWARDS AUDIT
QUALITY**

[Case study of Deloitte Zimbabwe – Harare office]

BY

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**This is submitted in partial fulfillment of the requirements for the
award of the bachelor of commerce accounting honors degree at
Midlands State University**

Gweru, Zimbabwe: October 2013

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DECLARATION

I, Nomatter Sigauke do hereby declare that this research represents my own work, and that it has never been previously submitted for a degree at this or any other university.

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DEDICATION

I dedicate this dissertation to the Midlands State University Library.

TO GOD IS THE GLORY.

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ABSTRACT

This research investigates the effects of applying materiality under workload compression demands, on the quality of audited financial statements. Carrying out interviews and distributing questionnaires to the audit staff, research found that application of materiality under workload compression conditions is literal and audits are of lower quality when compared to audits performed under non-workload compression conditions. Evidence was also found indicating that workload compression promotes auditors to engage in reduced audit quality acts. Thus, auditors do not adjust audit stubbornness with respect to identified misstatements in workload compressed firms. The research is of major contribution as it represents one of the few attempts to investigate the effects of workload compression and materiality application from a pragmatic perspective and besides using junior auditors as subjects, audit seniors were also included in the same manner of approach as well as interviewing managers. Since eventual review process (quality control checks) to an audit take place at the later stages of the audit after working papers and other necessary documentation are reviewed by senior auditors and managers, this study provides evidence that workload compression affects audit quality across all levels of the audit firm staff. The findings of this study draw attention for the need of espousing regulations that would evenly spread auditors' workloads year wide. For example, innovative policies might be set in order to limit the number of firms with a December fiscal year-end date or increase the proportion of procedures that auditors are sanctioned to perform before regarding and accepting account balances as immaterial. This could be implemented in an attempt to harmonize discharge of professional judgment in the determination of materiality thresholds.

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LIST OF ABBREVIATIONS AND DEFINATIONS

| | |
|-------------|---|
| WLC | Workload compression |
| AS | Auditing Standard |
| AAS | Auditing and Assurance Standard |
| RBA | Risk based audit approach |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| SAP | Standard Auditing Practices |
| ISA | International Standard on Auditing |

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

This chapter is set out to delineate the background of the research study and description of how the research was carried out. It defines the problems that are on the ground which have always been the source of effort for the researcher to further explore how these have imparted on the quality of audit work. Thereafter the statement of hypothesis is formulated and it's development. The objectives of the study are lined out with the general requirements of ISAs. Possible research questions for the research are also highlighted following the objective of the study. This chapter also identifies the beneficiaries of the project as well as limitations encountered in completing of the research. Delimitation of the study and definition of terms, which are constantly used in the research, closes up this chapter.

1.2 BACKGROUND OF THE PROBLEM

This study investigates the effects of applying materiality under workload compression demands towards the quality of audited financial statements. Recent high profile audit disappointments have highlighted the auditors' failure to notice some material misstatements in the financial reporting process. The research has acknowledged that audits performed under workload compression conditions are likely to be of lower audit quality when compared to audits performed under non-workload compression conditions. *The results of this study are focused on demonstrating the importance of adopting measures that would help to keep auditors' workloads evenly and bearable throughout the year and smoothing professional judgement is setting out materiality levels.*

Workload compression (WLC) which is well known by auditors as the "busy season," occurs as a result of most companies having their fiscal years aligned with the calendar year. The busy season is plagued with long working hours (usually overtime), exhaustion, and budget constraints which are demanding. DeAngelo defined **audit quality** as the probability that the

auditor will both discover and report a breach in the client’s accounting system [IAASB Handbook on Audit Quality, 2011]. Tight time budgets constraints and fatigue are ordinary circumstances in workload compressed audits which can decrease auditors’ aptitude to either detect or report any existing exceptions. As per discussion with one of the senior managers of Deloitte Zimbabwe, it was highlighted that WLC is at its large mainly when performing group audits and ISA600 was confirmed to be one of the most contributing standards ever set in assisting group audits.

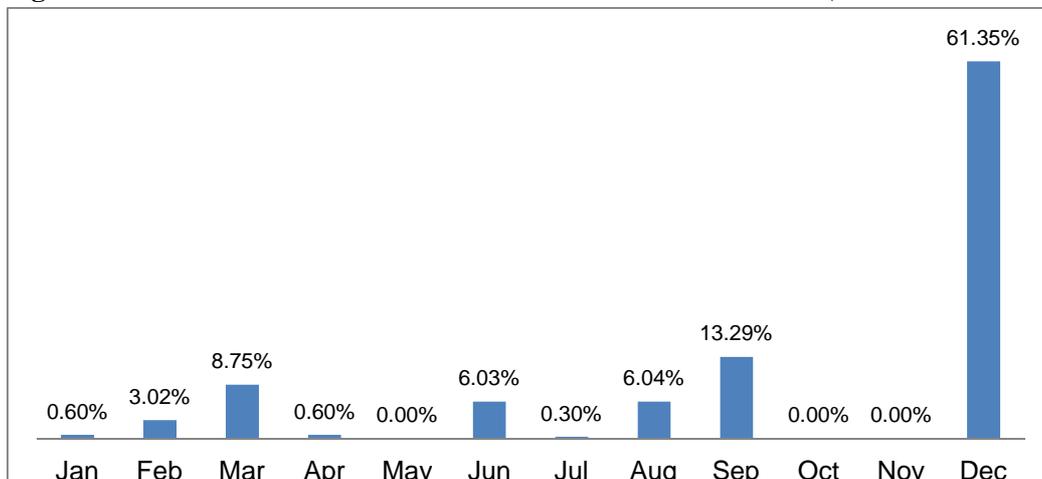
This study represents one of the few attempts in investigating the mutual applicability of materiality under workload compression on audit quality, from a pragmatic perspective. Previous experimental studies have shown that auditor burnout and budget constraints may lead auditors to perform lower quality audits [Coram et al., 2011]. **In contrast to a behavioural study**, the focus of this study will be on the effect of WLC and materiality on overall audit quality. It is evidently clear that workload compression affects audit quality across all levels of the audit firm staff.

Audit risk assessment (ISA 315 paragraph 5-10) requires extensive use of professional judgement (judgment and estimation) which is subject unto variance from person to person and includes a higher degree of subjectivity. This creates an opportunity for auditors to manipulate materiality levels and thus affect audit quality. Consistent with previous literature, materiality and workload compression (indicates of audit risk) are used in this study to draw inferences about audit quality.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Workload Compression and Audit Quality

Figure 1.1: Distribution of Fiscal Year-Ends for All Deloitte Clients (Year 2012 – 2013)



Source: Deloitte all year master planning

The majority of domestic companies have their fiscal year ends on or around December 31, and thus create the busy season. As shown in figure 1.1 above, **61.35%** of all Deloitte clients fall within the December year-end date. The elevated concentration of companies with fiscal years ends in December imposes a significant burden on auditors during the first quarter of each calendar year. There is anecdotal evidence which indicates that the concentrated demands of the busy season can reduce employee performance resulting in low morale. The effect might be more intense on the lower level inexperienced audit clerks and may increase with seniority.

Other investigational evidence from various authors signifies the causes of time budget pressures that lead auditors to engage in dysfunctional behaviours or perform substandard audit work. In some cases evidence indicated that budget (time and cost) constraints are one of the major drivers of premature sign-offs [*Coram et al., 2011*].

Concerns about audit quality affect various stakeholders groups. For instance, COSO (Committee of Sponsoring Organizations of the Treadway Commission) recently issued a report that identifies contributory factors which may lead to phoney financial reporting. In this report it was stated that accounting firms should recognize and control individual pressures that may potentially reduce audit quality. Tight and rigid reporting deadlines are identified as one of these pressures. The report states that:

“... (Firms should) relieve deadline pressures that may prematurely encourage auditors to quit pursuing identified problems. These pressures are particularly burdensome because activities that result in fraudulent financial reporting typically occur towards end of the reporting period.” (p. 56)

Materiality and Audit Quality

Materiality (ISA320 & 450) is one of the basic and paramount concepts in auditing. Auditing and Assurance Standard (AAS) (hitherto known as Standard Auditing Practices (SAPs))-13, “Audit Materiality”, establishes principles of concept and its relationship with audit risk as well as AAS-6 (Revised), “Risk Assessments and Internal Control”, which provides guidance and establishes fundamentals on the procedures to be followed in order to obtain an understanding of the accounting and internal control systems, and audit risk and its components.

The true and fair presentation of the financial statements is dependent upon the materiality concept and this could be traced to the closures of the audit report. The problem is that 'what may be material in one situation may not be so in another. The determination and consideration of materiality is centred of professional judgement as well as experience of the auditor. There are number of matters that need to be considered so as to reach a proper decision on materiality. But, however, there are no sets of rules or prescriptions that may be considered and applied consistently to decide on materiality in all circumstances. The standards only provide guidance and allot all other considerations in the custodian of the auditor.

It is clear that although considerable importance is attached to qualitative aspects of materiality, professional judgment is applied to establish quantitative materiality thresholds. Since materiality may vary from circumstance to circumstance, there is lack of uniformity with various materiality thresholds applied in practice and whatever the deviance may be, the auditor will be ready to justify.

More to the aforementioned, materiality is a term often used to describe the auditor's responsibility attached to audited financial statements to the general public. Significant determinant of audit effort which relates to the level of precision considered tolerable in the preparation of financial statements ensures that auditors give a true and fair view of an entity's financial situation. In recent financial turmoil, doubt has been cast upon integrity in the auditing profession. Such precedents as well as increasing complications intrinsic to the auditing profession are directing to the redefinition of the importance of materiality in audit process. Significant requirement is being felt to define/expatiate the concept in a way that satisfies all stakeholders who are increasingly demanding assurance provided by auditors.

The ISA 320 indicates that the concept of materiality is used both in *planning and performing the audit and in evaluating the effect of identified misstatements on the financial statements*. This pose a query when one is under workload compression whether the evaluation of identified risks will be evaluated in **context or in content**. The notion that is common to many is that materiality is the magnitude of an omission or misstatement that would affect reasonable users' decisions. Arguably, Brady Vorhies [2008] pointed out that materiality is not simply a calculation, but a reflection of what will versus what will not affect the judgments of well-informed investors.

Since the auditors' responsibility is to keep the audit risk at an acceptably low level, AAS-2, "Objective and Scope of the Audit of Financial Statements", states that due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any system of internal control, there is an unavoidable risk that some material misstatements may remain undiscovered. According to AAS-13, "Audit Materiality", there is an inverse relationship between materiality and the degree of audit risk, that is, the higher the materiality level, the lower the audit risk and vice versa.

1.3 STATEMENT OF THE PROBLEM

There is an inherent challenge to auditing firms of clustering of fiscal year ends of their clients which can't be addressed by employing more than enough audit clerks, supervisors and managers but rather to bear the burden with the available capacity. Without sparing any, workload compression mounts and since the work is done on a sample basis using materiality levels, there is likelihood of compromise in the audit quality as there is higher probability of some errors and misstatements going undetected by an "overwhelmed" auditor.

1.4 MAIN RESEARCH QUESTION

The main research questions the effects of workload compression and materiality to audit quality, the enhancement of audit risk by the combination of the two.

1.5 SUB-RESEARCH QUESTIONS

- a) What is workload compression (WLC) and materiality?
- b) What is the relationship between workload compression and materiality?
- c) To what extent does WLC and Materiality affect audit quality?
- d) Does materiality assessment and implementation under WLC conditions effective to address audit risk, if so to what extend?
- e) Are audits performed under WLC conditions in context or content in the application of materiality and to what extent do they attend to the issues of audit risk?
- f) What measures are available to bear with pressure and adhere to the principles' context, and ensuring effective audit quality?

1.6 RESEARCH OBJECTIVES

- a) To counter the compromised quality of audits performed under WLC.
- b) To provide guidance on contextual audit performance by external auditors despite the conditions.
- c) Assess the extent of the meaning attached to materiality and its application.
- d) To evaluate the proficiency of auditors to gather sufficient and appropriate audit evidence when WLC strikes (chiefly auditors' independence).
- e) To establish through questionnaires and interviews the effects of working under pressure.
- f) To establish the extent to which the procedure of determining risk levels is being complied with and maintained throughout the audit despite the circumstances.
- g) To give recommendations on improving the effectiveness and application of materiality by external auditors under workload compression conditions.

1.7 SIGNIFICANCE OF THE STUDY

To the researcher

This study will help the researcher to fulfil the requirements of his Bachelor of Commerce Honours Degree in Accounting. It will also help the researcher to make an assessment on the relevance of the theoretical academic knowledge gained for the past four years and how applicable is it to the practical world.

