

## AUDIT QUALITY THREATENING BEHAVIOURS: PERCEPTIONS OF AUDITEES

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### ABSTRACT

*Previous research has found that audit staff engage in audit quality threatening behaviours (QTB). Auditee personnel interact with audit staff during fieldwork, and their perceptions of QTB are reported in this paper. Interview findings reveal that auditees (particularly those with previous audit experience) perceive themselves as being in a position to detect some shortcomings in audit work; however, few consequences were perceived as arising from the behaviours and they reported a general reluctance to report the behaviours externally, should they be detected. Implications of the findings and areas for future research are discussed in the paper.*

### INTRODUCTION

A considerable body of research exists detailing responses of audit trainees and seniors to cost/quality conflict when carrying out audit fieldwork. Many of these responses threaten audit quality and have been referred to in this literature as audit quality threatening behaviours (QTB). These behaviours would be expected to be a concern to shareholders and auditees<sup>1</sup> as the audit has an important role to play in the credibility of financial reporting, and behaviours that have the potential to reduce audit quality could undermine the credibility of capital markets. While it is to be expected that shareholders would have little knowledge of the work carried out by auditors, Causholli and Knechel (2012) pointed out that even within companies

information asymmetry exists between auditees and auditors regarding the nature and extent of audit work and this information asymmetry can benefit the auditor. As identified by Causholli and Knechel, suboptimal outcomes of which the auditee is unaware, such as auditor over-auditing, under-auditing, or over-charging, can exist at the audit firm level. These suboptimal outcomes can also exist at the audit team level in the case of under-auditing, as identified in the numerous studies of QTB (e.g. Sweeney and Pierce, 2004; Pierce and Sweeney, 2004; Malone and Roberts, 1996).

QTB includes behaviours such as biasing sample selection, reductions in sample sizes, and accepting weak client explanations. The interactions between auditee staff members and the auditor can result in insights into the procedures and approach of the auditors (Causholli and Knechel, 2012). Power (1994) referred to the 'black box' of the audit process, whereby little of what happens during it is evident to those outside the process. Auditee staff who interact with the audit team should be in a position to provide insight into the 'black box' of auditing and their perspectives could be expected to contribute to a more comprehensive understanding of QTB. With the exception of Sweeney and Pierce (2011), little research has been carried out examining the perspectives of auditee staff members on their interaction with the external audit team. Sweeney and Pierce (2011) found that auditee staff perceived that they were in a position to exploit weaknesses in the management control system used by audit firms (such as the audit review process, audit methodology and training of junior auditors). Sweeney and Pierce also found that auditee staff perceived they could influence the audit team to engage in QTB. Auditee staff maintained that they were motivated by a desire for increased efficiency in the audit process and, while they maintained that this influence was actually co-operation, they firmly placed the responsibility on the auditors for ensuring that they had completed sufficient audit work (Sweeney and Pierce, 2011). This suggests that auditee staff may actually contribute to increasing suboptimal outcomes from the audit, rather than reducing the likelihood of their occurrence.

Pierce and Sweeney (2006) found that one of the justifications provided by audit seniors for QTB was lack of auditee concern with audit work. This justification, however, reflects the espoused perspective of audit seniors. Previous research has not examined the perspectives of auditees on QTB. Audit seniors and partners generally perceived few consequences of QTB, provided the behaviours were not detected externally (Pierce and Sweeney, 2005, 2006). External detection of QTB by auditee staff would be expected to have adverse consequences for audit firms and audit staff. As Carnegie and Napier (2010, p. 360) pointed out, 'upholding the public's trust is essential not only for preserving respectability but also for ensuring the survival of accounting's status as a profession'.

The objective of this study is to explore, using interviews, the perceptions of auditee personnel on QTB carried out by audit staff. This research contributes to the literature in a number of ways. Firstly, the findings demonstrate differences in the perspectives of auditee personnel, depending on whether they had knowledge of backstage audit activity through previous employment as an external auditor. Those who were ex-auditors had a greater insight and were more generally aware of shortcomings in audit work (in some instances this was based on their contact with the audit staff during the audit of the auditee's company). In contrast, those

without previous audit experience were not generally aware of the tests carried out by auditors and, with the exception of 'accepting weak client explanations', did not perceive themselves as being in a position to detect shortcomings in audit work. Secondly, while the term 'quality threatening behaviour' has been used in a stream of literature to refer to deliberate quality reductions, this conflates the outcome (QTB) with the motivation for the behaviour (deliberate). There is a need for more refined measures of QTB in future research studies to unpack the concept of QTB and recognise the behaviours separately from the motivations, which could reflect a deliberate reduction in quality or an inadvertent reduction due to inexperience or inadequate training.

Lastly, the study presents evidence of a lack of consequences from QTB perceived by auditee personnel, and a reluctance on the part of auditees to report any detected behaviours to the audit firm. Given that auditee personnel interact with the audit team on a regular basis while the team are in the field, they are in a key position to reduce the information asymmetry between the auditor and auditee and to provide an insight into the 'black box' of auditing, possibly leading to an improvement in audit quality where shortcomings are evident. All the interviewees in this study were qualified accountants and yet they did not seem to perceive any obligation to report shortcomings in audit work, and placed little value on audit work. This suggests an alignment of interests of auditees and auditors and lack of concern over audit clients' (i.e. shareholders') needs. The auditees interviewed in this study are professionals who could be expected to engage in more holistic, big-picture thinking and have an immediate connection to work as a source of identity and pride (Parkan, 2008). Yet their lack of concern over these behaviours points towards short-term thinking on the immediate consequences for themselves of any additional audit work that might result from reporting low-quality audit work, rather than longer-term thinking on the importance of the audit function in society.

## **BACKGROUND LITERATURE AND RESEARCH OBJECTIVE**

Interactions occur between the different levels of auditee staff and auditors at various positions in the audit firm hierarchy. Higher-level interactions between the audit partner and auditee deal with issues such as audit fee discussions and financial reporting requirements; a stream of literature exists on negotiations at this level (e.g. Beattie, Fearnley and Brandt, 2004). The primary focus of this study is on auditor-auditee interactions at lower levels. Audit juniors and seniors perform the majority (measured on a time input basis) of audit work on the auditee's premises and interact frequently with auditee staff during this fieldwork. The following section discusses the literature on audit quality, specifically in relation to cost/quality conflict. This is followed by a discussion of the consequences of QTB. Finally, the research objective of the paper is presented.

### **Audit Quality and Cost/Quality Conflict**

Recent reviews of the literature on audit quality have called for research that increases our understanding of the drivers of audit quality (Knechel, Krishnan,

Pevzner, Shefchik and Velury, 2013; Francis, 2011). Inputs to the audit are one important dimension of audit quality, and audit quality has been linked with the extent of audit work conducted (Carcello, Hermanson and Riley, 2002). Francis (2011, p. 135) maintained that 'An audit will only be as good as the quality of the evidence generated by audit-testing procedures'. Francis (2011, p. 135) pointed to the need for relevance and reliability of audit testing. Reliability refers to 'the inherent truthfulness of the evidence'. Auditee co-operation is likely to be important in ensuring reliability of audit evidence.

Audit firms are concerned with providing independent opinions on financial statements and, in so doing, frequently encounter conflict when attempting to control audit cost and quality (McNair, 1991). Being labour-intensive, the dominant element of cost is time and this is controlled using time budgets (Kelley and Seiler, 1982). Previous studies have found that auditors are under extreme time pressure to complete the audit work within the time budgeted (Kelley and Seiler, 1982; Otley and Pierce, 1996) and time pressure continues to be an area of dissatisfaction for audit trainees (Sweeney and Boyle, 2005). The quality of auditors' output is difficult to measure and auditors themselves have difficulty evaluating the quality of an audit after the work has taken place (Power, 2003). Controlling cost involves limiting time on an audit, but quality concerns may require audit firms to invest more time in the audit (Mautz and Sharaf, 1961). Cost/quality conflict and its impact on the audit team have been documented in the literature over the last few decades (McNair, 1991; Otley and Pierce, 1996; Sweeney and Pierce, 2004).

