

The Effects of Time Budget Pressure on the Behavior of Internal Auditors

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Abstract: Every auditing institute has to regulate and schedule timed budget of auditing operation as one of its current plans. Preparing an unreasonable and unsuitable time budget will lead to failure in achieving the defined goal in the predefined time; and these will give rise to unprofessional behaviors of the auditors. In such a case, the auditors' deviation from the predefined time table will look natural and this can lead to decrease in the quality of auditing. Among the most important unprofessional behaviors one can point to underreporting the real audit time and audit signoff without informing the superior manager. The results of this research show that internal auditors commit unprofessional behaviors against the pressures of time budgeting. Additionally, the pressures of time budgeting cause unsuitable work pressure on internal auditors.

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Operational definition of the terms

Time budget of the work: the anticipated time needed for doing the work;

Time Budget Pressure: the time needed for doing auditing operation is more than the anticipated time in the budget while the auditor has to do the work in scheduled time;

Underreporting real work time: when the time spent for doing auditing operation is more than the time budgeting but the real audit time is being underreported for the sake of preserving time budget;

Audit signoff: when some stages of auditing is not being done without the permission of the superior manager but these steps are being reported in the worksheets (Mehrani, 2000);

Unsuitable work pressure: the pressure that cause unprofessional behaviors in auditors during auditing operation;

Unsuitable time budgeting: the time needed for doing auditing operation but is calculated and assessed in an unsuitable and unusual way (Hashemian, 2009);

Unprofessional behaviors: auditors' feelings and interests may lead to tendencies and actions in order to ignore budget controlling system and reaching scheduled time. Such behaviors that make the auditing plan and its scheduling distorted and cause the deterioration of auditing quality are called unprofessional behaviors.

Internal auditing: is an activity in the organization in order to evaluate other internal controls and offering good suggestions for optimized using the resources (Azad, 2005).

1. Introduction

In auditing profession, using time budget is quite common. Such a use can make the auditing operation quality and auditing scheduling controlled in order to improve the efficiency and desirable programming for the next projects. If the time budget is defined in a good and suitable way, reaching the mentioned advantages will be accessible and even secured. When the access to budget in the performance appraisal is effective and important on one hand and the time budget is defined in an unsuitable and unusual way at the other hand, then the over-emphasis on the observing the time budget will cause the auditors show reactions and behaviors that are called unprofessional behaviors in auditing. Such unprofessional behaviors will lead to the decrease in the auditing quality. Some unprofessional behaviors are as follow:

1. Deleting some stages of the auditing
2. Doing the work in personal times without reporting the sent time
3. Illogical shortcutting of some auditing instructions
4. Shortage in needed follow-ups
5. Over-reliance on the employers' explanations

Budgeting in its advanced form is the same as programming. Nowadays, budget is the reflection of different programs planned to reach different goals. In today's competitive environment, the life of the organizations depends on the suitable programming and controlling and supervising the performances. Two terms of programming and control encompass a

single concept that is a specified method of doing the tasks. It can be claimed that the most important factor of any organization is programming and quality control. In this regard, budgeting and the process of adjusting the budget is the heart of management control systems (Mehrani, 2000).

Organizational complexities and the extension of commercial deals in most countries has caused the managers of beneficiary and non-beneficiary agencies create a separate department for internal auditing in order to reach the organizational goals, and being sure about the optimal conduct of all resources. Internal auditing is an activity that is being done in any organization to evaluate other internal controls and to offer good suggestions for optimally use of the resources. Indeed, internal auditing is a sort of management consultation.

Internal auditing as an inseparable component of the organizational controlling structure, and the internal auditors as the arm of the managers, evaluate internal controls and help the managers of the organizations to do their responsibilities in the most effective and most efficient ways; hence the internal auditing helps in-organizational persons in particular and out-organizational persons in general. The responsibility of this department is to evaluate and assess the financial controls, observational controls, and operational controls. The role of internal auditing in each of these three roles is very important for the organization.

In each of these three positions, internal auditors offer practical suggestions on the process of financial, observational, and operational auditing and thus can fulfill the optimized usage of the organization's resources, both at micro and macro levels, by a controlling deterrent mechanism or by discovering the errors.