To the university

This dissertation will be added to the university's library and give students an in-depth knowledge on the best way to sustain sufficient audit quality by proper implementation of audit materiality despite the circumstances.

To the firm

The study will help the firm to adopt measures of countering the problems identified and exercise caution in the indirect limitations of quality audit evidence as well as giving the correct opinion.

1.8 DELIMITATION OF THE STUDY

This study is limited to Deloitte Zimbabwe Chartered Accountants head office in Harare. It specifically investigates the effects of workload compression and the application of materiality under such conditions, and the causes thereof. It will cover audit experiences not later than 2013.

1.9 LIMITATIONS

Financial – funds for phone calls when communicating with the firm and transportation to the firm as well as its various clients. This limitation was countered by the use of internet to communicate with the firm.

Accessibility – auditors frequently work out of the office and it was challenging to get access to them. This will was countered by the use of internet as they have access to the client’s internet and scheduling of meetings.

By the time the field data collection was performed, some of the auditors were on study leave preparing for their CTA exams. This confined the respondent selection only to those who were available. However effort was made to get to those who were on study leave and some responses were received from these subjects.

Time –the study was done during the university semester therefore availability of time to work on the research was limited. To counter this, the researcher had made use of the vacation, semester break and weekends to work on this research.

Reliable information – information required is mostly sensitive and most of the respondents were likely to misappropriate the objective of the research and would not respond with relevance. However the researcher had made every effort to express the confidentiality of the information and that it will be solely limited to academic purposes.

1.10 DEFINITION OF TERMS

- **Audit risk** is risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. Audit risk has three components: inherent risk, control risk and detection risk.
- **Inherent risk** is the susceptibility of an account balance or class of transactions to misstatement that could be material, either individually or when aggregated with

misstatements in other balances or classes, assuming that there were no related internal controls.

- **Control risk** is the risk that a misstatement, which could occur in an account balance or class of transactions and that could be material, either individually or when aggregated with misstatements in other balances or classes, will not be prevented or detected and corrected on a timely basis by the accounting and internal control systems.
- **Detection risk** is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material, either individually or when aggregated with misstatements in other balances or classes.

1.11 CHAPTER SUMMARY

This chapter gives a brief summary of the anticipated study and definition of terms. This research will be of use to various people and organisations. After this chapter, literature review of all the research objective areas follows.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

Literature review is a critical and an evaluative summary of the themes, issues and arguments of a specific clearly defined research topic, obtained from the published (and unpublished) literature. It is very important to the researcher since significant research cannot be performed without initial understanding of the literature related to research problem.

This chapter aspire to review the literature that is relevant to the research problem. It critically analyses the application of materiality under conditions of workload compression and how audit quality is compromised. The literature review is used as a guide into gaining insights on the aspects of the research questions and objectives so as to investigate the research problem.

2.2 PREAMBLE

Auditing Standard 8 (AS-8) states that, ‘the objective of the auditor is to conduct the audit of financial statements in a manner that reduces audit risk to an appropriately low level.’ It further express that reasonable assurance is obtained by reducing audit risk to an appropriately low level through applying due professional care, including obtaining sufficient appropriate audit evidence.

In an audit of financial statements, audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated (being that the financial statements are not presented fairly in conformity with the applicable financial reporting framework). It is a function of material misstatements and detection risk. The risk of material misstatement refers to the risk that the financial statements are materially misstated, and AS-12 indicates that the auditor should assess the risks of material misstatements at two levels: (1) at the financial statement level and (2) at assertion level.

Risks of material misstatement at the financial statement level relate pervasively to the financial statements as a whole and potentially affect many assertions. Risks of material misstatement at the financial statement level may be especially relevant to the auditor's consideration of the risk of material misstatement due to fraud. For example, an ineffective control environment, a lack of sufficient capital to continue operations, and declining conditions affecting the company's industry might create pressures or opportunities for management to manipulate the financial statements, leading to higher risk of material misstatement.

Risk of material misstatement at the assertion level consists of the following components: *Inherent risk*, *Control risk* and *Detection risk*. Audit risk is a function of the risk that the financial statements prepared by management are materially misstated (inherent and control risks) and the risk that the auditor will not detect such material misstatement (detection risk).

Among the three components, only detection risk is controlled by the auditor [*Jackson and Stent, 2010*]. In an audit of financial statements, detection risk is the risk that the procedures performed by the auditor will not detect a misstatement that exists and that could be material, individually or in combination with other misstatements. Detection risk is affected by (1) the effectiveness of the substantive procedures and (2) their application by the auditor. The auditor uses the assessed risk of material misstatement to determine the appropriate level of detection risk for a financial statement assertion. The higher the risk of material misstatement, the lower the level of detection risk needs to be in order to reduce audit risk to an appropriately low level [*AS-8*].

According to the Deloitte key risk guide template [*page 1, cell C5*], it is given that business risk is broader than the risk of material misstatement of the financial statements. While most business risks eventually have financial consequences and, therefore, an effect the financial statements, not all business risks give rise to risks of material misstatement of the financial statements. A broad understanding of management's key objectives and strategies and the related business risks does increase the likelihood of identifying significant risks [*ISA 315.31 & ISA 315.32*]. This allusion recognises the importance and relevance of the auditor in lessening audit risk by working comprehensively in order to minimise the overall audit risk. 'We should identify and assess the risks of material misstatement at the financial statement level, and at the potential-error level for account balances and disclosures.'

“As part of this risk assessment, we should determine which of the risks identified are, in our judgment, risks that require special audit consideration (such risks are defined as “significant risks”, ISA 315.100 & ISA 315.108) .Significant risk is a risk that requires special audit consideration. Significant risks are ordinarily identified through the performance of our risk assessment procedures, but could be identified at any stage during the course of our audit engagement from our engagement acceptance/continuance decision up to the date of our audit report. Significant risks can be either pervasive risks or specific risks.” [Page 1, cell C6]

2.3 AUDIT RISK AND MATERIALITY

Materiality is a matter of professional judgement and is influenced by the auditor’s awareness of the needs of those who will rely on the financial statements. Thus its recognition is closely linked to the concept of audit risk in determining the procedures, as well as in evaluating the results of audit procedures in forming an opinion on the financial statements as a whole [Arens, Elder and Beasley 2012] of which dependability on the audit opinion is based upon audit quality.

Whenever a risk assessment is performed, materiality must be considered. If an account balance heading of class of transaction is *immaterial* then it cannot attract any audit risk since by definition **audit risk** is defined as ‘the risk that the auditor expresses an inappropriate audit opinion when the financial statements are *materially* misstated’ [Jackson and Stent, 2010]. However on the contrary Arens, Elder and Beasley [2012] emphasised that the auditor should pay careful consideration when determining what information is material and not since materiality is designed in the context of the user not preparer. Auditors, therefore, must have knowledge of who are to be likely users of their client’s statements and the decisions needed to be reached. For example, if the auditor knows that the financial statements are to be used for an acquisition decision, the amount that the auditor considers material will be different compared to a similar audit with a different use of financial statements. In practise auditors do not really know who the users are or what decisions will be made. However emphasis is supposed to be placed on the users’ point of view, not on accountant’s or manager’s point of view [Louwers, Ramsay, Sinason, Strawser, Thibodeau 2011].

ISA 320 emphasises that materiality judgments affect the nature, timing and extent of audit procedures. Hence the lower the materiality levels set, the greater the scope of the audit and vice versa.

Declaration that an immaterial account balance heading of class of transaction doesn't attract audit risk (by Jackson and Stent 2010) isn't so consistent with the fact that auditors' consideration of materiality is a matter of professional judgment and is influenced by the auditor's perception of the needs of users of financial statements. The perceived needs of users are recognised in the discussion of materiality in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 2, which defines materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances [Marx B et al, 2011], makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement." That discussion recognises that materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative considerations. More so there is likelihood of omission of some vital information since audits are based on samples which results in 'alpha of beta risk'. Puttick and Esch [2012] also laid emphasis with the same notion that materiality judgements are made in the light of surrounding circumstances, and are influenced by the size or nature of the misstatements or a combination of the two.

The Deloitte guide on '*Determining Materiality and Performance Materiality*' released-March 2012 also holds the same impression that materiality judgements are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both. Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Consequently, research has found that materiality thresholds should be based on what will affect financial statement users' decisions and not upon preparers' arbitrary assessments. These decisions should be based both on quantitative and as well as (mainly) on qualitative factors. *For example*, even a small amount of fraud committed by company managers would likely be considered to be highly material to financial statement users, if they need to assess management's integrity to which assets would have been entrusted.

Staff Accounting Bulletin No. 99, Materiality, represents a restatement of existing concepts of materiality contained in the accounting and auditing literature. Particularly, companies and their auditors are warned not to rely exclusively on quantitative benchmarks to determine

whether an item is material to the financial statements. In Statement of Auditing Standards (SAS) No. 47, as that document is amended by SAS No. 82, the Accounting Standards Board had already reached the conclusion that *qualitative considerations (not just a quantitative threshold) are important in concluding whether financial statement misstatements are material*. Therefore, it would seem that determining whether items, events, and transactions are material to financial statements never should have been based simply on a "bright-line" quantitative (amount or percentage) materiality threshold. ICAEW [2010 study manual] also has the same view with regards to the application of materiality. It stated that "it must not be simply thought of materiality being a percentage of items in the financial statements"

"As part of establishing the overall audit strategy, we are required to determine materiality for the financial statements as a whole. Materiality is considered in terms of the smallest aggregate level of misstatements that could be considered material to any one of the statements that comprise the financial statements. We do not establish separate materiality amounts to individual statements that comprise the financial statements. Determining materiality involves the exercise of Professional Judgment. It is not a mechanical exercise without the appropriate consideration of the facts and circumstances surrounding the audit engagement," [Deloitte Audit Approach Manual, topic 2210].

2.4 MATERIALITY AND THE AUDIT APPROACH

According to the Deloitte audit approach manual, the firm uses a risk based audit approach which it adopted in 2010 after the revision and advancements in auditing standards. ISA 315 & ISA 330 are auditing standards that specifically set out the risk-based audit approach, with other auditing standards containing specific risk-related principles and procedures appropriate to their subject matter.

Basically the premise of risk-based auditing is that auditors should devote more resources to accounts that are highly likely to be misstated and fewer resources to those that are less likely to be misstated [Knechel 2009 and other various authors]. Such an approach is expected to lead to more effective and efficient audits [PCAOB 2010]. This has led to reassessment of audit fundamentals: 'Do we need to do all this work? What are the risks?' which is evidence enough to prove that audit effectiveness is being questioned. Effectiveness can be defined as an assessment of whether the auditor's approach is achieving its objective (as opposed to efficiency, which relates inputs to outputs). Hence 'audit effectiveness' becomes a question in

the view of the auditor whether something really need to be done in order to formulate an audit opinion, whereas it could be audit efficiency which is about whether an existing procedure can be done in a better cost effective manner [*Michael and Stuart*]. However, Kinney; O'Donnell and Schultz [2012] argued that if auditors do not accurately assess misstatement risk at the account level, audit resources will be misallocated, resulting in multitude of undetected misstatements.

There is also risk of incorrect rejection of the population (alpha risk) and the risk of incorrect acceptance (beta risk) and hence result in wrong directional auditing.

This then creates a breach between the risk-based audit approach and the application of materiality. As can be seen from another case with reference to materiality where the young accounting graduate on his first audit engagement., after checking everything, his supervisor commented on his work; “you will be a good accountant, but not a profitable accountant!” since then this young accountant learnt this important concept of materiality.

The Deloitte Key Risk Guide stated that, “as part of this risk-based audit approach we find it more effective and efficient to focus on those areas which are more risky and therefore have a greater possibility of being materially misstated as opposed to those areas which are less risky and are less likely to be materially misstated. Our risk-based audit approach also requires us to design and perform further audit procedures to respond to these assessed risks of material misstatement.”[*Page 1, cell C4*]

Though materiality is used as a benchmark, it's required that individual balances be equally scrutinised as they may be solely qualitatively material [*SAS No. 82*] and yet at the same time the audit approach emphasises focus on more risky balances. In which case scrutiny goes beyond a general understanding of the minor balances which would have been deemed to be less risk and hence, attract no audit risk as Jackson and Stent [2010] puts it. This then modifies conflict between materiality contextual (effective) application and efficiency (content).

Newman, Patterson and Smith once noted that auditors might wrongly assess misstatement risks by focusing on noticeable non-strategic risk factors that indicate certain accounts are likely, and others are unlikely, to be misstated and, by failing to appreciate the attendant implications for unobservable strategic risks that arise when financial reporting managers anticipate that auditors will allocate resources based on those non-strategic risk factors. By

fixating on non-strategic risk factors and by allocating resources accordingly, auditors could actually create opportunities for fraud among the presumably low-risk accounts.