Audit staff have been found to react to these conflicting situations in a variety of ways. One approach to avoiding cost over-runs is to artificially reduce cost by under-reporting time (but complete the full programme of audit tests and thereby maintain audit quality). Other approaches involve a variety of deliberate and unapproved shortcuts that threaten to reduce audit quality (QTB) such as accepting weak client explanations, reducing sample sizes and prematurely signing off tests without completing the work (Kelley and Margheim, 1990; Pierce and Sweeney, 2004).

Due to the nature of the audit process, actions such as these can be very difficult to detect (Pierce and Sweeney, 2005, 2006). Power (2003) suggested that difficult decisions that auditors are forced to make on balancing cost and quality considerations are invisible at the front stage. The risk of these behaviours being detected externally was generally perceived by audit seniors and partners to be low (Pierce and Sweeney, 2005, 2006). While previous research suggests that auditee staff can influence auditors to engage in QTB (Sweeney and Pierce, 2011) and therefore have an awareness of QTB, it would be expected that actual QTB would be concealed from the auditee due to the vital importance of image management perceived by audit seniors (Sweeney and McGarry, 2011).

### **Consequences of QTB**

While QTB has been shown to exist worldwide for well over 30 years, there appears to be little evidence of consequences of the behaviours for audit firms, individual auditors or society. The perspectives of audit partners (Pierce and Sweeney, 2005) and audit seniors (Pierce and Sweeney, 2006) have been sought on consequences and, in general, both groups perceived few consequences arising from QTB for the

audit team, provided the behaviours were not detected externally. Audit partners perceived that clan controls such as informal communication and intuition of the partners operated to ensure that significant areas were not overlooked (Pierce and Sweeney, 2005). Audit seniors maintained that the behaviours did not occur in significant areas (Pierce and Sweeney, 2006). If, however, the behaviours were detected externally, they could be expected to adversely affect auditor reputation and general perceptions of the quality of the audit, with possible consequences for decisions such as auditor retention. Auditor reputation 'relates to the market's perception of auditor competence and objectivity' and impacts on perceived reliability of information (Watkins, Hillison and Morecroft, 2004, p. 156). Audit seniors perceived that auditee satisfaction and maintaining an image of professionalism with the auditee were extremely important to the audit firm (Sweeney and McGarry, 2011).

In addition to an impact on perceived audit quality, actual audit quality may also be affected, and Knechel (2007) pointed out that non-sampling risk is increased if auditors are persuaded to discount negative results in audit testing. Knechel referred to Cullinan's (2004) study that argued that five recent large audit failures in the US occurred due to non-sampling errors in various forms, though these behaviours were not due to audit team QTB. The failure of auditors to alert the public to the impending banking crisis has further increased public concern over the role of auditors (Sikka, Filling and Liew, 2009).

### **Research Objective**

Extensive research has been carried out on QTB from the perspectives of audit seniors (Pierce and Sweeney, 2004), audit juniors (Lee, 2002) and audit partners (Pierce and Sweeney, 2005). Given that auditee staff have greater contact than audit management with audit staff during the fieldwork, their perspective seems important and could lead to a more comprehensive understanding of QTB. Previous research has examined the perspectives of auditees on audit firms' control systems and has found that auditees perceive that they can manipulate audit staff into engaging in QTB (Sweeney and Pierce, 2011). However, perceptions of auditee personnel on QTB initiated by the audit staff themselves have not been previously reported. Hence, the objective of this study is to examine the perceptions of auditee personnel who interact with the audit team regarding QTB by audit staff. Specifically, this exploratory research addresses the awareness of auditee personnel of QTB and the perceived ease of detection and consequences of the behaviours.

## **RESEARCH METHOD**

Semi-structured interviews were carried out with eighteen auditee staff from seven publicly listed companies in Ireland. The companies were selected from a range of industries and included service and manufacturing companies. A contact in each of the companies was approached by the researchers and asked to arrange a number of interviews with members of their staff who dealt, on an ongoing basis, with the external audit team. The interviewees were all qualified accountants<sup>2</sup> and had senior roles in the companies' finance departments (see Appendix 1). They all interacted

with members of an external audit team from one of the Big Four firms during the course of the audit. Where a number of interviewees were from the same company, they were in either different divisions or different sections, and therefore all interviewees dealt with different audit staff during the audit. Half of all the interviewees had previous experience working as an auditor. Hence, it was possible to compare the perspectives of interviewees depending on their work experience.

The interviews, lasting approximately 50 minutes, were all held in the offices of the companies and were carried out jointly by both researchers. The relevant extract from the interview schedule is contained in Appendix 1. Measuring awareness has long troubled researchers in psychology (see Nisbett and Wilson, 1977), and there are limitations surrounding this research on auditee personnel awareness of QTB. These limitations relate to bringing the QTB issue to their attention in determining awareness, which may result in social desirability bias in claiming an awareness that was not present prior to the interview. While the first question presented in Appendix 1 related to awareness of QTB, the findings reported in this study were part of a larger study where the interviewees were firstly questioned on a range of other issues such as audit firm management control systems. This enabled a rapport to be developed between the interviewer and the interviewee before sensitive questions were addressed. Finally, the interviewees were assured confidentiality and that no one other than the researchers would have access to the recordings of the interviews. While these steps help to reduce the likelihood of social desirability bias, we accept that it is a limitation of the study.

Interviews were recorded and transcribed following the interviews. Recommendations for data analysis in the literature (e.g. Lillis, 1999; Patton, 1990; Miles and Huberman, 1994) were followed in the coding and analysis of the data. Initial codes on the general areas of investigation were developed before the interviews commenced and these codes were refined as the interviews progressed. The main codes related to awareness of QTB (subdivided into accepting weak client explanations and other forms of QTB), detection of QTB, consequences of QTB, and reporting of QTB to the audit firm.

NVIVO (a software programme for analysing qualitative data) was used to organise the findings. Pattern analysis (Miles and Huberman, 1994) was used to draw and verify conclusions. This commenced during data collection and, following each interview, the researchers sought to identify the main patterns arising. For example, it became apparent that the perceptions of auditee staff varied depending on whether they had prior experience of backstage audit work. Adding evidence to confirm a pattern and being open to evidence that contradicts it is important in forming conclusions, as it helps protect against providing unreliable evidence (Miles, 1979). As suggested by Miles and Huberman (1994), the researchers checked for negative evidence that might contradict any of the conclusions reached in the analysis and also checked that the evidence backing up each finding appeared to be reliable. To help the reader gain a better understanding of the data, Appendix 1 sets out the main views of each interviewee, as recommended by Silverman (2000). In presenting the findings, sentences that appeared to represent a particular code or theme were used to present the 'thick description' (Denzin, 1994, p. 505) in the findings section. To preserve anonymity, we have assigned a number to each of the interviewees (refer to Appendix 1).

## FINDINGS

The detailed interview findings are presented in this section and are organised according to the dominant themes: awareness and detection of QTB, consequences of QTB, and reporting of QTB.