In recent years, the profession of internal auditing has been considerably developed in many countries. The theoretical documents show that the activities of this profession in Iran are restricted in comparison to many developed or developing countries.

Using time budget for programming and controlling is quite common in internal auditing. The objectives and the advantages of time budgeting in auditing can be counted as follow:

1. Time scheduling of the work of auditing and auditors
2. Quality control over the auditing operation
3. Increasing the motivation of the auditors to improve the efficiency
4. Desirable programming for doing coming projects
5. Annual professional evaluating the auditors

2. Literature review

On 1974, American Accounting Association (AAA) established a commission to study about the legal responsibilities of the auditors (known as Kohen Commission). The report of the Commission published on 1987 and contained the results of John Road studies in which he wrote that %68 of CPA auditors who have recently joined this profession, and more than %60 of the auditors who have recently left the profession, had some sort of signoff from their superior manager but had reported doing the program. Additionally, %55 of the respondents had done the auditing operation in their personal times without reporting the spent time.

In his research, he found that the pressure of time budgeting and the belief of the auditor about the lack of importance and necessity of some stages of auditing are the most fundamental reasons of such behaviors. As he states, other reasons include: auditor's lack of experience, weak supervision, and auditor's exhaustion and carelessness. He shows that such behaviors in local and regional auditing companies are more than big companies (quoted by Naeimi, 2003).

In 1982, Alderman and Detrik conducted a research whose results show that the occurrence of such unprofessional behaviors is not unusual for the auditors. They found that despite the results of previous researches, unprofessional behaviors can be found in big companies as well. Besides, the occurrence of such behaviors at the level of auditors and their assistants is more than the other levels. Moreover, they believe that the results of previous researches may underestimated the real unprofessional behaviors of the auditors because the previous researches have not dealt with the behaviors of the non-CPA auditors or the auditors who have less than one year experience (Alderman and Detrik, 1982).

The results of another research by Litner and Liznering (1983) showed that the pressure of time budgeting is one of the most important effective factors on the auditors' behavior. They found that receiving expected rewards and requesting a headman for observing the time budget, are the most important factors in underreporting the real time of doing auditing work (Litner and Liznering, 1983).

Kely and Margim (1987) conducted another research on the occurrence of unprofessional behavior and its relationship with the type of auditing contract (fixed and non-fixed contract). They believe that the highly competitive environment in providing audit services and the relying on tender method will lead to a considerable decrease in the wage for auditing. The auditing institutes thus have to decrease

their own costs at an acceptable level in order to preserve their benefit margin. This is the first reason for reducing the time budget and making the pressure on the auditors. Such pressure will deteriorate the quality of the audit, though such a low quality is not discoverable in short time. The results of the mentioned research showed that the occurrence rate of unprofessional behaviors in fixed contracts is higher than the unfixed ones (Kely and Margim, 1987).

Azad has conducted two researches on the budget pressure and the occurrence of unprofessional behaviors in internal auditing. The results of the both researches showed that the occurrence of unprofessional behaviors has existed in the internal auditing as well; and the main causes of such behaviors was the pressure of time budgeting, lack of necessity of some stages, and lack of sufficient supervision (Azad, 1994).

In Iran, Sasan Mehrani (2000) conducted a yet another research titled "the impact of Time budget pressure on the behavior of independent auditors on the basis of relative justice theory". The results of his research showed that the occurrence of unprofessional behaviors can be found in Iran as well as other countries; and the main reason of the behaviors is the Time budget pressure, the pressure imposed by the project manager, the lack of sufficient supervision, and the lack of paying enough attention some stages of the auditing. Additionally, he found that the highest rate of unprofessional behaviors can be found in behaviors like ignoring some stages of the audit, and the lack of following up some other stages. Besides, the occurrence of unprofessional behaviors in studying the structure and preserving internal controls is more than other cases like inventory and commodity.

Another research by Naeimi (2002) dealt with the impacts of the Time budget pressure on the behavior of independent auditors under the moral theory. The results of the research showed that the auditors invoke different reactions against such phenomenon despite their own belief. Such reactions that are known as unprofessional behaviors deteriorate the quality of the auditing directly or indirectly. The decrease of the quality will inevitably damage the auditing institute. Such damage is especially stronger when considering the time budget is effective on the auditors' evaluation.

