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# **Discussant's Response to "Auditors' Judgments/Decisions Under Time Pressure: An Illustration and Agenda for Research"**

**Richard Kreutzfeldt**

Arthur Andersen & Co.

This is an excellent paper, and I completely support the efforts by these authors to expand the research agenda regarding time pressure in auditing. My comments will offer insights from auditing practice on the nature of time pressures and auditors' responses to these pressures as well as how these matters might be addressed in a broader research agenda.

## **Time Constraints in Auditing**

One of the critical issues that should be covered by a broader research agenda is the nature of time pressure in auditing. Much of the prior research and many comments in this paper treat time pressure in auditing as an "on-off switch." Time pressure is present in some situations and not present in others. This premise is not consistent with actual practice. In my experience, time pressure is present in virtually all audits. The real issue is the intensity of the pressure, and particularly changes in the intensity. In practice, the degree of time pressure that is present in a particular audit differs according to factors such as client size, industry, and other client-specific factors. Some of this pressure may be self-imposed by the audit team itself and some is imposed by the client. In any event, some degree of time pressure is an ever-present factor in auditing.

The prior research on time pressure dealt with the differences in auditor responses when time pressure was present versus not present. A more realistic approach would be to analyze auditor responses when the degree of time pressure changes. Over time, auditors adapt to a certain amount of time pressure. A critical question is how they revise their approach when the degree of this pressure changes. With a more "field based" approach, researchers should be able to study the degree of pressure that is present in various situations, factors which change the degree of time pressure, and how auditors respond to these changes.

## **Time Pressures Are Increasing**

The authors indicate that time pressures are increasing due to competition within the profession. I agree with this comment. However, there are other forces at work that are also serving to increase time pressure. For instance, virtually all companies today are under increasing pressure to reduce costs in all parts of their operation. In turn, they are placing pressures on various vendors to reduce their costs through efficiencies or other measures. Auditors are being asked to do their part in helping reduce costs.

The authors discuss two types of time pressure in the article. The first is pressure to reduce the absolute amount of time incurred (budget pressure). The second is to complete the work at an earlier time (deadline pressure). The above-noted examples are of the first type. No examples are provided of the second type, although this type of pressure is probably also increasing. A contributing factor is that improvements in information systems are enabling companies to close their books faster. In turn, they are looking for quicker sign-offs by their auditors.

## **Time Pressure May Reduce Audit Quality**

In various parts of this paper, the authors comment (and refer to prior research) that a major concern with time pressure in auditing is that it may lead to reductions in audit quality. This is a valid issue and an appropriate topic for further audit research. The question is whether time pressures on auditors cause non-compliance with auditing standards, either intentionally or unintentionally. Research that would shed some light on these issues would be welcome.

## **Prior Research**

A basic premise of this paper is that prior research has not been a good reflection of the real world. I completely agree with this premise. Prior research essentially used a laboratory approach where auditors were required to simply work faster. In most instances, there was no change in the basic nature of the work. The authors indicate that often auditors have “strategic choices” that are available to them. I agree with this. Choices such as arbitrarily reducing the amount of time by one-half, as in one of the research experiments, would almost never be suggested as a realistic alternative in a real situation. On the contrary, when auditors are faced with significant increases in the degree of time pressure, they would consider revisions in the nature, extent, or timing of the work. Essentially, these are “strategic choices.”

## **Another Option: Not Adhering to the Pressures**

In much of the laboratory-style research conducted to date, the auditors did not have a choice in adhering to the time pressures. They were required to complete their tasks within a constrained amount of time. However, in real situations, auditors have choices about whether they will adhere to the limits imposed by the situation. In many situations, it is simply not possible to adhere to the time constraints or deadline constraints. In these situations, the auditor needs a certain amount of time to complete the audit work that is necessary under the auditing standards. It is simply not possible to adhere to the limits imposed by the client, and additional time must be incurred.

In these instances, the key question becomes: Who pays for this additional time? In my experience, there are three possible answers. The first is where the client pays for the additional time. If the additional work is legitimately required by the circumstances, this is a logical result. Another possibility is where the audit firm pays for the additional time. This may be the case where the audit firm has a fixed fee arrangement for the audit, or where the firm chooses to make an investment in the client relationship. A third and more subtle alternative is where the individual auditor, or staff member, pays for the additional time. Staff members are under increasingly intense time pressure, often without significant opportunities to modify the scope of work to be performed. These

pressures are generated by the client, other members of the audit team, or by the staff member's own high standards. A phenomenon that seems to have increased in recent years is where the staff member incurs the additional time to do the work, often on an overtime basis, but does not report the additional time incurred. In these instances, the staff member pays in the form of lost compensation, although the audit firm also pays through lost opportunity for billings.