### **Awareness and Detection of QTB**

In general, auditees were aware of the possibility of QTB occurring, with two-thirds of the interviewees referring to it either possibly occurring or providing examples of it actually occurring. Of the six interviewees who were not aware of QTB, five had not worked previously as an auditor. As can be seen from Appendix 1, former auditors in general were more aware of QTB and 'having been an auditor you kind of know where the shortcuts are yourself' (10). 'You've been through it yourself ... you'll generally have a good idea when an auditor is trying to short-change you ... whoever else who mightn't have come through that route might just go, "I must be doing a great job, the auditor hasn't come near me in a week"' (8).

A number of different forms of QTB were addressed in the interviews and auditees were generally aware of 'acceptance of weak client explanations'. This is not unexpected given that the auditee is directly involved in the provision of this form of audit evidence. However, this was not necessarily considered a form of QTB by auditees as it was perceived that the behaviour could be due to lack of experience rather than a deliberate quality reduction on behalf of the audit team member. Analytical review was mentioned by a number of interviewees as an area where audit staff accept weak client explanations for differences in account balances between years.

Over-reliance on client work was also frequently referred to as a shortcoming that auditees were aware of, with ten interviewees referring to the possibility that this could occur (six of these interviewees had previous experience as an auditor). The increased pressure on auditees to prepare schedules for auditors was thought to increase the likelihood of over-reliance on client work: 'It is very easy from a client's perspective to give a sheet of paper supporting something and they say "That's grand" and stick it on the file ... what is very important is to have a piece of paper on file ... there is a lot more client preparation being required as part of the audit planning now' (1).

However, interviewees were not able to provide examples of it actually happening, as the amount of work done on information they gave the auditors was not visible to auditees. One interviewee referred to the increased documentation requirements of Sarbanes Oxley, which she felt was likely to have reduced auditor reliance on client work. Superficial review of documents was also mentioned by a number of interviewees and one maintained 'I could guarantee you that there are documents I have given the auditors that they haven't really read' (1).

Biasing sample selection was referred to by three interviewees (two of these were ex-auditors) and was described by one ex-auditor interviewee as 'the oldest trick in the book' (8). Another ex-auditor interviewee maintained she could 'certainly see how easy it is to do that, if you have selected three or four things that aren't working and just select three or four more that do work and then forget about the ones

that didn't, and not have to worry about them' (1). Regarding sample size, one ex-auditor interviewee referred to reducing sample sizes and felt that auditors could adopt a discretionary approach as it is based on judgement anyway and 'how much do you tick and bash so if you've got a list of accruals, and there's say a hundred accruals on it, do you tick and bash 5, 10, 50 or 100 of them?' (7).

Overall, interviewees felt they would have little visibility over whether auditors actually engaged in these behaviours. Most interviewees were of the view that it would be very difficult for an auditee to conclusively detect instances of QTB and 'the chances of me finding it would be fairly remote' (5). It was thought that auditors are 'going to be hiding it even more from us than they are from their own managers, so we're not going to be necessarily aware' (7). In general, interviewees were not aware of sample sizes or 'the detail of what work they are doing' (2) and 'you can't really tell what the quality or the quantity of testing has been' (3). They felt they would not be in a position to judge whether all the areas included in the audit plan are completed and would not 'appreciate fully sample sizes' (16): 'What I don't see excessively would be, for example, their work programmes and see whether or not you have somebody in [firm name] who signed off on all of those procedures' (1).

Because of time pressure, 'the actual exposure from the point of view of face-to-face contact is reduced' (14) and this was thought to further reduce the ability of the auditee to detect QTB as the limited interaction renders it 'difficult to see what quality you are getting out of it [the audit]' (13).

A small number of interviewees believed they could detect the behaviours if they wished. One maintained that if an auditee staff member wanted to know what the auditors had done he could find out by asking his staff 'what did they do and how did you work through it and what samples did you give, but usually it's "let them off"' (4). Another suggested that they would be aware of any bias in sample size as they know the items that are easier to select. Also, where auditees had to locate documents for auditors they would be aware of sample sizes and one interviewee maintained that 'it tends to be the same sample [size] every year' (3). This is consistent with previous research that suggests that auditee staff (especially those with long experience) perceive auditor control procedures and behaviour to be predictable (Hellman, 2006).

In certain cases, auditee staff could pick up on poor-quality work and an example was given where 'it was just clear to us that the person doing the work didn't really understand what he was doing and it became clear that [firm name] knew that too and they sent somebody more senior around to effectively re-do it a few weeks later' (1). Another instance was mentioned by the same interviewee where:

We would have a sense that the audit manager and partner clearly aren't very happy with the audit work and they are having to do an awful lot more and come back with a lot more questions. And from time to time we have had experience ourselves of individuals who we felt just weren't doing a very good job and didn't seem to know what they were on about. Not always that it was problematic for us but just you would wonder how on earth would the audit team be happy with them (1).

Poor-quality work could also be detected from the working papers where auditees had sight of these. One example related to an incident where an audit staff member



had given a member of auditee staff their working papers on creditors, which were requested for a specific purpose:

There was perhaps maybe half a page of text and many of the points I could see where they picked it up but it was amusing, just, when they wrote the story about it, like it was completely off the wall and it didn't really make any sense at all ... it kind of reflected, I suppose, the senior having to write something up and this was the best he could do ... it was like taking pieces of a jigsaw that don't fit together and somehow or other he'd managed to hammer them together but the manager didn't cop anything (7).

While these examples relate to poor quality of work rather than deliberate QTB, an example of possible deliberate QTB related to where auditors had requested certain documents at the start of the audit 'but there was some of them that we had ready for them and they never came back to check them' (12). Interviewees were generally unsure as to the scale of occurrence of deliberate QTB and one surmised that 'it would be a particular individual who would be inclined to do all of these things [types of QTB], not everybody doing some of them' (1). Some gave examples of their awareness of QTB from when they trained as an auditor, such as actions by one of their peers where 'it was all automatic tick, as we used to call it then, he wasn't really checking it off at all' (7). Interviewees also showed awareness of the pressures faced by auditors:

I think a lot of it is a time issue. I am not casting any aspersions on them because I was an auditor myself .... My attitude to auditors certainly would have been different than my predecessor who didn't come from an auditing background and who thought they were the lowest form of whatever .... I would always have respect for auditors (2).

Many interviewees who were not previously employed as auditors maintained that they found auditors to be conscientious. They referred to the fact that auditees have to rely on reputation as a measure of the quality of work and 'we have got one of the Big 4 out there auditing us, that in itself gives you a certain amount of comfort' (16).

### **Consequences of QTB**

While auditees did not generally perceive they were in a position to detect QTB, their perceptions of the consequences of QTB are important as they give us an insight into the value they attach to the audit work. Opinions varied as to the seriousness of the potential consequences of QTB by the audit team. The majority did not 'really see there as being any material consequences' (13) and were 'not too concerned if they get through the ten or twelve items on it [work programme] but that they complete the process and that they have to confirm to us that they haven't got an issue' (4).

If they didn't complete five [items in a sample] ... I'm not sure that that would really ever pick up anything significant. You know they only ever test small samples anyway (5).

As far as they're [auditee top management] concerned, they want to get through the audit and get a clean bill of health, or whatever, and with few issues. I think that's more of their concern than whether issues have been missed (6).

I'm almost indifferent to whether they are doing that or not ... the cost/benefit to me, having my own controls in place to find something like that, are miniscule (8).

A number of factors were identified by interviewees as impacting on the consequences of QTB: audit area where QTB occurs, the strength of controls in the auditee organisation, the perceived value of the audit, and audit firm controls. First, regarding the audit area, the likelihood of consequences was thought to 'depend on where they are taking the shortcut' (10) in terms of materiality. Half of all interviewees referred to materiality and in general it was perceived that QTB would not occur in significant areas of the audit and 'a lot of those would be kind of superficial as opposed to having a material effect, as such' (13). If they occurred in significant areas, it was perceived that there would be an accounting scandal and that it would damage the reputation of the auditors:

If there was some, what would you say, mindset, in the past, that corners could have been cut around significant issues, I think with all the accounting scandals and the fallout from all that, I think the accounting firms now are far more careful than they might have been in the past. They just can't afford another accounting scandal, you know (16).