Hashemian (2009) conducted another research titled "the effects of Time budget pressure on the behavior of independent auditors under motivational theory in Tehran". The results of this research revealed that independent auditors are affected by the Time budget pressure and consequently they commit

unprofessional behaviors and thus the quality of their audit will be reduced.

Jesse C. Rabertson administered a research entitled "the impact of superior authorities and information resources on the judgment of the auditors under the pressure of specific time budgeting". The results showed that the auditors are not affected by the impact of superior authorities. Besides, the auditors are willing to the evaluation of the executive management less than the authorities and managers; and they are not directed by their prejudices for the coming decisions of economic authorities and other authorities. He has suggested that the able and talented auditors have not to show undesirable behaviors at the level of the employees (Jesse C. Rabertson, 2005).

Another research was conducted by Gregory and Shoan (2007) on "the effects of time budgeting on New Zealand auditing". The results showed that bigger companies are under the pressure of time budgeting more than small companies. This research is very useful for learning the budgeting in auditing institutes and the involvement of the employees at different levels and for important decision-makings, and the evaluation of such decisions being operationalized by the employees (Gregory and Shoan, 2007).

In 2008, Shion, Taylor and Gregory conducted a research entitled "the pressure of time budgeting and the behavior of ordinary auditor in comparison to job stress model". The results of this research revealed that time budgets affect the behavior of ordinary auditors. This effectiveness can be due to the specific relationship between the ordinary auditors and their superior auditors because ordinary auditors work for the superior ones. The results also showed that there is a reverse relationship between the benefits of employees and the capability of reaching time budgets of the auditing. Although the capability of reaching the budget by participation has a positive effect on the time budgeting process, but this capability has been spent for the real time of the work in previous year. Moreover, there is a relationship between the capability of reaching time budget and the behavior of ordinary auditors (Shion, Taylor and Gregory, 2008).

Finally, Arnold (2010) conducted a research on "supporting internal auditors in the decision-makings" the results of Arnold's research showed that the independent auditors can rely on internal auditors in analyzing the professional standards of the decision-makings. Additionally, the results of the mentioned research revealed that the companies can rely on the internal auditors in their executive affairs and in doing evaluations. In this research, the management maximally relied on the internal

auditors and strengthened their auditing roles in order to reduce the cost of external auditing. Besides, it got clear that the role of internal auditors is not merely limited to the evaluation, but the management has to follow the auditors' opinions in its decisions. The relative importance of 6 factors of Arnold's research shows that the experience of internal auditors can be very helpful in rejecting false opinions, evaluating audit documents, the importance of changing the amounts of financial lists, or the auditing process itself (Arnold, 2010).

Hypotheses

This research includes 5 main hypotheses as follow:

1. Unsuitable time budget will cause work pressure on the internal auditors.
2. Time budget pressure negatively affects the auditing operation.
3. Time budget pressure will cause ignoring some stages of auditing by the internal auditors.
4. Time budget pressure will cause underreporting real time of the work by the internal auditors.
5. The increase of Time budget pressure will increase the occurrence of unprofessional behaviors.

4. Methodology

This research is an experimental- survey that gain and analyze the opinions of internal auditors and then analyze in order to study the effects of the time budget pressure on the behavior of internal auditors. The method of this research is based on field study, and as mentioned before, it deals with the reactions of internal auditors in facing time budget pressure. To do so, the researcher referred to the standpoints of internal auditors of auditing institutes who are trusted in Tehran Stock Exchange Organization. In this research, the questionnaires were adjusted on the basis of the research hypotheses. The questionnaires were collected from the internal auditors who worked in auditing institutes.

4.1. Statistical population and sample

The statistical population of the research includes the internal auditors who worked in auditing institutes that were trustworthy in Tehran Stock Exchange Organization. The names of the mentioned auditors were extracted from the local journals, taxation districts, internet websites, etc. According to mentioned list, there were around 100 auditing institutes till the end of 2010. Since the previous researches on the independent auditors under the justice, motivational, and moral theories with statistical sampling, in this research we considered all auditing institutes (trustworthy in Tehran Stock Exchange) as the statistical population. Since there are always difficulties in responding, some institutes

were not willing to receive the questionnaire and some of them failed to return back the questionnaires.