As can be seen in the case of HealthSouth (an international case), how that management was able to conceal \$1,4 billion accounting fraud because it broke it into smaller pieces of \$500 to \$4,999. This is because the auditors were examining all expenses above \$5000. By capitalising the transactions (and depreciating them over a long period of time) rather than expensing them in the current year, HealthSouth was able to significantly report higher net income for the current year, Source: *[An Accountant tried in Vain to Expose HealthSouth Fraud, Ex-Employee Took His Case to Auditors, Then Internet -- But Convinced No One "A wall street journal]* Materiality isn't a matter of figures when it comes to obtaining reasonable assurance.

The audit report clearly states in bold that the audit is performed to **obtain reasonable assurance** about whether the financial statements are **free of material misstatements**. This closure serves to inform stakeholders the responsibility of the auditors towards the opinion they give and that the opinion is limited to *material financial information*. However quoting Maxwell Spencer's popular phrase (was a senior partner in his firm who always attend firm's annual training session for newly hired auditors. He always made mention of this phrase as he closes the session at the end of the day), ".....And materiality? Anything that would have indicated a problem is material to you," can give another insight to the interpretation that many give to mean materiality *[Arens, Elder and Beasley 2012]*

2.5 AUDIT QUALITY

"Auditors are important 'gatekeepers' in our financial system. The quality of an audit supports high quality financial reports, informed investors and market confidence." *[ASIC Audit inspection program report for 2011–12, para-5.pg-10, Report 317]*. This avowal serves to acknowledge the role of external auditors as well as the impotence of audit quality. Since there is an unavoidable risk that some material misstatements may remain undiscovered by an audit due to the test nature and inherent limitations of an audit, audit quality has been a major area of concern in all the previous years and will continue to be, not sparing this research as well. AAS-13 indicates that there exists an inverse relationship between materiality and the level of audit risk, which incorporates in materiality to be one of the major contributing concepts when assessing audit quality.

Audit quality is defined as the probability that the auditor will both discover and report a breach in the client’s accounting system. Lopez Acevedo [2011] suggested that the assessment of audit quality needs to focus more on an individual level rather than the entire firm level, because most of audit decisions with respect to a particular client and circumstance are made by an individual during the performance of an audit. There is anecdotal evidence on the collapse of Enron (an international case), which was audited by the Huston office of Arthur Andersen, is a good example on the importance of individual-level audit quality. Choi and Doogar [2011] report that there was significant difference in the audit quality, measured by the magnitude of abnormal accruals and the tendency of auditors to issue going-concern audit opinion, between the clients of Arthur Andersen and those of other large auditors. This suggests that audit failure related to Enron could be an isolated case restricted to the Huston office of Enron, not the entire Arthur Andersen.

Figure 2.1: Deloitte Quality Evaluation Review Process



Source: Deloitte Quality Evaluation Review for Audits of Financial Statements Guide

The above Deloitte Quality Evaluation Review (QER) is a process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report. This guide was developed to assist Quality Evaluation Reviewers (QER Reviewers) in performing effective reviews of audits. The review assumes that the team makes significant judgements after attending to significant matters arising from significant risks. Though this assumption is relevant in line with the audit approach used, its assessment is based on professional judgement, which in earlier literature have been criticised to be vulnerable to manipulation when the auditor is working under workload compression conditions.

Audit Quality and Workload Compression

This study seeks to evaluate audit quality by going through 'behind the audit veil,' an actual survey of auditors based on their experiences and observations. Thus the study is based more on a pragmatic approach. Aiming to reveal what the auditor does intentionally in order to counter challenges faced; research has found that quality of work done by auditors under workload compression conditions is questionable. Primarily because of time budget pressure, it is suggested that the level of time budget pressure impacts on the propensity to lessening audit quality. Evidently to this, these authors (from ancient researches to date) has also confirmed that workload compression has resulted in premature sign-offs of working papers as an indication of reduced audit quality [Coram et al., 2011]. Such practices usually manifest when the auditor has made shortcuts in order to limit/avoid complications in the work that he/she is supposed to do, for example, excluding awkward items from the sample, accepting suspicious audit findings and not testing all the items in the sample [Paul Coram et al. 2009].

2.6 WORKLOAD COMPRESSION

In line with the research, workload compression can be expressed as the increase in density of the work one has to do in a specified time. It is characterised by fatigue and tight time budgets, tight reporting deadlines which decreases auditors' capacity to either discover or report any existing exceptions [López-Acevedo 2011]. It was emphasised that the endeavour of meeting tight deadlines have influenced reduced audit quality behaviours. Time budget pressure has also been found to be in positive association with reduced audit quality behaviours.

From ancient to date, several studies such as Coram has agreed to the fact that seniors are the major victims to resort into reduced audit quality behaviours due to conflict in efficiency, i.e., 'Cost v. Quality.' They are reluctant to ask for an additional budget when they are faced with time budget pressure and actually discharge some of their duties without charging for them. In the same research Kelley and Margheim found evidence indicating that auditors underreport audit hours and engage in other audit quality reduction acts when under audit time pressure. This is also consistent with the research's observations from practical experiences when auditors can even do extra work after working hours at home. They usually refer to such a scenario as 'fire fighting.'

As can be seen from *Figure 1 on page 2*, the majority of Deloitte clients close off their fiscal year around December 31, being **61.35%** of the Deloitte clientele base. The high concentration of companies with fiscal years ending in December imposes a significant burden on auditors during the first calendar quarter of each year. Research interviews held at the firm confirmed that this period is infested with long working hours, fatigue and tight reporting periods. This is basically massive when performing group audits. Kelley and Margheim identified premature sign-offs, phony client documents reviews, reductions in the amount of work performed to unreasonable levels, and the acceptance of senseless client explanations on identified matters. There, also exists an inverted relationship between time budget pressures and the aforementioned dysfunctional behaviours. That is, greater amounts of pressure result in increased dysfunctional behaviour until a point is reached when the time budget is simply unattainable and auditors do not feel any enthusiasm to critically analyse information they are given by the client, but rather target to finish the work.

Coram carried out a similar study where they examined the joint effects of time pressure and risk of misstatement on auditors' susceptibility to deliver substandard audit work. In contrast to previous research, they took into consideration the auditor's reaction to the possibility of misstatement. They found evidence that auditors appear to accept doubtful audit evidence in the presence of time budget pressures, regardless of the level of misstatement risk. However, subjects only shorten the number of items in a sample when time budget pressure is high and risk of misstatement is low. Knechel and Payne found that the audit reports of busy season year-end companies are dated on average of 17.34 days later than those of non-busy season year-end companies. This result provides some evidence that WLC clients receive divided attention, and thus additional days are necessary to complete busy season audits. The effects

of WLC will cause burnout and time budget constraints leading auditors to engage in audit quality reduction acts.

Consistently, The Audit Effectiveness of the Public Oversight Board reported a very similar view as that which was formerly issued by COSO (refer to page 3, chapter 1). In its report it stated that: "... [Time] pressures can create an environment in which audit quality might be compromised if engagement team members, at any level, perceive that their individual performance is measured primarily by meeting time deadlines and budget estimates. These threats to audit quality frequently appear at or near the completion of the engagement in the form of client pressures on the engagement team to 'finalize the audit' and hurry the issue-resolution process" (page 105).

2.7 WORKLOAD COMPRESSION AND MATERIALITY

After having critically reviewed how the degree of audit risk is enhanced by the application of materiality and effects of workload compression towards audit quality, one might be left with a question as to how these two concepts relate in compromising audit quality.

Taking into account the emphasis made by ISA 320 that materiality judgments affect the nature, timing and extent of audit procedures, there is likelihood that it can be manipulated to limit the amount of work to be done when one is workload compressed. Being that there is an inverse relationship between materiality and the degree of audit risk; the lower the audit risk assessed is, the higher the aggregate materiality figure.

Practical research observations and analysis (at Deloitte) has also provided evidence of the existence of misstatements that were discovered by successive audits but relate to previous periods. Instead of them being reported and corrected when they were discovered, they were left uncorrected as the auditor deemed them as immaterial. More to it, correction of these errors was perceived to have compromised the tight deadlines and that the auditor was overwhelmed with work in which he/she chose to regard those misstatements as immaterial. By disregarding these misstatements the auditor would make every effort to avoid their discovery upon review by other senior auditors. They were only corrected and reported when there was a change in the audit manager who would entirely change the audit team and has a different style of reviewing work altogether. Such practice is prohibited by ethical standards and conduct behaviour; however they became intentional only because the auditor was trying to be efficient in the discharge of duty.

Prior research suggests that, when under greater external pressures (e.g., budget pressure), auditors are more likely to reduce effort for low risk tasks than for high risk tasks and find opportunity for efficiencies (Houston 2013). Thus, risk and workload pressure have synergistic effect on reviewer's judgements and might result in disregarding material misstatements just because they are below the set materiality threshold. This makes the audit quality vulnerable for compromise.

Turner [2013] affirms that while transparency, comparability and consistency are progressively more important, "auditors appear to violate these concepts in the conduct of every audit in regards to materiality choice." This infringes transparency, comparability and consistency since it is re-evaluated every year based on circumstances and there is no disclosure of thresholds used. The audit report is only limited to the emphasis that the audit is performed to obtain reasonable assurance about whether the financial statements are free of material misstatements. As this closure informs users about the materiality concept and its application in performance of the audit, it doesn't actually give the user enough detail as to the extent in which he/she is going to accept the magnitude of misstatements. Decisions will be made without the appropriate level of risk consideration attached to the audited financial statements. After all, the public tends to expect absolute assurance while the auditor can only give reasonable assurance. Arguably one of the senior managers, with regards to disclosure of materiality figures, opined that "when you attempt to explain what is and what is not material, you are opening the door to risk." This then leaves materiality issues becoming the sole responsibility and limited to auditors alone.

In the case of an overwhelmed auditor, it is argued that the auditor's independence will be reduced because the auditor's attention will be directed towards finishing the work and remain efficient.

2.8 CHAPTER SUMMARY

This literature review is tabled to outline comparisons and evaluation of other authors and highly regarded authorities, their view towards the compromise of audit quality in reference to workload compression and materiality. Every effort has been made to compile necessary and relevant literature so as to justify why workload compression and materiality can be a problem that result is such a compromise. The following chapter will focus on the methodology and research design with regards to data collection.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

In the preceding chapter, relevant literature review on the research objectives was given focusing on the assessment of the various angles of view from different experts with regards to the subject matter.

This chapter focuses on how data will be collected to accomplish the research problem, taking into account all activities and procedures undertaken during the study. Selection of research subjects will be given and the methods used in data gathering.

3.2 RESEARCH DESIGN

A research design is a plan, structure and strategy of investigation so conceived in order to obtain answers to research questions or problems. The plan is a complete scheme of program of the research including an outline of what the investigator will do from writing the hypothesis and their operational implications on the final data [Ranjit Kumar 2011]. It is therefore a conceptual structure of how the research will be conducted.

Decisions on data sources, research approaches, sampling plan, research instruments and contact methods have to be done. The research is designed to establish audit risk through application of materiality under workload compression conditions to counter compromised audit quality.

This research utilises a case study approach by means of qualitative data. The study basically relies on primary data from questionnaires and questionnaire interviews.

3.3 POPULATION, SAMPLING AND SAMPLING TECHNIQUES

3.3.1 Population design

As defined by P.K Manoharan [2010], population is any group of individuals, social interactions and events that is divided into target and accessible population. It lists all the possible objects or person with which the sample can be obtained from. The target population for the purposes of this research shall be all Deloitte Zimbabwe – Harare Office staff, audit department.

The research is mainly targeted on audit seniors since they are deemed to be the major victims to resort to reduced audit quality behaviours due to conflict of efficiency [Kelley and Seiler]. Nevertheless juniors are also another second target as they will also do most of the ground and boring tasks during the audit and are also vulnerable to compromise when opportunity avails.

3.3.2 Sample design

According to Data Analysis Australia [2009:1], a sample is subset of units in the population who are actually surveyed. P.K Manoharan [2010, 3:20] puts it as a portion of a large population that is selected to represent the whole target population; the characteristics of which have to be synonymous with the entire population under study. It is assumed that a sample is a true representation of the total population in all relevant details and data collected is deemed to represent actual data would have been collected from the population as a whole. The research incorporates the entire audit department employees.

3.3.3 Sampling techniques

a) Stratified random sampling technique

Stratified-random sampling was used to come up with the sample. A stratified random sample is a technique in which the entire target population is divided into different subgroups, or strata, and then randomly selects the final subjects proportionally from the different strata. This type of sampling is used when the researcher wants to highlight specific subgroups within the population.