'Bringing the whole accounting profession into disrepute' (1) was considered possible if the behaviours occurred on a widespread basis as 'the financial community generally does place a high regard on audit opinions so you have to feel that those are arrived at after, you know, proper procedures and good work, good professional standard of work' (1). Exposure to a lawsuit for the auditors ('they run the risk of being sued over it' (15)) was also mentioned and problems for the auditee if an error was picked up the following year and accounts had to be restated.

If there was something there that you know wasn't picked up ... it may kind of accumulate into a bigger issue than it would have been if it had been caught at the start (5).

If you skew a sample size and then you realise that it was indicative of a bigger risk which was then not tracked, nobody would be thanking the audit firm for that, okay, number one, and certainly then directors who sign off on the accounts that the controls are in place would not be happy at all and there may be serious consequences on both sides ... I imagine the consequences could be severe enough if it did actually prove to be endemic of a wider malaise, let's say, for both the firm and the client (14).

It was felt that if this happened, the auditee 'might consider changing auditors' (3). This was considered to be very unlikely as it was not perceived that the behaviours would occur in material areas.

Also, if QTB occurred on a frequent basis it was thought to have potential consequences for the level of preparation for the audit. It was perceived that it could influence the attitude of the auditee staff towards the auditors:

If the shortcuts became a pattern, the amount of analysis coming back and support from the companies in due course would also weaken ... the auditors, they do provide a very good function, an outside group coming to review, and a lot of people, we'll say outside the core finance team, don't quite know what these lads are doing around the place, what they are looking at, and may not realise, for the annual audit, that their review process is quite specific and quite focused. So auditors being in a place do support the controls and strengthen things around the place (4).

Overall, however, it was perceived that the behaviours would not occur on a frequent basis or in material areas. Regarding materiality, it was suggested that even if an auditee staff member deliberately hid something immaterial, it would have no consequences:

I mean, if I put a hundred thousand away somewhere today and told the auditor it was an accrual for whatever or a whole load of books, it won't make any difference. It won't make a difference to their job, it won't make a difference to the audit, it won't make a difference to our accounts next year ... in general terms, there won't be anyone coming back on it (11).

The second factor identified was the strength of controls in the auditee organisation. This was the next most frequent factor referred to after materiality of the audit area. There was a general perceived lack of value attached to the audit and it was perceived that there would be little consequences resulting from QTB for a 'well run' auditee (18).

Corner-cutting won't necessarily mean that the accounts are misstated ... if you have a strong control environment within your own company, it wouldn't mean that the accounts would be incorrect at the end of the day and I think that's possibly why ... even if there has been corner-cutting, that the accounts are still materially correct at the end of the day (10).

Where the control environment was weaker, this was thought to have implications for the auditee and the auditor:

It can have implications, especially if senior management in the company you're auditing don't engage that well with middle management. You can have a lot of collusion going on at middle management whereby they just have their own things going on .... Senior managers don't really have visibility of it and then if the auditors aren't going to pick it up .... So I think if you have a fairly lax kind of management controls inside in a company, it does have implications for the client, it sure as hell has implications for the auditor because things have a tendency to come back and bite you, if not this year, then in ten years' time (8).

Obviously the double whammy for the auditors is that it is always the risky client that the incentive to do these shortcuts in practice is, and that is where the trouble is (1).

It was pointed out that it is the directors' responsibility to make sure the controls are working properly and 'therefore the likelihood is that even though the tests are not being done completely, that the control procedure is working and working

properly' (3). This interviewee felt that the general absence of any consequences for auditors was to do with 'just good control systems in most companies nowadays' (3). It was felt that auditors never 'brought up an issue that became a showstopper for anyone along the way ... you are looking for the audit to support rather than relying on an audit' (4).

A number of interviewees perceived that auditors did not provide much value for a business and that there was little benefit from substantive testing and ticking-the-boxes type of work. In general, interviewees felt 'you aren't worried that their working papers aren't done, or don't formally document it properly, you are just delighted that they think they are happy' (1). Another mentioned that 'it's not my job to prompt them to ask the right questions' (14).

I mean, obviously, if somebody comes back and asks you for an explanation and you know it's gone over their head and they say okay, you know that they are cutting a corner but I suppose at the end of the day ... they are in a training firm, but I'm not here to give accounting lessons in the month of August (10).

One interviewee jokingly suggested that 'sure we would be delighted' (7) if QTB occurred as it reduced the volume of work for the auditee. At the same time, this interviewee acknowledged that the auditors do have an important job and 'there are times where I have effectively kept the auditors on people where I've nearly written, well, in fact, I have written the odd management letter comment for them, where I want them to hit on an area that might have been messing around in the past' (7). This was supported by another interviewee who perceived that 'auditors provide a very important service' (14).

Finally, a number of interviewees referred to the additional work that is carried out by audit partners, the audit review procedure and the likelihood that audit firms assign weaker auditors to less significant areas as being important factors in further reducing potential consequences of QTB. Interviewees generally perceived that the calibre of the audit partner and manager would be very high and some auditees maintained that partner involvement could compensate for any lower-quality work carried out by audit staff:

If they [audit management] felt the audit work on a particular, either a complicated transaction or a particular accounting issue wasn't well handled, then they can get their assurance by doing some top-level reviews or having the partner and manager discuss it with senior people in the client (1).

I think sometimes when that corner-cutting does go on, the audit partner, the really good ones will have these things in the back of their mind, and I spoke to the CFO and he told me to look out for this, you know I'll be checking that now when I come to have a look at this. Then he goes and he sees that yes, that doesn't tally with what I've been told. I better investigate that in a bit more detail, so I think those kind of softer skills sometimes can help compensate (8).

It was felt that partners have 'a very good understanding of the different elements of the group and probably a real insight' (9). Auditees perceived that the calibre of

staff varied with the importance of the area of the business and 'a slightly down-graded team' (9) was sent to the less risky areas. 'In every region some years there is an issue with the quality of the staff. We tend to get very, very good staff in Dublin ... around the group that can vary and would be something we are very concerned about and would raise with them regularly' (1).

Poor-quality staff seemed to be frequently encountered by some auditees, and one interviewee mentioned that 'in the last two years that there was this one guy who didn't seem to have a clue, and he was there this year as well and he was still the same and he still didn't seem to know anything' (6). Others felt they had not 'personally experienced a huge degree of variance in quality of approach ... we haven't had anybody who's been a total and utter disaster' (7). But at the same time, this interviewee acknowledged: 'Certainly you would get the feeling that there would be some individuals that would be much better than others in terms of their understanding of what's going on or their approach to things' (7). One interviewee maintained that the reason why weaker auditors are sent out to clients is that the audit firms are not 'cut-throat enough themselves, maybe, in how they manage their staff' (8). This interviewee elaborated further:

There's a tendency to send them out to pasture ... I'm not saying that pension funds, for example, aren't important audits but they'd often be regarded as one where the client mightn't see you that often .... I'd only know a handful of auditors who've really been told they must go ... there is a tendency for a lot of people to train in audit and to see that as a route to getting their exams and getting the hell out of there and that's not necessarily conducive to getting the best results out of these people, if they have that kind of short-term view (8).

In addition to assigning weaker audit staff to less significant work, some interviewees felt that the audit review process would compensate for any weaknesses in audit staff:

You're going to get people who are very good and people who are not as good and people with more or less experience .... You've lots of juniors walking around with pages or sheets with questions on them to which I assume what happens is, the next level up looks at them and says no, yes, no, yes, no, yes. So I presume that is how that risk is covered off (18).