The expanded research agenda should deal with issues where the auditor does not adhere to the limits.

## Strategic Choices

The authors make the comment that little is known about the strategic choices available to auditors, such as staffing decisions. This seems like a strange comment in that the audit firms themselves know a tremendous amount about the strategic choices. Perhaps the comment is intended to mean that little has been provided in the auditing research on strategic choices. This is probably the case. It also indicates the appropriateness of expanding the research agenda to deal with strategic choices. It would seem appropriate to begin with descriptive studies of the strategic choices. For example, there are many rich variables considered in staffing decisions. An interesting research project would be to interview staffing directors at various firms to learn about the considerations that go into staffing decisions—considerations such as the risk level of the engagement, industry experience of the individuals, auditing experience, continuity on the engagement, availability of personnel, leveling of schedules between individuals and over the year, etc. Once this descriptive information is obtained, it could be used in further studies of time pressure.

## An Alternative Agenda

Figure 1 outlines the nature of issues that have been considered in the previous research on time pressures in auditing.

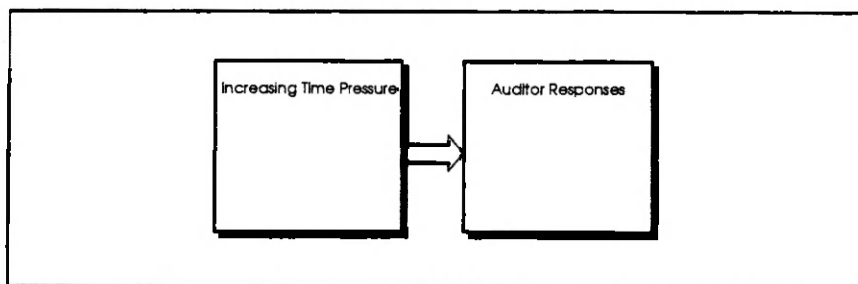


Figure 1

This research imposes time pressures of various types and studies auditor responses to these pressures. Figure 2 is a wider agenda for research on time pressure. This research would also begin with time pressure, but deal in particular with changes in this pressure. It would also be important to study the causes of these increases. In turn, the broader research would deal with auditor responses, but would expand beyond the existing research to deal with strategic responses. An important aspect here is to consider the conditions that exist in the different areas being audited to determine how these conditions will influence the responses that auditors have available to them and in fact exercise. An

important added dimension of the research is to deal with the audit quality implications of various types of auditor responses to these pressures. The underlying implication of much of the research is that audit quality is being impacted. An expanded research agenda should study actual impacts on audit quality. Further, this research should deal with impacts on the various stakeholders to the audit, such as management, stockholders, regulators, etc.

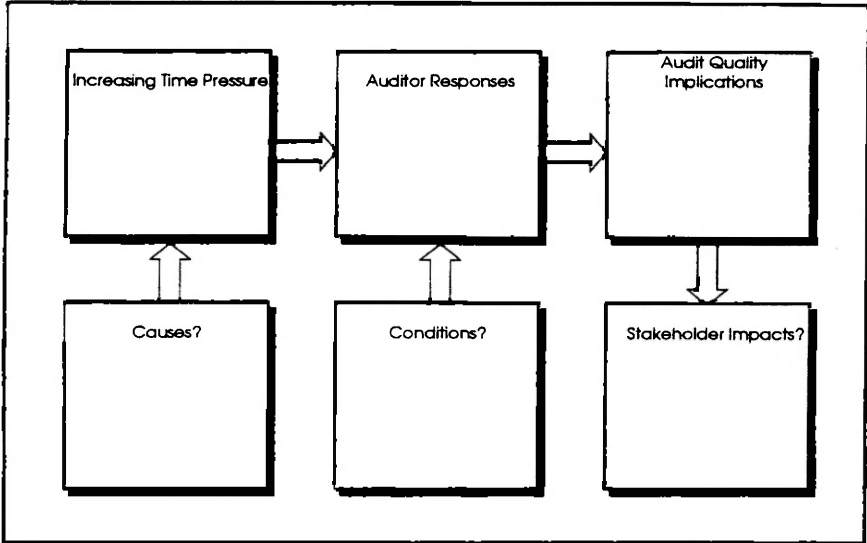


Figure 2

### **Proposed Taxonomy**

The authors propose a taxonomy of time pressure issues including several key variables. I believe this is an excellent means to frame the issues for future research. However, the comments above indicate these issues should be framed in the context of changes in the intensity of time pressure, rather than time pressure as an “on-off switch.”