The firms' employee stratum are divided into;

- i) Partners
- ii) Managers and Supervisors
- iii) Audit seniors

iv) Audit assistants (juniors)

However, partners are not incorporated on the target sample as they are deemed to be superficial and not exposed to reduced audit quality acts.

It can ensure that specific groups are represented, even proportionally, in the sample(s) by selecting individuals from strata even though it is more complex, requires greater effort than simple random; and strata must be carefully defined.

b) Judgmental sampling technique

Judgmental/purposive sampling technique was also used to come up with the sample. It requires the use of own judgment to select a sample that will best able to answer the research questions and objectives. It is commonly used in cases where the specialty of an authority can select a more representative sample that can bring more accurate results than by using other probability sampling techniques as suggested by explorable.com [visited (02.08.2013) 18:25pm]

For stratum, the number of respondents was chosen basing on the likelihood of the vulnerability of that group to the research problem. Percentage of vulnerability was determined judgmentally after a careful consideration of research objectives and identified victims by research literature. It is a crucial method for this research as it doesn't waste time in interviewing and distributing questionnaires to the wrong subjects.

3.3.4 Sample size

The distribution of the sample group for questionnaires and questionnaire interviews is as follows:

Table 3.1: Distribution of the target sample from the population.

| LEVEL | No. Of Employees | Vulnerability (%) | Target sample size | Percentage to total employees |
|--------------------------|-------------------------|--------------------------|---------------------------|--------------------------------------|
| Managers and Supervisors | 20 | 10 | 2 | 2% |
| Audit Seniors | 34 | 50 | 17 | 15% |
| Audit Juniors | 58 | 40 | 23 | 20% |
| GRAND TOTAL | 114 | 100 | 42 | 37% |

According to the 2012 journal of Naresh Malhotra, a sample of thirty percent often provides good reliability given a credible sampling procedure. This research used this sample above 30%. The total target sample size is 37% of the overall population.

3.4 SOURCES OF DATA

A combination of both primary and secondary data was used in conducting this research.

3.4.1 Primary sources of data

Primary (raw) data is data which is collected at the point where it is generated. It is essential as it directly refers in relevance with the research problem and the researcher has greater control over its accuracy. It can as well refer to fresh data specifically collected for the purposes of the study. Observations, interviews and questionnaires were used to gather both this primary data.

a) Advantages of primary data

- A higher response rate is achieved through self- administered questionnaires.
- A greater understanding of questions will be possible during personal interviews.
- It will be easier to plan and implement the questionnaire survey.
- It addresses specific issues with regards to the research problem as the researcher controls and guides the design to fit the needs of the research.

b) Disadvantages of primary data

- Data collection is expensive and time consuming, especially when compared to secondary data.
- Data collection is dependent on the eloquence of the research questions. This requires higher degree of sophisticated planning which the researcher may lack.
- Methods used to collect data may not appropriately give proper results.
- Can be influenced by respondent's attitudes to the approach used in collecting data.

3.4.2 Secondary data

Secondary data is that which have been collected for other or related purposes apart from the research at hand, and is historical and already assembled [*Ranjit Kumar 2011*]. This data can also be expressed as data used for secondary purposes independently of its original function. Unlike primary data, secondary data is used for purposes other than solving the current problem and can be obtained from authentic internal and external sources.

For the purpose of this study, secondary data was obtained in order to reflect previous citations and findings so as not to duplicate what had already been done as well as finding the

basis of the research problem. Auditing textbooks and Standards, electronic journals, internet reports/publications and company documents were the major sources of secondary data that have been used with regards to this research.

a) Advantages of secondary data

- Data is easily readily available, accessible and therefore collection was less expensive in terms of resources.
- Internet use made data collection from reputable sources cheaper.
- Information available was sufficient and presented in a simplified form (there is less need of re-modification)
- It provided a good starting point for the research and often helped to define the problem and research objectives.

b) Disadvantages of secondary data

- It may be outdated.
- It may not be specific for the problem at hand.
- Some of the data was difficult to interpret due to technical jargon.
- Sometimes information cannot be accessed due to congestion of websites or power cuts.
- Accuracy of data was at times difficult to ascertain and combining further sources could lead to errors of collating and may end up introducing bias.
- Accessing of some relevant and crucial data needs some special privileges which might not be economic for the purpose of the study and the researcher might lack, for example, purchasing online journals and other publications.

3.5 RESEARCH INSTRUMENTS

These are the tools used for collecting data which is relevant to substantiating the research problems and giving solutions/recommendations as well. Tools used for this research were questionnaires, questionnaire interviews and participative observation.

3.5.1 Questionnaires

A questionnaire is a list of a research or survey questions asked to respondents, and designed to extract specific information. It serves four basic purposes: to (1) collect the appropriate data, (2) make data comparable and amenable to analysis, (3) minimize bias in

formulating and asking question, and (4) to make questions engaging and varied [businessdictionary.com visited (02.08.2013) 06:55am].

Questionnaires can either be open ended, close-ended or both. Open-ended questions give the respondent a chance to express themselves freely since they won't be limited to a certain response format as compared to closed questions where the response is subjected only to a given response parameters from a list of choice of answers [Ranjit Kumar 2011].

This research will comprise both open ended and closed questions in order to benefit from the advantages obtained from both and to collect data comprehensively.

a) Advantages of questionnaires

- Respondents can give more honest answers due the anonymity (self administered questionnaires).
- Can collect a lot of data at a low cost.
- Allows the researcher to guide respondents along lines of thought to meet research objectives.
- Gives respondents time to think of responses they give.

b) Disadvantages of questionnaires

- Respondents might fail to interpret questions and therefore faulty data might be collected.
- Stress and work pressure can make respondents reluctant and unwilling to fill in questionnaires.
- There is no guarantee that all questions will be answered.
- The researcher cannot tell emotions of the respondent.

3.5.2 Personal interviews

Personal interviews involves a face to face communication which is a two way conversation initiated by an interviewer to obtain information from a participant. There are two forms of face-to-face interviews namely individual and group interviewing. Individual interviewing give every respondent the chance to say out his or her line of thought without being influenced by group psychology. Personal interviews will be used for this research.

a) Advantages of personal interviews

- The researcher more flexibility and uses his ingenuity to stimulate respondents to reveal more information about the research study objectives.

- The interviewer can use probing to get information especially on complex and emotional questions.
- Provides a platform for clarification.
- Easy to detect the emotions and feelings of the respondent as he can explain him/herself.
- The researcher is in a position to use non-verbal communication during interviews and read facial gestures of respondents.
- The respondent can get clarification of the subject matter before giving an answer which reduces vagueness.

b) Disadvantages of personal interviews

- The presence of interviewer's influence may influence the manner in which the questions are going to be answered.
- Respondents may feel uneasy and intimidated by the personal interview and this may result in the collection of biased data.
- Respondent may hold back some important information if they feel that it would not be in their best interest should it be known that they disseminated the information.
- Not all respondents can be available or accessible at the time when the respondent needs to meet them.

3.5.3 Participative observation

Interviews and observations complement each other and therefore go hand in hand. During the interview the interviewer can observe the reaction of the interviewee and actually judge whether the results obtained can be relied on or not. Ranjit Kumar [2011] described it as an instrument so useful to rate non-quantifiable data. In this research is used both to analyse research problem and on data collection as well.

However the major drawback of this method is that, when the respondent figures out that he/she is being observed, they begin to act artificially and further loses concentration of the subject matter. There is also a risk of subjectivity being brought about by human factor and this ultimately weakens the reliability of the measure. This is the reason why this method is not used independently but rather to complement interviews?

To remedy this limitation, it is the duty of the interviewer to participate as part of the conversation in order to avoid vagueness of the data collected. But caution should be exercised not to contribute to the interviewee's contribution.

3.6 DATA COLLECTION

Questionnaires will be delivered both via email and in person to targeted respondents. These will be immediately collected as soon as they are completed. Appointments will be scheduled for personal interviews with senior personnel and managers. Follow ups will be made for any outstanding questionnaires to increase the response rate and to clarify issues where the respondents are unsure.

3.7 DATA VALIDITY AND RELIABILITY

Validity is the quality of the data gathering instrument or procedure which enables it to measure its intended use. At the end of the data gathering process the researcher will go through the process of checking the validity and accuracy of the data before the process of analysing begins. This is to ensure that the data collected is error free and that mistakes that might have been made during the filling in of the questionnaires are corrected without changing the proposed response of the respondent. This might involve making enquiries with the respondent for more clarity. The research will also use information from participant observation to validate that the information gathered is true and accurate.

Outcome and creditability of data validation' results enhances data reliability towards its intended use. In a bid to assess reliability, questionnaires were first pilot tested and adjustments made prior to administration.

Pilot testing/pre-testing

A preliminary test of questionnaires was done in order to evaluate the effectiveness and impacts of questions in addressing the research problem. Quality of the responses was also evaluated in order to articulate the appropriate questions. The questionnaires appended to this research are refined and finalized.

It is a test on a small-scale study undertaken to discover questionnaire component that need refurbishment and is conducted prior to full-size research investigation [Kumar, 2011]. It can also be used to predict difficulties that are likely to be encountered before subsequent data collection, which might otherwise go unnoticed.

The purpose of a pilot study is to detect possible flaws or errors in the measurement procedures and to identify unclear or ambiguously formulated items.

Litwin and Anderson concur that authors are so closely involved and absorbed with the project that they may overlook even the most obvious errors. Pilot testing allows a researcher the chance to correct errors and to redesign problematic parts before the survey is mass produced and used.

A pilot run should be done on persons, who are of similar ability and understanding to the sample target population. This is done to obtain an assessment of the validity of the questions, as well as the likely reliability of the data that will be collected.

In this study, questionnaires were circulated to three auditors who were requested to recommend the suitability of questions and the flow of grammar. The table below reflects the feedback that was obtained.

Table 3.2: Feedback on pilot study.

| Focus | Description | Feedback and recommended changes. |
|------------------|---|--|
| Content | Is the content of the questions appropriate and relevant to address the research problem? | It was established that the content of the questions were appropriate to the research topic and would be able to provide valuable information. |
| Questions | Are all the questions comprehensible and clear-cut? | It was noted that the grammar was too deep and needed revision on certain jargon to improve respondent's understanding of the questions. Questions with double meanings were detected and smoothed to make them understandable in order to yield uniform results. |
| Layout | How suitable is the layout of the questionnaire? | The design and layout of the questionnaire was highly rated. |
| Length | Is the number and size of questions fitting, to capture enough attention and | Though it was cited that questions might be a little bit numerous, their nature of being closed ended made it possible for one to |

| | | |
|--|---------------------------------|--|
| | willingness of the respondents? | devote special attention in responding to them. On average one would need at most 3 minutes. The time was appropriate given that mostly auditors are mostly busy. |
|--|---------------------------------|--|

This pre-test was done to both questionnaires and interviews which are the major research instruments.

3.8 DATA ANALYSIS AND PRESENTATION

Data analysis refers to the transformation of raw data into a form that will make it easy to understand and interpret. Analysis of data gives it meaning for its purpose and intended use, making it available to generate information. Both qualitative and quantitative methods will be used. During the analysis stage, the researcher will make extensive use of the computer, in storing, retrieving, further processing and analyzing the data. This places emphasis on speed and accuracy, which are paramount in enabling to schedule research feasibility. Microsoft suit applications such as Word and Excel will be used. Computing summations, calculating percentages and the drawing of tables that are necessary for a clear data analysis presentation will be done through the computer. The information collected and analysed will be presented in form of tables and pie charts.

3.9 CHAPTER SUMMARY

The chapter outlined the research design and methodology through sampling issues, types of data obtained and the methods of data collection and analysis procedures. It outlines how the research will perform the data collection procedure. Following this chapter shall be a chapter detailing data analysis and presentation.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

From the previous chapter, description of how data is collected for the research, its quantity, collection methods and how the data would be analysed was given. This chapter will mainly dwell on data successfully collected, its analysis and presentation. Data analysis will be with the aid of graphs and pie charts. Microsoft office suit programs were used in the analysis and presentation of this data.

4.2 DATA RESPONSE RATE

Data was collected through questionnaires and interviews. The initial intention was to have a total of 42 responses to which questionnaires were sent out as well as related interviews held.

4.2.1 Questionnaire response rate

A total of 40 questionnaires were distributed to Deloitte Zimbabwe - Harare office audit staff. Of these, five questionnaires were not returned. This gives a response rate of 36 out of 40 (90%) which is sufficient to be representative of the population and therefore analysis can be carried out. The table below shows the questionnaire response rate by category.