The audit review process was thought to be generally effective in detecting most of the weaker explanations: 'In a very complex business they don't realise that yes that is the answer to that question but there are three more questions I should ask. Some of those will get, the vast bulk of those I would say would get picked up at the next level but I am sure there are ones that slip through' (18).

During the review, it was evident that 'the manager would say "Go back and get more"' (2) and the audit team would often approach the auditee saying, "'Can you give us some back-up, I just want to get rid of this point'" (9). 'What you typically find is that they are back on to you again and maybe sort of "Look, I'm sorry for hounding you about this again but I've been asked to blah, blah, blah"' (7).

The effectiveness of the review was perceived to be very evident to the auditee when 'issues that we thought had been resolved kind of in the field with the team, it transpires that somebody is coming back to us a week or two later' (1). Sometimes it was felt that the audit senior might agree with the auditee that 'there is not an issue here, the guy you're talking to agrees with you, but the manager is still a bit picky about it' (7). It was felt that it was only when the review was completed that the auditee will 'know that there are no issues' (11). One interviewee mentioned that he had 'seen that process of the audit senior grilling the guys down here and then this fella, this director grilling this fella, and it's quite aggressive' (16). This aggressiveness was seen in a negative light by one interviewee who maintained that auditors do not have time to reflect:

When he [the manager] does come down to do the review, he is basically barking at them the whole time, I won't say barking at them, but he is very much issuing, 'Now just go in and get that and don't spend time, don't waste time, don't be hanging about and asking whether they fiddle around, you have got to get on with doing something' (2).

Evidence of the senior's review of the junior's work would come from questions by the senior where 'I've spoken to, say, one of the junior guys and then one of the senior guys will ring you back and say well, you told this guy x, y and z, look I've just got a few more questions' (6). It was generally felt that the audit review was a good control as partners have a good knowledge of the business and 'can probe their own staff in turn' (8). The audit review and partner contact is now so 'hands on' (18) that it was thought to be effective in detecting QTB and 'it [QTB] would be a pretty risky thing for someone to do' (2). Another auditee mentioned that he had experience of one manager while he trained in the audit firm where 'he used to almost audit the auditor sometimes ... can I have a look at this sample now and I'll just do a spot check on stuff' (8) but in general 'the audit profession is very poor around that, whereas if people felt that was happening they'd make sure their sample was right and that it was correct and that kind of stuff' (8).

While one interviewee referred to consequences for audit juniors where 'they would get a kick in the behind' (16), overall it was felt that there would be no consequences as the behaviours would not be detected. The next section discusses whether auditees would report QTB internally or externally if they did detect the behaviours.

### **Reporting of QTB**

Interviewees were asked what course of action they would take if QTB was detected, and generally they maintained that they would not report specific incidences of QTB to audit firms. It was pointed out that this is not a decision auditees generally have to make, as 'it's most unlikely that a client would detect [QTB]' (1). One interviewee maintained that they 'would probably discuss it informally with the [audit] manager' (4) and another felt that it would depend on the relationship between the auditor and the auditee. Another jokingly suggested that if he detected a biased sample, 'I would be straight on to the senior manager or whatever to find out what was going on unless I approved a sample change myself, you know (laughs)' (8).

Also, 4 interviewees maintained that it would be more general issues that would be reported back rather than specific instances of shortcuts:

I haven't come across somebody doing a shortcut and saying that I am now very uncomfortable with what they have done or what they've ticked. Generally it would be back to the quality of the staff and their understanding and that's the kind of issue you'd raise ... you might at that point say, well, I didn't think they were as strong as last year (9).

I suppose what we would do would be to draw the attention of the manager and partner to a person who we felt wasn't doing a particularly good job ... but in those cases it is almost to do them a favour rather than any real issue for us because we wouldn't see any great risk to us from our perspective (1).

An example was given where the quality of staff was thought to be poor in the previous year and this was reported back to audit management: 'We felt there was a weak link in the chain and we did request that maybe they review their staffing the following year because at the end of the day we want a thorough audit done because there are accounts which are signed off' (10).

This was supported by another interviewee, who was of the view that: 'If we felt that the level of interaction was too much or that a lot of them would warrant a better quality of junior, maybe, or person asking the questions. I suppose we would feed that back, alright' (13).

Other than these seven interviewees (of whom only two would report the actual QTB), the other eleven interviewees generally felt that this would not be reported back to the audit firm. No notable pattern was observed between respondents depending on previous audit experience (three of the seven had no previous audit experience, while four did). It was pointed out that discussions with the audit firm are 'very practical nowadays, it's all driven by fees and that tends to be what the rows and the discussions are about rather than anything about quality' (3). This interviewee maintained that it would not be reported to audit firms as 'we are probably more influenced by wanting to get them out as quick as possible' (3). At the same time he felt it would probably go up the line within the client company in general conversations. Others mentioned that it would be spoken about internally to their superiors and they could decide whether to report it back to the audit manager. One interviewee, however, was extremely surprised he was even being asked if he would report this behaviour back to the audit firm as he felt that the answer was obvious:

I would find it very strange if there was someone who was weak on the audit and the actual client told the partners in [firm name] 'I'm sorry you didn't look hard enough there', I'd be amazed by it. Have you ever found anyone that actually said yes? I suppose some people are better than others, but there is no way you would ever go back and tell them. I wouldn't, anyway (11).

One interpretation of this is short-term thinking on the part of the auditee where it is perceived that there is little to be gained from pointing out shortcomings and much to be lost in terms of possible greater scrutiny of auditee work by auditors.

The absence of any perceptions of longer-term implications for the credibility of the audit is noteworthy, given that the interviewees are all professional accountants.

## DISCUSSION AND CONCLUSION

Given the dearth of previous empirical findings, this was an exploratory study of auditee personnel perceptions regarding QTB by audit staff. The findings indicate that auditees perceive themselves to be in a position to detect some shortcomings in audit work and there is evidence that auditees who are ex-auditors perceive themselves to be in a stronger position to do so than those without auditing experience. Acceptance of weak client explanations and over-reliance on client work were reported to be the most frequently detected behaviours. However, whereas auditees felt in a good position to detect these behaviours, they seemed often unsure as to whether the behaviours constituted deliberate QTB. Many of the interviewees raised the possibility that shortcomings in the conduct of the audit could arise from low-calibre or inexperienced audit staff, rather than conscious decisions to take shortcuts. Interviewees generally perceived few consequences of these behaviours and attributed this to a number of factors: occurrence of behaviours in immaterial areas, strength of auditee controls, little value placed by auditee on the audit, and audit firm controls resulting in detection of shortcomings. In general, interviewees were of the view that if these behaviours were detected by auditee staff, they would be discussed internally in the auditee organisation but not reported back to the audit firm. The findings point to a number of important areas for discussion, most notably, image management and the value of the audit to auditees and control systems. These areas are discussed in the following sections, along with the limitations of the study, implications of the findings, and areas for future research.

### **Image Management**

Previous findings revealed that audit seniors perceived that the presentation of a professional image to auditees and not upsetting the auditee were extremely important for audit firms (Sweeney and McGarry, 2011). The importance of image management was also highlighted by audit partners (Pierce and Sweeney, 2005). Power (2003) maintained that difficult decisions made by auditors resulting from cost/quality conflict are invisible at the front stage. While interviewees lacked insight into whether shortcomings in audit work were attributable to cost/quality conflict, they were aware that pressure existed on auditors to take shortcuts and they also perceived shortcomings in some audit work. A difference was perceived between visibility of pressures and some shortcomings in the audit work that could be attributed to auditor inexperience, and actual detection of QTB. In general, interviewees did not perceive that they had the ability to detect QTB. The general awareness of pressure and shortcomings was higher among auditee staff who previously worked as auditors compared to those with no backstage experience of audit activity.