Anyway, totally 161 questionnaires were distributed between March to May 2011 among which 141 questionnaires were picked and 121 questionnaires were accepted.

One of the advantages of this research is that around all the statistical population were subjects of the questions. If there were active internal auditors in Iranian companies during the financial period, it would be better to conduct the research among the companies who are officially accepted in Tehran Stock Exchange; but since there is no active internal auditor in Iranian commercial, production, and service companies, this research has been conducted among the auditing institutes that are trustworthy in Stock Exchange.

The percentage of sending back the questionnaires were approximately %88 (141 out of 161) and the percentage of accepted questionnaires for the statistical analysis was approximately %86 (121 out of 141). In order to be sure about the respondents' awareness and knowledge, the criteria of more than one year of experience was regarded as the selection criterion.

To gain the agreement of the respondents to fill the questionnaire, the researcher explained the nature of the research to the subjects, and if they were not willing to fill the questionnaire, immediately some other respondents were being selected.

and validity was tested and confirmed. Then the final version of the questionnaire was prepared. The final questionnaire contains two parts. The first part encompasses general information and the second part relates to the time budget, its applications, its related pressures, and the professional experiences of the respondents in facing with the research subject. Moreover, to give the needed knowledge to the respondents, the operational definitions of the related keywords of the research was attached to the questionnaire. The second part included professional questions. 5 questions were designed for each hypothesis respectively.

4.3. Measurement

The questions of the questionnaire have been design in Likert range. This range includes five equal parts in which the researcher provides some items suitable to the research subject so that the respondent can specify his/ her ideas and tendencies. The mentioned answers are ranged from "completely agree" to "completely disagree". The researcher can assign numbers from 1 to 5 to each parts of the range, e.g. number 5 for "completely agree" and number 1 for "completely disagree", and then she/ he can calculate the numbers accordingly.

Likert range is an interval measure containing some expressions and answer items. Thus the Likert scale is a complex measure. The answer items in this measure usually imply the scale of respondent's agreement or disagreement against a specific concept, whether a positive or negative answer. Using this measure the researcher can determine the sensitivity, attitude, or the belief of the respondents, because the respondent who has a weak or strong emotion against any specific subject will show his/ her sensitivity to the subject by his/ her answer, whether a positive answer or a negative one (Khaki, 2007).

Table 1. A sample of Likert range

Answer items	Numerical value
Completely disagree	1
Disagree	2
No idea	3
Agree	4
Completely agree	5

4.4. Statistical methodology

Most statistical tests are being administered given the normality of data distribution. Such a test is valid when the normality of the measured data distribution is not rejected. Drawing methods (like chart drawing with normal curve, drawing the normal line of the data, etc.) and quantitative methods (like goodness fit, comparison of aggregative frequencies with probability aggregative function, etc.) are available for the assumption of data normality. If the normality of data distribution is rejected, then the tests have to be administered without assuming the normality. Such tests are called free-distributed or

nonparametric tests. Nonparametric statistical method is used for one of the following data types:

- Data with nominal measuring scale
- Data with ordinal measuring scale
- Data with relative or interval measuring scale

Since in nonparametric method the data are studied on the basis of the ranks, to rank the data from lower to higher, the ranks of "1, 2, ..., n" are assigned.

Like other researches in the field of humanities that use Likert range, the given traits are quantitative and nonparametric. In this research we first used Cronbach's alpha to determine the reliability of the questionnaire, and since the Cronbach's alpha was high (0.776), so the questionnaire is reliable. The summary of the results is shown in table 2.

Table 2. Questionnaire's reliability test

Cronbach's alpha	N of Items
0.766	30

Then to assess the normality, we used Kolmogorov- Smirnov test. The results of the test shows that the variables of hypotheses 1, 3 and four have a normal distribution but the variables of hypotheses 2 and 5 are not. This point is shown in the last row of the table 3, so that each variable that is equal to or higher than %5, it will be normal and each variable that is less than %5 will not be normal. At the other hand, due to the high amount of the data, these two sets of variables have been dealt as normal variables. The results of Kolmogorov- Smirnov test is shown in table 3.