Table 4.1: Questionnaire Response Rate

| Questionnaires | Auditor Seniors | Audit Juniors | TOTAL |
|------------------------|-----------------|---------------|------------|
| Number issued out | 17 | 23 | 40 |
| Number returned | 16 | 20 | 36 |
| % Response rate | 94% | 83% | 90% |

4.2.2 Interview response rate

Interviews had been scheduled with the respondents. The two interviews were carried out successfully giving out a response rate of 100%. The interviews were targeted to audit managers. This response rate is sufficient to carry out the data analysis.

4.3 DATA PRESENTATION AND ANALYSIS

4.3.1 a. Gender

This question was aimed at distinguishing respondents by gender. The results showed that 20 out of 36 respondents (56%) were male and the remaining 16 respondents (44%) were female. The research therefore included the views of both genders.

b. Level

This question aimed at establishing the level of the respondent in order to assess which level is most vulnerable to end up in reduced audit quality actions as a result of workload compression. As tabulated below, the overall respond rate was 54% juniors and 44% seniors.

Table 4.2: Overall level response.

| Level | Males (20 respondents) | Females (16 respondents) | Total |
|---------|------------------------|--------------------------|-------------|
| Juniors | 31% | 25% | 56% |
| Seniors | 25% | 19% | 44% |
| | | | 100% |

c. Auditing Experience

This question was targeted to determine the years of auditing experience that the respondent possessed.

Table 4.3: Audit experience

| Audit experience | Number of Respondents | Percentage |
|------------------|-----------------------|-------------|
| 1 year | 8 | 22% |
| 2 years | 7 | 19% |
| 3 years | 3 | 8% |
| 4 years | 15 | 42% |
| 6 years | 2 | 6% |
| 7 years | 1 | 3% |
| | 36 | 100% |

The results in table 4.3 showed that the majority of the respondents (42%) have 4 years experience followed by (22%) those with 1 year experience, while the least group to respond (3%) had 7 years experience. Out of all the respondents, they were all limited to seven years. The results are therefore expected to be valid the research is balanced to all experience levels as it includes a wide range of audit experiences. The research is also comprehensive since the majority is indeed well-informed and aware of the issues under quest.

d. Professional qualifications

This question sought to establish the respondent’s professional qualifications.

Table 4.4: Professional qualifications.

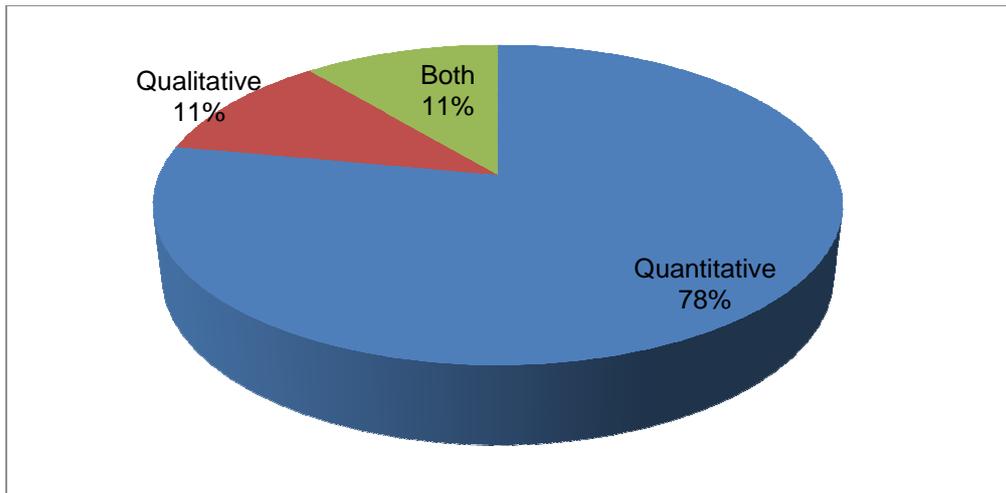
| Qualification | Number of Respondents | Percentage |
|-----------------------------------|-----------------------|-------------|
| Attempting 1 st degree | 12 | 33% |
| 1 st degree | 4 | 11% |
| CTA | 6 | 17% |
| ACCA | 2 | 6% |
| CA(Z) | 7 | 19% |
| Other..(Board sitting) | 5 | 14% |
| | 36 | 100% |

As tabulated above (table 4.4), the results showed that the majority (33%) is attempting their first degree, being followed by those who have qualified to be chartered accountants (19%). The least (6%) of ACCA qualification is consistent with the firm’s norm that most of the trainees practice with ICAZ rather than ACCA. The research therefore covered all perspectives from different boards’ qualifications of Deloitte Zimbabwe (Harare office) employees. These qualifications are relevant enough for the respondents to be highly knowledgeable in order to respond to the outlined questions.

4.3.2 In practice, what are the preliminary assessment guidelines in applying materiality during the audit?

This question was aimed at expressing the initial factors which are considered in applying materiality in general i.e., quantitative benchmarks, i.e., the preliminary assessment in the classification of balances as material or immaterial.

Figure 4.1: Preliminary assessment guidelines in applying materiality



The above pie chart (fig 4.1) reflect that there are 28 (78%) respondents out of 36 who appreciate the use of quantitative benchmarks in the preliminary assessment of materiality whilst 4 respondents (11%) argue in favour of using only qualitative benchmarks. However 4 (11%) respondents hold to the view of using both of the measures. Consistent with the standards, the auditor first uses quantitative benchmarks before even considering qualitative aspects, thus the majority seems to appreciate the preliminary guidelines. The difference in views could be differences in the interpretation of the question one would have made.

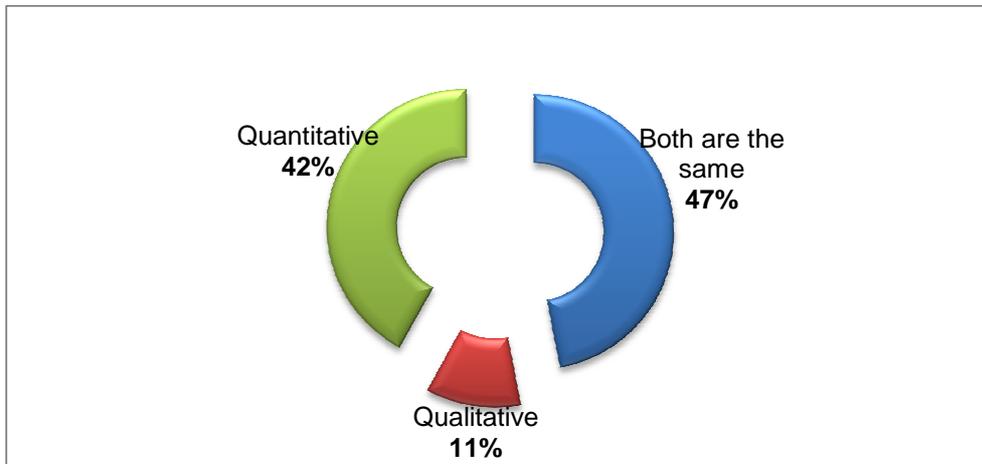
Responses given by those who alluded to the use of quantitative benchmarks are in line with those cited by the authors included in the literature review. ISA 350 makes mention as to judgements about materiality being affected by the size or nature of a misstatement, or a combination of both. However, consideration of the nature of the audit evidence sought comes along with substantive procedures at a later stage, and (possible) material misstatements which assist the auditor in defining what is likely to influence the decisions of the financial statements users.

4.3.3 Practically and in your own opinion, which factors takes precedence over the others when considering a misstatement's materiality level?

For this question, respondents were prompted to give priority to the factors which they consider to value most in terms of applying materiality. The overall result shows that quantitative factors supersede qualitative factors in applying materiality. Respondents regard quantitative factors by 31% higher than qualitative factors which yielded a preference of 11%. Averaging the view of 47% which regarded both factors to be the same and allotting it

equally to both factors, the end result will be quantitative factors 65.5% and qualitative factors 34.5%.

Figure 4.2: Superior factors in materiality assessment



The responses given in fig 4.2 concur with those outlined by secondary data sources from literature review. Usually thresholds are the ones that influence an individual to continue investigate on an identified misstatement.

4.3.4 Which factors do you give priority, and to what degree of consideration when deciding whether or not an account balance is material.

The primary objective to this question was to complement and substantiate question 4.3.2 and 4.3.3. Auditors have proved to regard quantitative measures of materiality more than qualitative factors.

Figure 4.3: Priority weighting

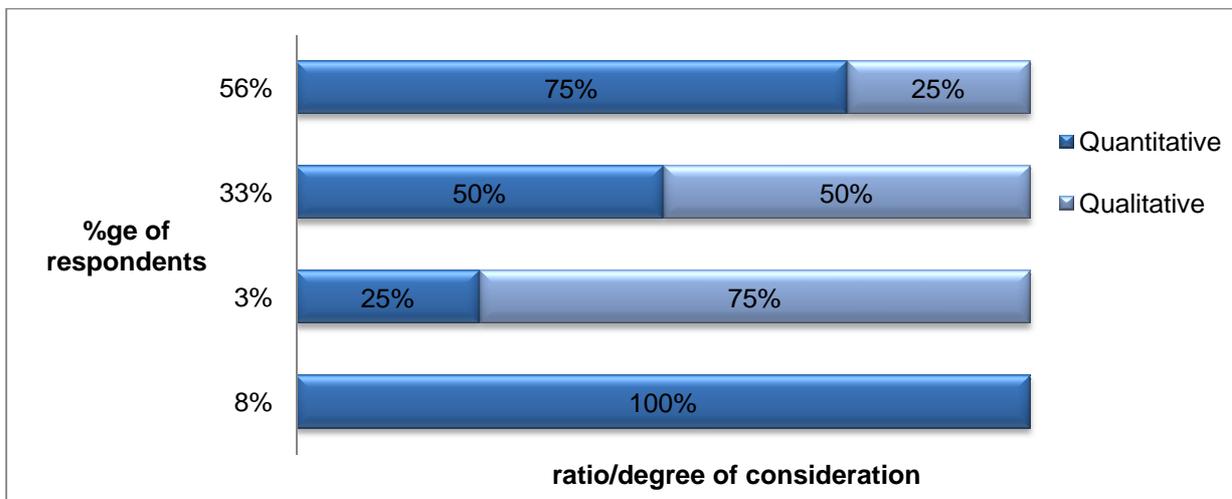
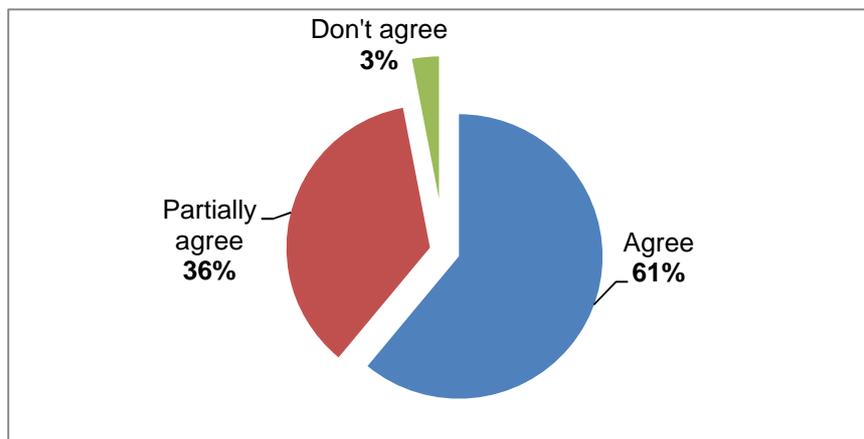


Fig 4.3 above reflect that 56% of the respondents prioritise quantitative factors in applying materiality by 75% than qualitative factors which yielded 25% consideration. Only 33% hold the view that the factors are equally the same in considering materiality of misstatements. However 3% of the respondents believe that qualitative factors can be considered better (75%) than quantitative factors (25%). Surprisingly none of the respondents ever regarded qualitative factors to be absolutely regarded but rather 8% of the respondents prioritise quantitative factors 100%. This then means at the overall, most auditors value quantitative measures of materiality when assessing misstatements.

4.3.5 Materiality is used to justify why a certain account balance of misstatement has been accepted. Do you agree?

This question seeks to address whether materiality could be used as a shield in justifying why some misstatements has been accepted and substantiate the argument in chapter 2 which is against the audit report’s closure that the opinion is limited to material financial information.