To date, the research literature is relatively silent on whether the interests of auditees and auditors are likely to align or whether auditees will adopt a more holistic perspective and show concern over behaviours that could reduce the value



of the audit and ultimately threaten the credibility of financial markets. Findings in this study reveal that the majority of interviewees maintained that they would be unlikely to report shortcomings in audit work (and particularly QTB) back to the audit firm (though it was pointed out that this is not a decision they generally have to make). This suggests an alignment of interests of auditee and auditor staff, rather than an alignment of interests of auditee staff and clients (i.e. shareholders). Previous findings suggest that image management protects the firms from any serious consequences of QTB by ensuring that behaviours are not detected externally (Pierce and Sweeney, 2005). While there was little evidence of actual external detection (other than poor-quality work, which was attributed to more benign reasons), auditees were aware of the potential for the behaviours to occur. However, they were generally not concerned about the behaviours due to a lack of value attached to the audit. This is discussed in the next section.

### **Value of the Audit to Auditees and Control Systems**

Consistent with audit seniors' views on auditees reported by Pierce and Sweeney (2006), auditee personnel (regardless of previous audit experience) showed little concern regarding the level of testing carried out by auditors, as they felt that individual tests were unlikely to detect anything significant. Auditee personnel were also confident in their own control systems and placed little reliance on the audit, which appeared to provide exoneration from any obligation to confront shortcomings in auditors' work. Previous research supports auditees' confidence in their control systems and Francis (2004, p. 354) pointed out that a possible reason for the evidence suggesting that Big 4 audits are of higher quality may be that 'good' companies are more likely to select Big 4 auditors, are less likely to manage earnings, and in general are more likely to have higher quality earnings'. This leads us to question whether the value of the audit in society is related to the legitimacy conveyed by the audit opinion or the actual audit work carried out.

In common with the views of audit seniors and partners in previous research (Pierce and Sweeney, 2005, 2006), auditee personnel did not perceive that these behaviours would occur in any area of significance and that few consequences would result from the behaviours. Previous findings showed that audit partners and seniors perceived few consequences from QTB provided the behaviours were not detected externally (Pierce and Sweeney, 2005, 2006). Findings in this study suggest that even external detection by auditee staff would result in few consequences, as the behaviours seem unlikely to be reported back to the audit firm. The few potentially serious consequences mentioned by interviewees, such as bringing the accounting profession into disrepute and legal action, were dependent on what were considered more unlikely situations, such as the behaviours occurring on a widespread basis or in significant areas.

While auditees felt that auditors' controls would prevent many consequences of QTB, Sweeney and Pierce (2011) found that auditees were opportunistic in manipulating auditors into engaging in QTB when they perceived auditor controls to be weak. Audit staff are also likely to be opportunistic as to when they engage in deliberate QTB. The effectiveness of audit firm formal management controls is limited due to few opportunities for direct supervision in the field and the difficulty of

measuring audit quality (Pierce and Sweeney, 2005). As Power (2003) pointed out, auditors themselves have difficulty assessing if a 'good' audit has been carried out due to the poor visibility of audit quality. This suggests that auditor controls may not be as effective as perceived by auditee staff. However, it must be acknowledged that recent changes in the audit environment, including greater inspection and monitoring of auditors and greater requirements for documentation, may have led to a strengthening of audit firm control systems since previous research was conducted.

Perceptions of greater opportunities for QTB in less material areas are consistent across audit partners (Pierce and Sweeney, 2005), audit seniors (Sweeney and Pierce, 2004) and audit juniors (Lee, 2002). Areas of significance may not however always be evident to the audit team and this confidence in their ability to recognise material areas may be misplaced. Also, as pointed out by Sweeney and Pierce (2011), auditee staff would not normally have knowledge of audit materiality levels, hence their perception that the behaviours do not occur in more material areas may be inaccurate.

## CONCLUSION

Overall, findings in this study provide further insight into the 'black box' of auditing. A general awareness among auditees (particularly ex-auditors) of the potential for shortcomings in audit work was highlighted. In addition, findings reveal a lack of concern by auditee staff over whether the behaviours actually occur, due to few perceived consequences of the behaviours, and a reluctance to report any perceived shortcomings in the audit work back to the audit firm.

There are a number of implications of these findings. For audit firms, auditee staff have greater direct contact than audit firm management with audit staff during fieldwork. As Sikka et al. (2009, p. 139) pointed out, 'Firms may train and educate their staff, but there is no guarantee that staff will necessarily subscribe to the values and pressures imposed upon them'. Information asymmetry exists between the individual audit staff member and the audit firm, and while internal auditee staff are in a position to inform the audit firm of any quality issues, they do not appear to do so. Consequently, audit firms are less likely to be able to 'weed out' any 'rogue auditors' (Pierce and Sweeney, 2005). Audit assistant-auditee relationships have been found to impact on auditee satisfaction (Ohman, Hackner and Sorbom, 2012) and audit staff are aware of the importance of auditee satisfaction to the audit firm (McGarry and Sweeney, 2011). It is difficult for audit staff to balance the need for co-operation from auditees with the need to remain objective and fulfil their public interest obligations (Sweeney and Pierce, 2011). As long as auditees perceive few negative consequences from QTB, and may in some instances see it as desirable (Sweeney and Pierce, 2011), there is less awareness by audit firms of the issue and less incentive to address it.

The findings also have implications for the audit profession. All of the interviewees in this study were qualified accountants yet they showed little concern over shortcomings in audit work. This suggests that their interests may be more aligned with auditors than audit clients (i.e. shareholders). It is a concern that qualified

accountants working in industry (as found in this study) and audit seniors in the firms (as found in Pierce and Sweeney, 2006) do not in general adopt a holistic perspective and consider the client (i.e. shareholders) in discussing the implications of shortcomings in audit work. This suggests a need to consider whether the professional training and education that accountants undertake is sufficient to promote more holistic longer-term thinking, which has been noted as a characteristic of being a professional (Parkan, 2008).

The findings must be interpreted in light of the strengths and limitations of the study. Regarding strengths, particular attention was paid to the design of the interviews and the use of an interview schedule. Both researchers were present for all of the interviews and attempted to attain a good rapport with the interviewees while remaining neutral in order to facilitate a good discussion. Furthermore, a structured method was used for data analysis and this was rigorously applied. Regarding the limitations, this was an exploratory study and detailed in-depth findings have not been sought on all aspects of auditees' perceptions of QTB. For example, one interviewee referred to increased documentation on requirements on auditors resulting from Sarbanes Oxley; how this may contribute to changing auditees' perceptions was not investigated. Furthermore, perceptions of auditee staff who interact with the audit team from Big 4 auditors cannot be taken to represent perceptions of all levels of auditee staff or of auditee staff from different-sized companies with non-Big 4 auditors. It is possible that higher-level auditee staff who interact with the audit partner and audit committee may have very different views on QTB and its consequences. Also, 'good' companies are more likely to select Big 4 auditors (Francis, 2004), and views of auditee staff in companies audited by small and medium-sized auditors may be very different. Data are based on one country only and views of auditees in other countries may differ. In addition, while the interviewers attempted to facilitate a good discussion in the interviews (as noted above), it is possible that interviewees may have been reluctant to fully disclose their views, given the sensitive nature of the issues. Furthermore, there are limitations surrounding the measurement of awareness, as discussed in the research methods section, and social desirability bias may have influenced responses. Finally, the data were collected during an economic boom and before the onset of a major recession in Ireland. Perspectives of auditees may vary significantly in different economic conditions.