Table 3. Kolmogorov- Smirnov test

		ch1	ch2	ch3	ch4	ch5
N		121	121	121	121	121
Normal Parameters a, b:	Mean	3.8116	3.8116	3.8397	3.8231	3.6264
	Std. Deviation	.69392	.61281	.58288	.50013	.50790
Most Extreme Differences:	Absolute	.120	.158	.121	.101	.149
	Positive	.064	.114	.078	.094	.094
	Negative	-.120	-.158	-.121	-.101	-.149
Kolmogorov-Smirnov Z		1.315	1.737	1.328	1.111	1.635
Asymp. Sig. (2-tailed)		.063	.005	.059	.169	.010

a. Test distribution is Normal.

b. Calculated from data.

Since all the variables have been assumed normal, to test the hypotheses the researcher has used unilateral T-test with N-1 freedom degree. Data analysis has been done using SPSS software at the confidence level of %95.

5. Data analysis

Hypotheses 1: *Unsuitable time budget will cause work pressure on the internal auditors.*

To study hypotheses 1, the answers of the questions 1 to 5 were analyzed. A summary of the results is shown in table 4.

$$H_0: \leq 3$$

$$H_1: > 3$$

Hypotheses 2: *Time budget pressure negatively affects the auditing operation.*

To study hypotheses 2, the answers of the questions 6 to 10 were analyzed. A summary of the results is shown in table 4.

$$H_0: \leq 3$$

$$H_1: > 3$$

Hypotheses 3: *Time budget pressure will cause ignoring some stages of auditing by the internal auditors.*

To study hypotheses 3, the answers of the questions 11 to 15 were analyzed. A summary of the results is shown in table 4.

$$H_0: \leq 3$$

$$H_1: > 3$$

Hypotheses 4: *Time budget pressure will cause underreporting real time of the work by the internal auditors.*

To study hypotheses 4, the answers of the questions 16 to 20 were analyzed. A summary of the results is shown in table 4.

$$H_0: \leq 3$$

$$H_1: > 3$$

Hypotheses 5: *The increase of Time budget pressure will increase the occurrence of unprofessional behaviors.*

To study hypotheses 5, the answers of the questions 21 to 25 were analyzed. A summary of the results is shown in table 4.

$$H_0: \leq 3$$

$$H_1: > 3$$

6. Conclusion

According to the obtained results, all 5 hypotheses are confirmed.

Table 4. The results of testing hypotheses 1 to 5

Hypotheses	Mean	T-value	Freedom degree	Sig.	Result
1	3.8116	12.865	120	.000	H ₀ was rejected
2	3.8116	14.568	120	.000	H ₀ was rejected
3	3.8397	15.846	120	.000	H ₀ was rejected
4	3.8231	18.105	120	.000	H ₀ was rejected
5	3.6264	13.567	120	.000	H ₀ was rejected

As shown in table 4, since all calculated means are higher than 3, thus all hypotheses are confirmed.

6.1. Suggestions

In this research we studied the effects of time budget pressure on the behavior of internal auditors. Like other researches on the independent auditors, the results of this research showed that the internal auditors are affected by the pressure of pre-specified time budgeting. Accordingly, the following suggestions can be offered:

1. The companies have to plan a suitable and usual time budget for the internal auditors.
2. Auditing program that directly affects the quality of auditing operation has to be prepared in a way that prevents unprofessional behaviors.
3. The effects of time budget pressure on the behavior of internal auditors have to be studied under different theories.

6.2. Limitations

Like other field studies, this research has had many limitations among which the followings can be mentioned:

1. Ensuring that the questionnaire is really perfect and defect-free is extremely hard and even impossible.
2. Regaining the questionnaires always faces difficulties and usually leads to researcher's costs without any outcome.
3. Most Iranian researchers are being administered in the capital, Tehran. This issue causes the decrease in generalization of the research.
4. Many respondents complete the questionnaire without scrutinizing it, but with just a glance at the questionnaire. This way of completing the questionnaire reduces the precision of the questionnaire.
5. Finding the best statistical test for the research is a difficult task because in most researches, the research's field of study is different from Statistics and so the researchers usually are not sufficiently equipped with statistical methodology. In many cases, this shortage will result in using illogical test for his/ her research.

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