Figure 4.4: Justifying acceptance of misstatements using materiality



From fig 4.4 above, 22 out of 36 respondents (61%) agreed that materiality is used in order to justify why a misstatement has been accepted. 13 (36) however, partially agree that even though materiality is used as a justification, there might be also circumstances where misstatements may be accepted without an absolute materiality measure. An example of such misstatements might be those that may be above the set materiality threshold but accepted just because their nature does not affect decisions that are going to be made by financial statement users. Such a scenario was described in one of the interviews. Only 1 respondent out of 36 (3%) disagree.

The results are consistent with the audit’s report emphasis that the opinion is limited to *material financial information*. A variety of cases where audit quality was in question has also reflected the auditors’ oversight of some misstatements that were below the material threshold.

4.3.6 Materiality is a very important tool in addressing audit risk. Do you agree and to what extend?

This question was designed in order to confirm the fact that there is an inverse relationship between materiality and the degree of audit risk, that is, the higher the materiality level, the lower the audit risk and vice versa.

Figure 4.5: Importance of materiality in addressing audit risk

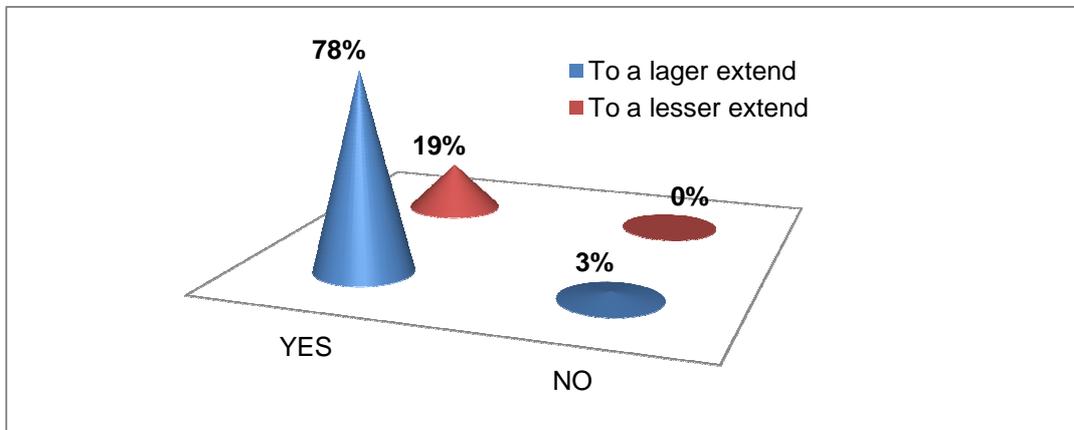


Figure 4.5 above shows that, 35 respondents out of 36 (97%) concur with the relationship between audit risk and materiality. 78% of agree to a larger extent the valuable importance of materiality in addressing audit risk while 19% agree to a lesser extent. Only 1 responded (3%) disagree to a larger extent. The importance of materiality as a necessary tool in addressing audit risk has also been emphasised in the interviews.

This therefore means there is highly likelihood of audit quality being compromised if one uses an inappropriate materiality threshold and rather inappropriately applies the concept of materiality.

4.3.7 With regards to risk assessment under the Risk-Based Audit Approach, are audit resources being allocated appropriately as to detect all misstatements?

This question was designed as an open ended question. Its aim was to give respondents ability to contribute their views about risk assessment under the RBA. Out of the 36 respondents, 8 (22%) were reluctant to comment and therefore didn’t contribute their views.

Of the 28 who responded, 36% (28% of the overall respondents) agrees that resources are being allocated appropriately. The major argument put forward by those who agree are that it is an effective and efficient way of allocating resources and enough time is allocated to planning which helps in understanding the business. Substantive procedures are thorough on identified areas of potential misstatements and the audit is set to detect material misstatements. Such justifications are in line with various authors like [PCAOB 2009] and even the basic principles of risk-based audit approach.

On the contrary, 64% (50% of the overall respondents) seems to hold relative views of risk assessment under RBA in the same manner other authors of old like [Kinney; O'Donnell and Schultz, 2005] argue. The respondents highlighted that only identified risk is addressed and is limited to where resources have been allocated. Even though most misstatements might be detected, it is effective where the engagement team has previous experience with the client. Others were even frank to express that, practically the budget is considered first before taking into account client complexities and resource requirements.

As Newman, Patterson and Smith opined that by concentrating on non-strategic risk factors and allocating resources accordingly, auditors could actually create opportunities for fraud among the presumably low-risk accounts. Auditors might wrongly assess misstatement risk by focusing on conspicuous non-strategic risk factors that indicate certain accounts are likely, and others are unlikely, to be misstated and, by failing to appreciate the attendant's implications for unobservable strategic risks that arise when financial reporting managers anticipate that auditors will allocate resources based on those non-strategic risk factors. This increases the risk of some misstatements going undetected.

4.3.8 Does efficiency decrease when audit work is extended to immaterial balances.

This question was designed as a foundation for subsequent questions 4.3.9 to 4.3.14. This is because the questions are more direct to an individual's behaviour and may seem provocative individuals' integrity, which under normal conditions individuals are reserved when it comes to questioning where their integrity has been compromised. Therefore this question is used as a basis/root where subsequent responses should align to. Where there is an inconsistency, the research accepts the responses with suspicion.

The results shows that out of the 36 responses, 33 (92%) agree to the fact that efficiency is negatively impacted when audit work is extended to immaterial balances. Only 3 (8%) has a

differing view where they disagree. Some of those who differed in opinion added comments for the consideration of qualitative factors even though the balances are immaterial.

The view of the majority (92%) is consistent with the RBA principles which major in allocating resources to more risky areas. Working on immaterial balances is deemed to be a waste of resources. This is where Kinney argue that if auditors do not accurately assess misstatement risk at the account level, audit resources will be misallocated, resulting in multitude of undetected misstatements. More so materiality is defined to the extent of the auditors' professional judgement which is subject to human error.

The same notion was also given in interviews where interviewees pointed out that extending work to immaterial balances will result in over auditing and reduces efficiency. The budgets are being prepared under the RBA and extending work will increase cost which at the end may affect firm-client relationship since clients are promised efficiency.

The HealthSouth case (an international case) is a good example, where misstatements may be overlooked when an auditor secures his/her efficiency through concentrating only on material balances (refer to page 15, chapter 2).

4.3.9 Do you agree to the fact that the auditor should strive to establish a materiality level for the audit, which is cost effective and not lower than the acceptable thresholds?

69%, thus 25 respondents agree along with the question. This is because every audit should be cost effective. This results reflect that the probability that the auditor will both discover and report a breach in the client's accounting system is lessened and may result in compromised audit quality. Therefore it results in a positive relationship between the setting of materiality levels using professional judgement and the amount of work one feels should be done. This relationship makes materiality judgements become vulnerable to manipulation.

The 11 respondents (32%) seems to appreciate other factors which can have a major contribution in setting materiality apart from being cost effective and meeting the set threshold.

Since many of the responses are in favor of the question and the interviews held also hold the same view, there is high likelihood of compromise in audit quality though materiality even from its determination phase.

4.3.10 Have you ever accepted a weak client explanation and/or reduced work on an audit step below acceptable level due to budget pressure?

This question seeks to investigate whether one might end up performing reduced audit quality acts by directly asking the respondents if they were ever engaged in them. The results show an overall neutral response. 9 (25%) respondents accepted that they once accepted a weak explanation and reduced work on an audit step below standard due to pressure. The other 9 (25%) testified that they were once tempted to engage in such a practice. Since this was a more sensitive question, the majority of 18 (50%) did not accept to once have accepted a weak client explanation or reduced work below the acceptable level.

Taken as a whole, the results are almost neutral, however an indication that some respondents were frank enough to disclose that they were once engaged in such practices, the affirmation of Coram et al [2011] is then valid where it was stated that the auditor might make shortcuts in order to limit/avoid complications in the work that he/she is supposed to do, for example, excluding awkward items from the sample, accepting suspicious audit findings and not testing all the items in the sample.

4.3.11 Have you ever signed off a work paper before finishing all necessary procedures?

The question's objective was to validate the problem of premature signoffs alleged to be an indication of reduced audit quality since the auditors' main focus will be on finishing the procedures rather than meticulously verifying audit findings. This then has a direct link with efficiency management if one feels that extension of work to immaterial balances might end up in reduced efficiency. The same identification was made by various authors even from ancient to date, for example Alderman & Dietrick, 1982; Kelley and Margheim, 1990; Rangunathan, 1991; Willet and Page, 1996; Sweeney and Summers, 2002; Coram et al., 2011.

The results also show a neutral response where 18 (50%) respondents agreed to have signed off work papers prematurely while other 18 (50%) respondents refuse to have never signed off prematurely. Since this question has a correlated meaning as to the previous 4.3.10, respondents seem to be less courageous in being frank with what they really do in practice as this might provoke their integrity.

On the contrary, the fact that a considerable percentage has actually agreed to have signed-off work papers prematurely is a clear indication of the potential threats to audit quality.

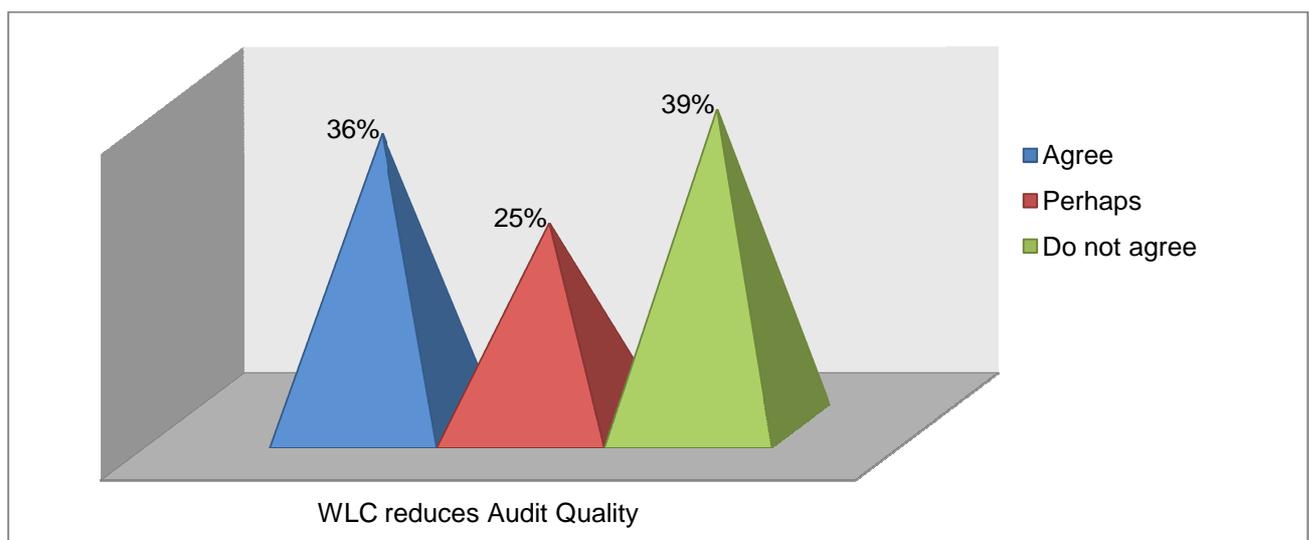
4.3.12 To what extent does materiality threshold determine the extent of work to be done?

In order to substantiate the fact that if materiality is manipulated audit quality is highly compromised, this question was designed to prove such fact.

The results show that 35 (97%) respondents regard that materiality threshold affect the extents of necessary work to be done to a larger extend. This response rate is consistent with the one (97%) which was given on question 4.3.6 where materiality was questioned if it can be regarded as a special tool in addressing audit risk. This therefore means if materiality judgements are inappropriate, audit quality will be highly compromised. All the respondents agree even though 1 responded (3%) agree to a lesser extent.

4.3.13 Do you agree to the fact that audits performed under workload compression (busy season) might be of different/lower quality?

Figure 4.6: WLC versus audit quality



On an overall consideration, 22 (61%) respondents appreciate that workload compression might reduce the quality of audits. Of those who agree 59% of them absolutely agree while 41% partially accepts that audits performed under workload compression conditions are of compromised quality. Out of the 36 respondents, 14 (39%) disagree.

As identified by the Audit Effectiveness of the Public Oversight Board in 2000 that pressures which frequently appear at or near the close of the engagement in the form of client pressures on the engagement team to tie up the audit' and resolve problems hurriedly, might end up in

compromising the quality of the audit. This identification is valid as the majority also assert to the same avowal.

4.3.14 Have you ever experienced a situation where you were strained to work for non-chargeable hours (time) for the sake of fearing to burst the budget?

This question seeks to investigate if auditors working under pressure can get to the extent of working without charging so as to meet the deadline as well as remaining efficient. The results show that 28 (78%) respondents have actually devoted themselves in extending audit work without charging in order to manage the budget. Only 8 (22%) out of 36 respondents have charged all the time they have worked.