Further research is needed to gain a deeper understanding of the issues raised in this paper. Considerable changes have taken place in the audit environment in the last decade, including greater oversight of auditors and requirements for greater documentation. These changes may have impacted on management control systems in audit firms and there is a need for more detailed longitudinal studies examining how interactions between auditors and auditees, and perceptions of auditees, may differ following changes in audit firm management controls.

Regarding the specific area of QTB, many of the previous studies on QTB have been quantitative studies that have examined antecedents and consequences of the behaviours. Our paper points to the need for the development of a greater understanding of the antecedents of QTB (which include the lack of auditee concern regarding QTB), and of the moderators of QTB (which include the perceived low risk of consequences arising for the audit staff member due to the remote chance

of auditee detection/reporting of the behaviours). In addition, the findings provide useful insights into the development of a more refined interpretation of QTB. Previous research has generally interpreted QTB as meaning intentional shortcuts in audit work, deliberately chosen in areas where they are difficult to detect and for the purpose of resolving cost/quality conflicts and avoiding budget over-runs. However, the findings in this study point to the need to unpack the reasons for its occurrence, which can vary from deliberate quality reductions to deficiencies in the understanding and competence of audit staff. The reasons for the occurrence of the behaviours directly impact on the efforts made by the audit staff member to conceal the behaviour and the effectiveness of audit firm controls in detecting the behaviours. The development of more sophisticated measures of QTB in future research studies would increase our understanding of the antecedents and consequences of these various behaviours. Both qualitative and quantitative studies are likely to be useful in this regard.

## ENDNOTES

- <sup>1</sup> The organisation being audited is not the ultimate client as auditors are carrying out their role on behalf of external stakeholders. The term 'auditee' is used in this paper to refer to the organisation being audited rather than 'client'.
- <sup>2</sup> There are a number of different routes to qualification as an accountant in Ireland and a number of different professional accounting bodies such as Chartered Accountants Ireland, Chartered Institute of Management Accountants and Association of Chartered Certified Accountants. Background information was obtained on whether each interviewee had experience working in audit as part of their qualification.

## APPENDIX I

### EXTRACT FROM AUDITEE INTERVIEW SCHEDULE

1. To what extent are you aware of ways in which members of the audit team could take unapproved shortcuts in the performance of their work?

*Potential probes*

Would these shortcuts be visible to the client?

Would auditors be more likely to take shortcuts in particular areas of the audit?

2. Previous findings suggest that the audit team sometimes reduce the quality of audit work by cutting corners in the completion of audit procedures. Could you indicate the extent to which you believe auditors could engage in the following behaviours and the extent to which the client could detect each of these behaviours should they occur?
  - Biasing sample selection
  - Reducing sample size
  - Over-reliance on client work
  - Accepting weak client explanations
  - Copying documentation from the prior year file without regard for changes in the current year
  - Signing off a test without completing the work
  - Any other behaviour that you consider relevant

## Audit Quality Threatening Behaviours: Perceptions of Auditees

### *Potential probes*

What has contributed to you forming this impression on levels of behaviours?

Have you any personal experience of these behaviours?

In what kind of situations would this have arisen?

Could this type of behaviour occur without you being aware of it?

3. What consequences would you associate with unapproved auditor behaviours such as those we discussed?

### *Potential probes*

Consequences for clients?

Consequences for audit firms?

Consequences for individual auditors?

4. In the event that the behaviour is detected by a member of client staff, what action would be taken?

### *Potential probes*

What factors would be taken into account in making a decision on possible courses of action?

Impact on clients' perception of the quality of work of the audit team?

Impact on retention of the firm as auditors?

Influence clients' decision to obtain non-auditing services from the firm?

Willingness of clients to pay a higher audit fee for greater testing by auditors?

If lower-level client staff detected the behaviours would the detection be communicated upwards in your company? To which levels?

**APPENDIX I: AUDITEE PERCEPTIONS OF QTB**

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
1. Group financial controller	Yes in Big 4 firm (not current auditors)	> 10 years	Know it can happen.	Very easy to give a short answer. Gave example of where auditor accepted simple explanation on complicated leasing transaction.	Can see how easy it is to bias sample selection, easy to over-rely on client work, could guarantee that auditors have not read all documents given to them.	Hard to detect. Gave example of where it was clear that person doing the work didn't understand it. Auditee not aware of detailed audit tests. Sometimes aware that partner/manager not happy with audit work.	Happy with our numbers so not concerned if they accept weak explanation. Don't rely on the audit opinion for anything. Could bring the whole accounting profession into dispute if occurring on a widespread basis. Lower-quality staff would be assigned to less significant areas. Involvement of audit partner and audit review procedure would help ensure nothing significant missed. Incentive for QTB in risky clients so auditors need to be careful.	Might mention quality of staff to audit management but not incidents of QTB.
2. Divisional financial controller	Yes in Big 4 firm (not current auditors)	> 10 years	Could occur.	Occurs in analytical review as it is done in a cursory fashion and could fob them off with anything. Within any three individuals you will always get one that you can tell them anything.	Auditors look for more client prepared schedules. It is possible they over-rely on them but not sure if this happens.	Not aware of detail of work so only know from questions audit staff are asking.	Manager review would pick up any contentious areas. Risky for auditor as audit review is detailed. Leave auditors exposed. Not desirable for client or auditors.	No discussions with audit management on quality of staff as want to get them out as quickly as possible but discussed internally in auditee company.

(Continued)

**APPENDIX I (CONTINUED)**

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
3. Divisional financial accountant	No	N/A	Not aware of QTB.	Auditors very thorough and no experience of this.	Could bias sample selection.	Can't tell the quality or quantity of testing so no way of knowing. Tends to be the same sample size each year so would notice if difference there.	If error detected following year, accounts and change of auditor but this would be unlikely. If client controls are good then no consequences from shortcuts. Directors' responsibility to ensure accounts are accurate.	Evidence of shortcuts would be reported internally but not externally. Discussions with audit firms centre on fees rather than quality. Want to get them out as quickly as possible.
4. Divisional finance manager	No	N/A	Not aware of QTB.	Depth of time does not go into analytical review by audit staff.	Could be over-reliance on what client prepares.	Not aware if doing 75% or 100% but could detect behaviours if made an effort by asking other auditee staff what auditors looked for.	Not relying on audit so no major consequences for auditee. If shortcuts became a pattern, the amount of analysis carried out by auditee staff for auditors could lessen. Important that auditors are there as a lot of auditee staff do not know what they are doing and good control from that point of view.	Would discuss it informally with audit manager if detected.

(Continued)

**APPENDIX I (CONTINUED)**

<b>No. and Title</b>	<b>Previous Experience as Auditor</b>	<b>Number of Years since Worked as an Auditor</b>	<b>Awareness of QTB</b>	<b>Accept Weak Audittee Explanations</b>	<b>Other Forms of QTB</b>	<b>Detection of QTB</b>	<b>Consequences of QTB</b>	<b>Reporting of QTB</b>
5. Divisional financial accountant	No	N/A	There is nobody to say they couldn't get away with bogus ticks.	Maybe sometimes but can't think of anything where they should have hauled me up on that. Audittees get to know what kind of response will suffice.	Less reliance on client work now because of documentation requirements of Sarbox but could be over-reliance in the past.	Chances of finding it fairly remote and wouldn't see their detailed testing.	No real consequences as audit tests don't pick up anything. Could result in restatement of accounts if in significant area.	Would mention it internally if shortcut detected but not externally.
6. Divisional financial controller	Yes in Big 4 firm (not current auditors)	> 10 years	Would not be aware of it.	Auditors always come back and question again if they get a weak explanation.		Not possible to detect.	Could be consequences if something accumulates into bigger issue but depends on materiality. Main concern of audittee is to get through the audit. Auditors come back with more questions after review so must be good in picking up QTB.	Audittee would not report back to audit management as just want to get clean bill of health.
7. Group financial accountant	Yes in Big 4 firm (same firm as current auditors)	< 5 years	Aware of it and gave example of automatic tick when he worked in audit firm.	Can happen in analytical review when audittee is asked for explanations of changes.	Sample size based on judgement anyway so could adopt a discretionary approach and reduce sample size, could over-rely on internal evidence.	Going to hide it from audittee. Example of working papers he obtained where auditors had got it wrong.	Know that audittee systems are good so no consequences. Auditors generally come back for more evidence after audit review so this prevents any serious QTB. Not too concerned about it. Auditors can have a role to play in improving a specific area for the audittee.	Quite happy to let QTB go on and would not report it.