### **Whether Time Pressure Was Anticipated**

One of the key variables in the taxonomy is whether time pressure was anticipated. I believe the real issue is whether the change in pressure is known at the beginning of the engagement or arises during the engagement. The authors actually cover this in the paper. They comment that the inability to anticipate pressure at the beginning of the engagement may preclude certain actions by the auditor. In other words, certain audit procedures may have already been completed, and thus the auditor simply may have fewer options and less reaction time when the change in pressure occurs during the course of the audit.

### **Extent of Knowledge**

One of the variables included in the taxonomy is whether the auditor has knowledge for establishing strategic responses to the time pressure situation. In my experience, there is always some knowledge present on the audit team on how to react to changes in circumstances. Thus, I do not believe including this item in the taxonomy will produce much insight about auditor decision-making,

as all the instances will likely be in one category. While I would suggest deleting it from the taxonomy, this is really a matter of preference.

## **Deadline or Budget**

A key item in the taxonomy is whether the time pressure is due to a change in the deadline or an increase in budgetary pressure. I agree that these are two key elements, but another variable should be added consisting of a combination of both deadline and budget pressure.

## **Proposed Research Agenda**

The authors propose a research agenda that focuses on understanding strategies adopted by knowledgeable auditors to deal with anticipated budget pressure. I was surprised to see this rather narrow research agenda. It covers only one branch of the authors' proposed taxonomy. It appears that the authors are only choosing this as an example. However, there are rich issues to be covered in other parts of the taxonomy as well, and this research should be encouraged. Issues about unanticipated pressures (i.e., not known at the beginning of the engagement) will be equally as interesting as anticipated pressures (i.e., known at the beginning of the engagement). Issues involving deadline pressure will be equally as interesting as issues involving budget pressures. Research should be strongly encouraged on all of these factors. It is important to study the causes of these pressures, the other conditions that exist in these situations, the types of responses that auditors make to these pressures, etc. In each of these parts of the taxonomy, these issues will be considerably different.

## **Possible Response to Time Pressure**

The authors outline several possible responses that auditors can make to time pressure. These items represent a good discussion of possible responses. However, as a guide to future research, what will be needed is a structure for thinking about these possible responses. The following are some questions that could be used to guide some thinking about possible responses:

- What is done? (i.e., alternative audit procedures)
- How is it done? (e.g., use of technology or other tools)
- How much is done? (i.e., variations in extent)
- Who does it? (i.e., degree of experience and expertise)
- When is it done? (i.e., preliminary or final)
- Where is it done? (e.g., client office, remote locations, etc.)

Each of these questions would yield multiple options to be considered by auditors. The examples provided by the authors would fit within these questions.

## **Assigning More Experienced Personnel**

One of the possible responses to time pressure that is laid out by the authors is to assign more experienced personnel to the engagement. This suggestion ignores certain realities of audit engagements. It seems to assume that time is the most important issue. In reality, the important issue is cost. It has both a short-term aspect (i.e., cost on the engagement) and a long-term (i.e., failure to

develop people is a cost). There is a long running debate about whether partners could do the job faster and cheaper than less experienced people. Regardless of the outcome of this debate, this is not the way to run a professional practice. It is essential that investments be made to develop people, both through formal training as well as on-the-job experience. Thus, a suggestion of assigning experienced personnel to an engagement in order to meet time pressures is not a realistic solution.

The other issue not considered by this suggestion is the difference in rates between experienced and inexperienced personnel. In fact, it would often be more expensive to have experienced personnel perform certain tasks. The key on any engagement is to assign the right level of person to each task. In auditing firms today, there is increasing sophistication of personnel structures, with several levels of personnel as well as specialists of various types. All of this is intended to get the right level of experience and skill assigned to each task. Thus, as a near-term solution, simply assigning more experienced personnel may not in fact reduce costs.