This is true to the previous findings that auditors are reluctant to ask for budget extension when they are faced with time budget pressure and actually discharge some of their duties without charging for them. They are in a dilemma of balancing cost and quality and the desire of remaining efficient pushes them to work without charging time [Coram et al. 2009].

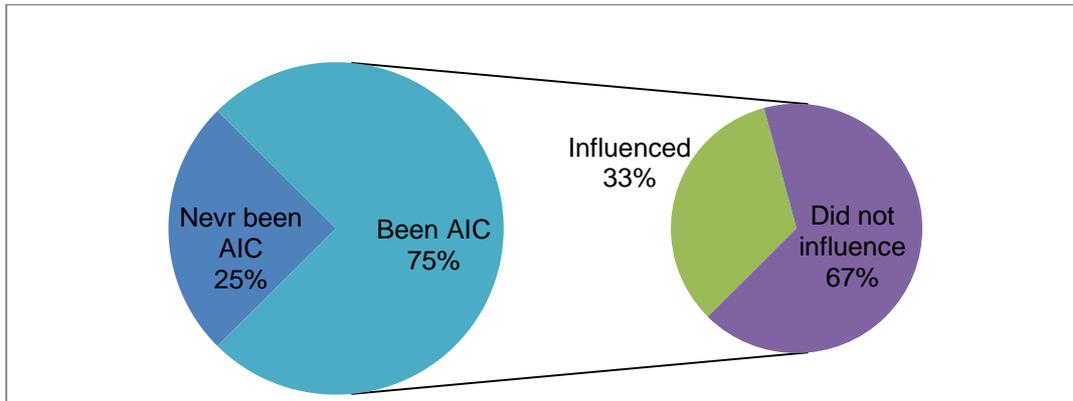
Research has also found evidence indicating that auditors underreport audit hours and engage in other audit quality reduction acts when under audit time pressure to which they refer to such a scenario as ‘fire fighting.’

- a) **If you once was a team leader/AIC, have you ever persuaded your team members to work without charging time in endeavour to meet the tight budget and deadline.**
- b) **Indicate how you were influenced to work without charging time?**
- c) **Indicate whether you enjoy working without charging time and how it feels.**

The above three questions (a) to (c) are aimed at establishing how one is influenced to work without charging time. As identified from the root question 4.3.14 that 78% of the respondents have had situations where they worked without charging time, it is then essential to consider the source of influence and how they feel about charging time.

Response to question (a)

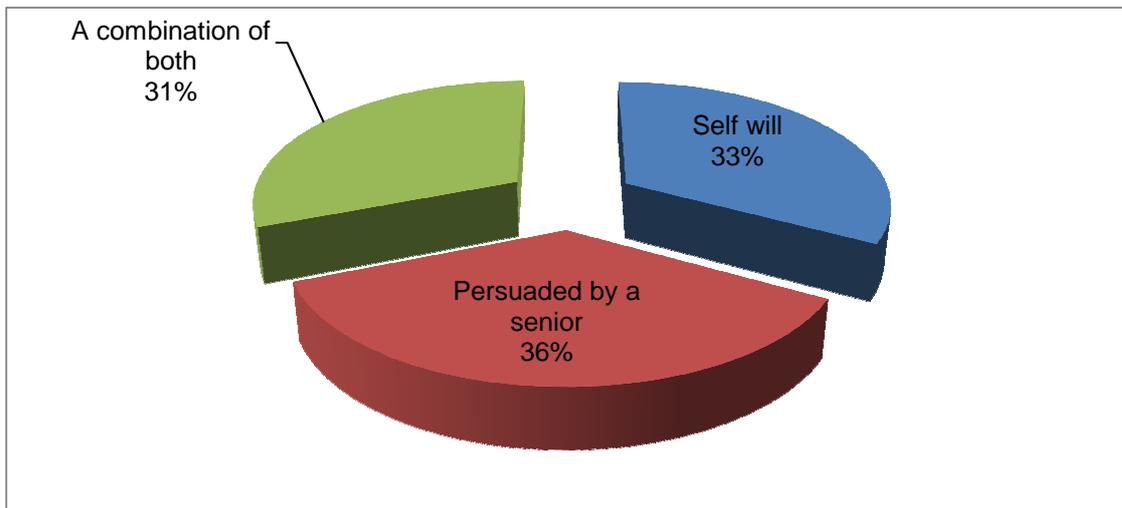
Figure 4.7: Persuading team members not to charge time as their AIC



The results show that 9 (25%) respondents haven't once been team leaders. However the majority, i.e. 75%, has been engaged on audits where they were team leaders. Of the 27 who had been team leaders, 33% of these have at some point persuaded their team members to work without charging time. This is another factor where one might end up in reduced audit quality acts because working without charging time outside self will mostly reduces morale.

Response to question (b)

Figure 4.8: Source of influence not to charge time



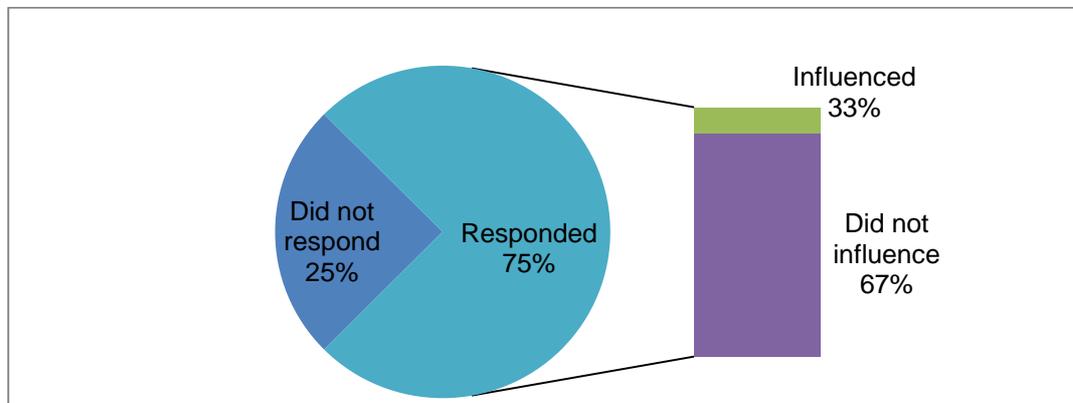
As shown in figure 4.7 above, 13 (36%) respondents have worked without charging time as a result of their seniors' influence so that they may manage the tight budget. Only 12 (33%) respondents attest to have worked without charging time out of their will and 11 (31%) have both influences.

On the overall, averaging those with both influences and allot equally to the other two sources of influence, those who worked under the influence of their seniors become 57% of the total respondents. The results prove that individuals are vulnerable to dysfunctional behaviour to the extent of practicing reduced audit quality acts as identified by Kelley and Margheim.

Response to question (c)

This question was designed as an open ended question in order to gather different views about the feelings individuals have with regards to working without charging time.

Figure 4.9: Individual feeling towards working without charging time



9 (25%) of the respondents didn't express their feelings but of the 27 (75%) who responded, 9% expressed no negative feelings. However the majority of 91% expressed to be negatively affected when they work without charging time especially when compelled to do so by their seniors.

Of those who were neutral and express no bad feelings with working without charging, they regarded it as necessary at times since it's a way of covering up for their inefficiencies. It was expressed that allotting extra unrecorded effort results in perfecting the work and deliver it to the supervisor with a smile in a face (delivering quality work). It was noted that sometimes sacrifices has to be made in order to get the job done. Though these respondents didn't express negative feelings, they didn't completely rule out the fact that working without charging time could be undesirable.

The majority of those who responded confirm that working without charging time is undesirable and nearly everyone expressed an increase in degree of undesirability. The majority of expressions reflected that it's not fair to work and advised not to charge time as a

way to manage the budget as well as remaining efficient. Some of the respondents complain that their training hours will be directly affected and if clients are undercharged it results in the setting of unrealistic budgets where calculation of efficiency will then be based on unrealistic basis.

Largely, the results reflected that most people did not enjoy working without charging time. This has a direct impact on personal behaviours as a result of fatigue and the resultant negative feedback impacts on audit quality.

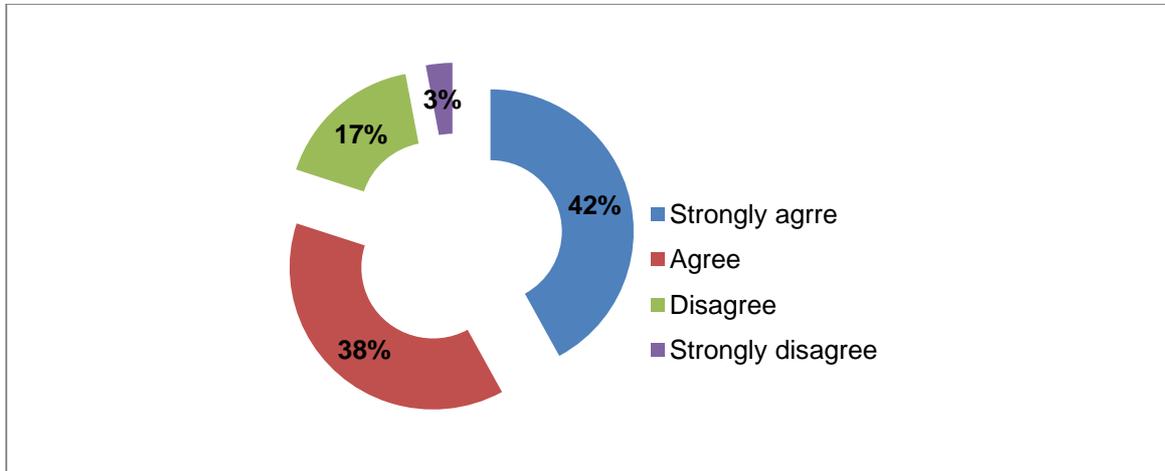
4.3.15 Can workload compression (pressure) act as an inhibitor as the auditor executes professional judgement in the determination of materiality?

The respondents show relative responses where they equally have a balanced view. 18 (50%) of the respondents agree that workload compression can reduce the auditors' independence when executing professional judgement in the determination of materiality while the other 18 (50%) respondents don't really regard it in that wise. The reason why the results show a balanced view is that most auditors' understanding in the preliminary materiality guidelines is more biased towards quantitative benchmarks as proved by results shown on question 4.3.2 to 4.3.4.

Thus, to a greater extent, workload compression can negatively impact on someone's professional judgement in the determination of materiality. This will then have a great impact on audit quality since materiality has proven to be a major contributor in the level of substantive procedures that have to be carried out in obtaining audit evidence. More to this, considering the level of appreciation that materiality has with regards to question 4.3.5, 4.3.6 and 4.3.12, there is increased potential risk of manipulating materiality threshold in endeavour to lessen the amount of work one needs to undertake under workload compression conditions. Given that a considerable respondents' percentage has acknowledged to have once tempted to accept a weak client explanation and even reduce the quality of work needed to be done (4.3.10), there is high likelihood of workload compression affecting professional judgement in determination of materiality, even in its application.

4.3.16 The auditor can establish a considerably high level of assurance about the accuracy of accounting balances in the financial statements by considering everything material. This should be applied consistently without regards to pressure and will ensure effective and consistent quality audits?

Figure 4.10: Ensuring quality assurance



The results shown in figure 4.8 above reflect that the great majority of 29 (81%) respondents out of 36 coincide to the fact that quality of assurance is enhanced when every balance is given equal attention with regards to materiality consideration, and every misstatement considered material. This will then assist financial statement users who deem audit assurance as absolute with regards to authenticity of the management's assertions in the financial statements. With regards to this fact, 15 (42%) strongly agree while 14 (38%) generally agree.

On the contrary, 7 (20%) respondents don't agree with considering everything material. These respondents seem to hold-fast to the RBA premise where emphasis is concentrated only to material balances.

This question was designed to reflect the basis under which people apply materiality and what they prefer would be the best to improve quality assurance. Those who hold the same view as to the impartial consideration of every misstated balance expect that it would improve audit quality and this is what the main objective of this research is all about.

To them that disagree are basically concentrating on the view that risk-based audit approach towards materiality consideration.

Any other comments in relation to the subject matter:

Of all the received responses, only 2 (6%) respondents commented with regards to this closure and the rest were reluctant to comment. It was expressed that materiality is a relative factor and qualitative factors should be given their due regard such as management's integrity and competence. Even though extending work to immaterial balances might be argued to improve quality, it enhances confidence to the level of assurance that the auditors would have gotten and possibly give the appropriate opinion. In this regard, audit quality would have been enhanced as there would be less likelihood of having anomalies coming up after the release of an unqualified opinion.