(Continued)



APPENDIX I (CONTINUED)

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
8. Divisional financial controller	Yes in Big 4 firm (same firm as current auditors)	> 10 years	Awareness from previous experience as an auditor.	Happens when auditors don't understand auditee's business.	Biasing sample selection oldest trick in the book.	Easier for client to know what is going on if trained as an auditor.	Indifferent to whether they are doing it or not as good auditee controls. Serious consequences if poor auditee controls and collusion at middle-management level. Auditors will get criticism then but audit partner involvement means very unlikely this will happen. Auditees will realise that they can hide things from auditor. Weaker audit staff assigned to low-risk areas like pension funds. Audit review can probe weak areas in the audit as partner has good knowledge but sometimes poor in doing that.	Auditee would inform audit manager unless auditee influenced auditor into QTB.
9. Divisional Head of Finance	Yes in Big 4 firm (not current auditors)	< 5 years	It would happen.	Fairly bland response to auditor questions will generally suffice.	Not much sample testing done in particular business.	Haven't seen evidence of it.	There could be consequences but not sure of the scale of them as it comes down to materiality. Auditee is comfortable with numbers reported so not too worried about corner-cutting. Downgraded team assigned to less significant areas. Partner involvement reduces likelihood that anything significant missed. Audit review also picks up quality reductions.	Might raise an issue with audit management on quality of staff but not specific incidents of QTB.

(Continued)

**APPENDIX I (CONTINUED)**

<b>No. and Title</b>	<b>Previous Experience as Auditor</b>	<b>Number of Years since Worked as an Auditor</b>	<b>Awareness of QTB</b>	<b>Accept Weak Auditee Explanations</b>	<b>Other Forms of QTB</b>	<b>Detection of QTB</b>	<b>Consequences of QTB</b>	<b>Reporting of QTB</b>
10. Group financial accountant	No	N/A	Know where the shortcuts are.	In general, auditee tries to provide backup documentation for explanations so not just relying on auditee.	May over-rely on client information without looking for backup.	If auditor asks for explanation and you know it has gone over their heads then they have cut corners. Auditees would not detect other behaviours.	Risk that the accounts are wrong but if auditee controls are strong then no consequences. Unlikely that they take shortcuts on anything material. Not here to give them lessons on how to do their job.	Weak audit staff would be mentioned to audit managers and an example given of when this had been done.
11. Divisional financial controller	Yes in non Big 4 firm (not current auditors)	> 10 years	Aware they could do that.	Auditee can give half-truth and wait and see if there is follow-up. Sometimes auditors are very accepting especially for analytical review.	It's possible they over-rely on client work.	Would only detect accepting weak client explanations but not others.	No consequences for this company as controls good. No consequences for auditors as not likely to be detected. Immaterial areas are irrelevant and auditee could hide immaterial amount and it would have no consequences.	Amazed if auditee reported back to audit management incidents of QTB. No way auditee would ever go back and tell them.
12. Group payroll manager	Yes in Big 4 firm (same firm as current auditors)	5–10 years	Could do it but wouldn't say they have.	Rarely accept first answer you throw at them.	Over-rely on client work sometimes.	Wouldn't be detected other than maybe where auditors requested documentation but didn't come back for it.	Accounts could be misstated.	This would be discussed internally by the auditee but not externally with the audit firm.

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**APPENDIX I (CONTINUED)**

<b>No. and Title</b>	<b>Previous Experience as Auditor</b>	<b>Number of Years since Worked as an Auditor</b>	<b>Awareness of QTB</b>	<b>Accept Weak Auditee Explanations</b>	<b>Other Forms of QTB</b>	<b>Detection of QTB</b>	<b>Consequences of QTB</b>	<b>Reporting of QTB</b>
13. Group accounts receivable manager	Yes in non Big 4 firm (not current auditors)	5–10 years	Could be evidence of that.	Audit staff may readily accept an explanation.	Might over-rely on client work.	Difficult to know based on level of interaction between auditee and audit staff.	No real consequences as would not occur in material areas. Makes life easier for auditee and auditor.	Would inform audit manager if poor-quality staff or level of interaction was excessive.
14. Divisional financial accountant	No	N/A	Aware it could happen.	Audit staff knowledge of auditee's business may not be good so they can easily accept a weak explanation.		Exposure to auditors reduced so difficult to detect. Can pick up where they accept weak explanations.	Consequences could be severe if it proved endemic of a wider malaise. Consequences depend on criticality of tests. Not auditees' role to improve quality of the audit. At the same time they do provide an important service.	Discussed internally in auditee company if not happy with audit staff but not externally.
15. Group Head of Financial Control	No	N/A	Could cut corners and probably do.	Have expected a more eager challenge to explanations from audit staff in the past. Less likely to accept woolly explanations now due to Enron.	Could over-rely on client work.	No evidence other than accepting weak explanation.	Auditors run the risk of being sued.	Would be discussed internally but not externally.

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**APPENDIX I (CONTINUED)**

<b>No. and Title</b>	<b>Previous Experience as Auditor</b>	<b>Number of Years since Worked as an Auditor</b>	<b>Awareness of QTB</b>	<b>Accept Weak Auditee Explanations</b>	<b>Other Forms of QTB</b>	<b>Detection of QTB</b>	<b>Consequences of QTB</b>	<b>Reporting of QTB</b>
16. Group Head of Internal Audit	No	N/A	Not aware of it, suspect they don't engage in it especially in material areas.	Have experienced audit; junior staff accepting weak explanations.	Most client staff have no audit experience and not aware of sample sizes or any bias in samples.	Not possible for clients to detect except when things not followed up close to sign-off.	Dangerous game and in nobody's interest. If occurring in significant areas would result in another accounting scandal. Junior auditor would get 'kick in the behind' if caught doing this. Audit review picks up QTB but can be very aggressive and not give audit team time to reflect. If auditor takes shortcuts, things will jump up and bite at later stage. Auditee would change auditor if detected it. Risk that auditee staff would answer questions in a superficial manner if they thought auditor would accept them.	Would be discussed internally but not externally.
17. Group Head of Finance	No	N/A	Not aware of shortcuts.	Inexperienced staff would accept weak explanations but would come up again when file is reviewed by audit manager.		Would notice if they had biased sample or relied on auditee work.		This would be reported internally by auditee staff.
18. Divisional financial accountant	No	N/A	Not aware of QTB.	Can happen occasionally.		Hard for auditee to detect.	Depends on materiality of area of shortcut and auditee controls. In 'well run' auditee, no major consequences for auditee or auditor. Audit review process likely to detect QTB as 'hands on'.	Whether reported depends on relationship between auditee and auditor. If good relationship would be reported. Auditee seeks feedback from all auditee staff on their impressions of auditors.

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