### **Use of Advanced Technology**

The authors also suggest that auditors could use advanced technology such as expert systems as a way to reduce time when time pressures arise. In my experience, technology is already deployed to an optimum level on any given engagement. Because of the time pressure that is ever-present in auditing, auditors are constantly seeking means to be more efficient. One of these means is the use of technology. Technology is increasingly used in audits of all types. Any innovation in the use of technology is quickly deployed on virtually all audits. Thus, as a short-term method to reduce time, the additional use of technology would seldom be an option.

However, technology might be a technique that could be deployed in order to meet a quicker deadline established by the client. Certain tools might be deployed that would enable the auditor to sign off faster at year-end, although the total cost of the audit would probably be somewhat higher.

Experience to date with expert systems is somewhat mixed. Expert systems are in their early stage of development and deployment in auditing contexts. Many of the useful systems are in the audit planning stage rather than in the execution of audit procedures. For these reasons, expert systems would seldom be an option for reducing time on any given engagement.

### **Use of Different Approaches to Produce Audit Evidence**

The authors also suggest another means of dealing with increased time pressures is to use different approaches to produce audit evidence. Again, because of the ever-present time pressures on audits, the auditor would probably already have selected the least costly approach. Thus, use of a different approach would seldom be available as a short-term solution to dealing with time pressures.

The use of a different audit approach would, however, be a viable technique to use when there is a change in the deadline. In this case, the auditor may select an approach that would enable him to complete the work at an earlier stage, although the total cost would probably be somewhat higher. An example would be to move certain work to a preliminary date with an update at year-end versus having the work performed entirely at year-end.

## An Alternative Taxonomy

In light of the above comments, Figure 3 includes an alternative taxonomy for considering auditor responses to time pressure in auditing. It considers factors raised by the authors in their taxonomy as well as matters noted in my comments. In this model, it is important to identify the cause of the increase in time pressure. If it is subsequently determined that the auditor will not adhere to the limit, the cause of the increase in pressure will be important in determining who pays. For example, if the client is the cause for the pressure (i.e., changes in circumstances require additional effort), then it is logical that the client could be asked to pay for the increase. It is also important to understand the conditions of the account being audited. This will affect the types of responses that will be available. It is also likely that there would be some interplay between the choices of adhering to the limit and not adhering to the limit. In other words, the auditors may partially adhere to a limit that is being imposed and would then need to consider who pays for the remainder.

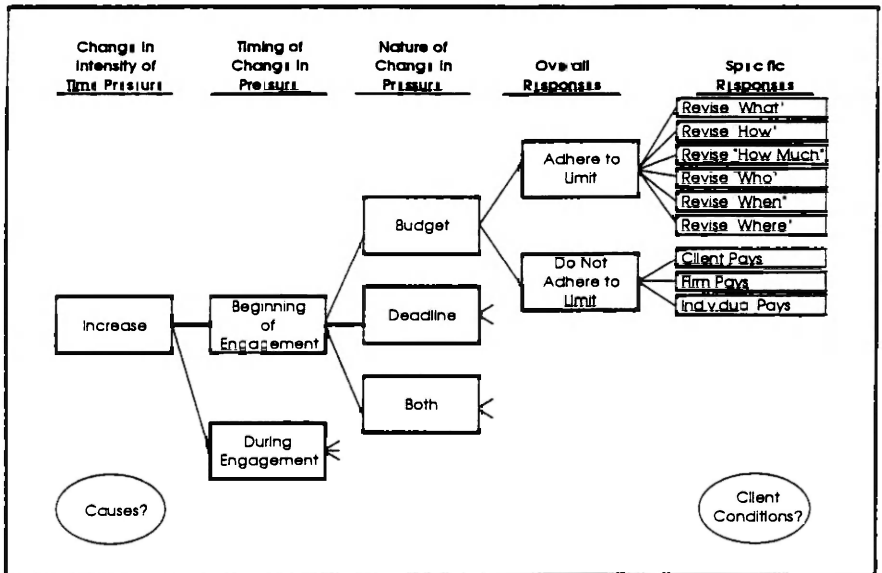


Figure 3

## Future Research Approaches

In closing, the authors suggest that future research needs to involve more field surveys and experiments. I strongly agree with this comment. This will dramatically expand the scope and value of this type of research.