4.4 CHAPTER SUMMARY

This chapter details the response rates with regards to all research questions. Presentation and data analysis data collected through questionnaires and interviews is further given in order to validate the research problem. Presentation and analysis was given in the form of graphs, tables and pie charts. The subsequent chapter will envelop sums up the project and recommendations are given.

CHAPTER 5

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

The previous chapter covered data presentation and analysis. This chapter will summarise the entire research project. Conclusions will be drawn from the major findings of the previous chapter and recommendations given accordingly.

The main objective was to investigate the compromised audit quality through the application of materiality under workload compression demands, and the research was successful. Major findings and recommendations are documented in the subsequent sub topics.

5.2 SUMMARY OF THE STUDY

The research aimed to investigate the effects of workload compression and materiality on audit quality. The first chapter delineated background of the research study and the description of how the research was carried out. It defined problems on the ground, which have always been the source of effort for the researcher to further explore how these have imparted on the quality of audit work resulting in the formulation of hypothesis statement. Possible research questions for the research are also highlighted following the major objectives of the study. The chapter also identified the beneficiaries of the project as well as limitations encountered during researching. Delimitation of the study and definition of terms, which are constantly used in the research, closes up the chapter

Literature review followed as condensed title of chapter two. This chapter aspired to review the literature that is relevant to the research problem. It critically analysed the application of materiality under conditions of workload compression and how audit quality is compromised.

The literature review was used as a guide into gaining insights on the aspects of the research questions and objectives so as to aptly investigate the research problem. It centres its main consideration on discussion of diverse views from a variety of authors with regards to essentials of audit risk, materiality, workload compression and audit quality. These views were then used to substantiate the research problem.

Chapter three, research design and methodology, focused on how data was collected to accomplish the research problem, taking into account all activities and procedures undertaken during the study. Selection of research subjects was given and the methods used in data gathering. Pros and cons of research instruments used were discussed as well as validity and reliability of data.

From chapter three data was collected using cited methodology and, presented and analysed in the fourth chapter. Response rates were tabulated while presentation being given in tables, charts and graphs, analysed accordingly. Microsoft office suit programs were the major contributing software in the presentation and analysis of raw data.

5.3 OVERVIEW OF MAJOR RESEARCH FINDINGS

- i) In practice, quantitative benchmarks are used as preliminary guidelines in determining materiality. This is consistent with the Deloitte Practice Aid [*page 6*] which states that in determining materiality for the financial statements as a whole, a percentage is often applied to a chosen benchmark (or benchmarks) as a starting point.

Quantitative factors are given pre-eminence over qualitative factors in a decision to reject or accept a misstatement and most auditors first consider whether an identified misstatement is below their performance materiality before they even decide whether to extend work on it. An amount may be designated below which misstatements would be clearly trivial and would not need to be accumulated because it is expected that the accumulation of such amounts clearly would not have a material effect on the financial statements.

- ii) From the last paragraph of the previous numerical, it is clear that materiality threshold is used to justify why some misstatements are accepted, and directly determine the extent of audit procedures to be carried out.

- iii) Risk assessment under the risk based audit approach is disputed and there is highly likelihood of several misstatements going undetected. Research has proved that most auditors agree to the fact that misstatement detection is limited to areas where resources have been allocated.
- iv) Efficiency decrease if audit work is extended to account balances which are deemed to be immaterial. Resultantly auditors morale is reduced making one executing duties for the sake of finishing work. This at the end makes the auditor vulnerable to engage in reduced audit quality acts.
- v) Auditors strive to establish a materiality level which is cost effective and not lower than the acceptable thresholds. This has a direct relationship in allowing one to manipulate materiality thresholds so as to limit the amount of work that is needed to be performed.
- vi) Workload compression lead auditors to engage into reduced audit quality acts and lessen their capacity to detect material misstatements. This is intense in the first quarter of the calendar year where the majority of the firm's clients have the December fiscal year end increasing pressure.
- vii) Workload compression negatively impacts audit quality and audits performed under workload compression conditions are of compromised audit quality. Clients mostly receive divided attention as auditors, especially seniors; will be working on more than one audit file of different clients.
- viii) Application of materiality under workload compression conditions is largely in content (literal) not in context (principle) resulting in oversight of critical misstatements.

5.4 RECOMMENDATIONS

The following recommendations are based on the findings of this research study:

1. Regulations should be put in place that would evenly spread auditors' workloads year wide. Policies could be made to balance the number of firms with a December fiscal year-end.

Proportion of audit procedures to be performed before regarding and accepting account balances as immaterial can be sanctioned so as to make sure that every

accepted misstatement has been given appropriate attention. This also aids in harmonising professional judgement in the determination of materiality thresholds. Firms are encouraged to embrace recent advances in the audit industry which are major contributors in counteracting effects of workload compression and the application of materiality under such conditions.

2. Internal measures should be put in place where detected misstatements during an audit should be analysed and scrutinised if they were not supposed to have been reported in preceding audits. This will then implant an element of continuous accountability to auditors in that, if they underreport identified misstatements with the intention of lessening the extent of work in order to meet the budget, one will have to face disciplinary actions in the future. As identified by Mike Shapeero et al [2009], appeals to individuals during staff training and use of codes of conduct may be effective in reducing the incidence of premature signoff and underreporting.
3. Firms should make every effort to include the whole auditing team in planning stage. In cases where it's impractical, it should be set as a requirement where one is given time to understand the client even if he/she would have joined in the scorching of the audit. This could also be included in every budget even as a provision for the learning curve. This will help the auditor in directional testing and lessen the problem of premature signoffs as identified by Coram et al [2011].
4. Even though efficiency is the most considered measure on auditors' performance assessment, firms should also adopt effectiveness performance indicators at large in assessing one's integrity without paying attention to efficiency. Personal rewards could be used so that everyone will feel persuaded to exercise due care in anticipation of reward. This will encourage them to remain motivated and continue pursuing client complications even if when under workload and budget pressure.

This can then help in addressing the problem identified The Audit Effectiveness of the Public Oversight Board that pressures can create an environment in which audit quality might be compromised if engagement team members, at any level, perceive that their individual performance is measured primarily by meeting time deadlines and budget estimates.
5. The use professional judgement when it comes to application of materiality should be corroborated with valid qualitative and quantitative justifications apart from accepting the misstatement by appraisal of magnitude. A compulsory template can be used where each accepted misstatement is filed together with supporting justification to be

used when setting materiality that is embedded with qualitative characteristics as well as quantitative ones. This is to ensure that the materiality figure is arrived at after taking into account the relevant qualitative and quantitative factors.

6. Adequate training sessions for all audit staff on issues of comportsment to pressure, which are of different levels of audit staff so as to address issues that are specific to potential threats of WLC and compromise in professional judgement.

5.5 CONCLUSION

This study investigates the effects of applying materiality under workload compression demands towards the quality of audited financial statements. Investigation was successfully carried out and application of materiality under workload compression conditions proved to be literal and the audits are of lower quality when compared to audits performed under non-workload compression conditions. The eventual review process (quality control checks) to an audit takes place at the later stages of the audit after all working papers and other necessary documentation is reviewed by senior auditors and managers. Thus, this study provides evidence that workload compression affects audit quality across all levels of the audit firm staff. The findings of this study draw attention for the need of espousing regulations that would evenly spread auditors' workloads year wide.

APPENDIX I

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Gweru

23 September 2013

Dear Respondent

RE: RESEARCH ASSISTANCE REQUEST

I am a final year of the abovementioned institution and I'm carrying out the topic '*Audit risk: an investigation into workload compression and materiality towards audit quality.*' The research is being carried out in partial fulfilment of Bachelor of Commerce Accounting Honours Degree that I am currently undertaking.

I am kindly request for your assistance in form of responses to the questions in the questionnaire attached to this letter. The information that you provide on this questionnaire will be highly confidential and used strictly for academic purposes.

Your cooperation is greatly appreciated

Yours faithfully

Sigauke Nomatter

0773 850633

APPENDIX II

RESEARCH PROJECT QUESTIONNAIRE

Dear respondent;

My name is Nomatter Sigauke, a final year Midlands State University student undertaking Bachelor of Commerce Accounting Honours Degree. As part of my research project, this questionnaire is designed to obtain information from various participants about the research problem and your contribution is highly appreciated.

The main research question is titled, **Audit risk: An investigation into workload compression and materiality towards audit quality**. Feel free to contribute earnestly, your contributions shall be kept confidential and are solely limited to this research for academic purposes.

1. *Tick the appropriate box*

a. Gender - Male
 Female

b. Level

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

c. Audit experience (years)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

d. Professional qualifications (if you have an equivalent, tick the appropriate)

| | | | | | | |
|----------------------|-----------------|-----------------|-----|------|-----|--------------|
| ATTEMPTING DEGREE | 1 st | FIRST DEGREE | CTA | ACCA | CAZ | Other: |
|----------------------|-----------------|-----------------|-----|------|-----|--------------|

2. In practice, are the essential assessment guidelines in applying materiality during an audit a question of the misstated balances': Magnitude (quantitative aspects) or Qualitative aspects.

3. Practically and in your own opinion, which factors takes precedence over the others when considering a misstatement's materiality level? Quantitative factors Qualitative factors Both are the same

4. Which factors do you give priority, and to what degree of consideration when deciding whether or not an account balance is material?

(Tick the appropriate combination)

| | | | | |
|------------------|----|----|----|-----|
| Quantitative (%) | 25 | 50 | 75 | 100 |
| Qualitative (%) | 25 | 50 | 75 | 100 |

5. Materiality is used to justify why a certain account balance of misstatement has been accepted. Do you agree?

YES PARTIALLY NO

6. Materiality is a very important tool in addressing audit risk. Do you agree and to what extend?

YES, to a greater extend NO, to greater extend
YES, to a lesser extend NO, to a lesser extend

7. With regards to risk assessment under the Risk-Based Audit Approach, are audit resources being allocated appropriately as to detect all misstatements? (Write your comment here).....
.....

8. Does efficiency (meeting the budget) decrease when audit work is extended to immaterial balances? YES NO

9. Do you agree to the fact that the auditor should strive to establish a materiality level for the audit, which is cost effective and not lower than the acceptable thresholds?
YES NO

10. Have you ever accepted a weak client explanation and/or reduced work on an audit step below acceptable level due to budget pressure?
YES ALMOST ATTEMPTED TO NO

11. Have you ever signed off a work paper before finishing all necessary procedures?
YES NO

12. To what extend does materiality threshold determine the extent of work to be done?
TO A GREATER EXTEND TO A LESSER EXTEND

13. Do you agree to the fact that audits performed under workload compression (busy season) might be of different/lower quality?
YES PERHAPS NO

14. Have you ever experienced a situation where you were strained to work for non-chargeable hours (time) for the sake of fearing to burst the budget?
YES NO

a) If you once was a team leader/AIC, have you ever persuaded your team members to work without charging time in endeavour to meet the tight budget and deadline.
YES NO N/A

b) Indicate how you were influenced to work without charging time:

Self will in order to cover up
Requested to do so by a senior
A combination of both

c) Indicate whether you enjoy working without charging time and how it feels. (Write your comment here).....
.....

15. Can workload compression (pressure) act as an inhibitor as the auditor executes professional judgement in the determination of materiality?

YES SOMETIMES NOT REALLY

16. The auditor can establish a considerably high level of assurance about the accuracy of accounting balances in the financial statements by considering everything material. This should be applied consistently without regards to pressure and will ensure effective and consistent quality audits?

STRONGLY AGREE
 AGREE
 NOT SURE
 DISAGREE
 STRONGLY DISAGREE

Any other comments in relation to subject matter:
.....
.....
.....

*Your contribution is highly regarded and appreciated, **thank you!***

APPENDIX III

INTERVIEW GUIDE

1. How far do you think efficiency is affected when audit work is extended to deemed immaterial (less risky) balances?
2. Does an auditor need to strive in order to establish materiality level which is cost effective and which is not lower than the acceptable thresholds? How can this be justified with regards to qualitative aspects of materiality?
3. Do you feel one might accept a weak client explanation due and/or reduced work on an audit step below acceptable level due to budget pressure?
4. Do you agree to the fact that audits performed under workload compression (busy season) might be of compromised quality? What's your opinion?
5. Have you ever experienced a situation where you were strained to work for non-chargeable hours (time) in order to manage the tight budget?
6. Do you think workload compression (pressure) might become an inhibitor as the auditor executes professional judgement in the determination of materiality?
7. The auditor can establish a considerably high level of assurance about the accuracy of accounting balances in the financial statements by considering everything material. This should be applied consistently without regards to pressure and will ensure effective and consistent quality audits?

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