REDUCED AUDIT QUALITY BEHAVIOUR IN GOVERNMENT AUDIT

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Thesis Summary

The purpose of this research is to examine reduced audit quality behaviour (RAQB) in the context of government audit practice that may remain unobservable. It is intended to explore how RAQB occurs behind the audit fieldwork curtain. This research seeks to construct a comprehensive understanding of the types of specific RAQBs that could be prevalent among government auditors, the probable reasons for these behaviours and also the audit organisation's responses to tackling such behaviour. This research discusses RAQB that may be viewed through the theoretical lens of paradox perspective. This study applies a qualitative research methodology using observation, interviews and review of documents. Observation was conducted in five audit teams performing financial audit engagements in one Indonesian government audit organisation for a total of 26 days or 189 hours (an average of 7.3 hours per day). Semi-structured interviews were conducted with 50 respondents consisting of 31 auditors and 19 non-auditors. The empirical data show that the auditors engaged in three types of RAQBs: (1) premature or false sign-off or a failure to fully complete all or some steps in an audit procedure, yet reporting the outcome as satisfactory, (2) superficial audit supervision and (3) sample reduction (performing a reduction of tested items in a predetermined sample). Using paradox theory as the theoretical lens, this study reveals that RAQB may be associated with three paradoxical conditions: the paradox of audit control, paradox of dynamic audit knowledge and paradox of audit team. By adapting the dynamic equilibrium model of Smith and Lewis (2011), the findings have provided the empirical evidence explaining that RAQB could be caused by paradoxical tensions within the organisation. Based on the overall findings, this study contributes to three areas of understanding: research in RAQB, auditing research more generally and also an extension of the discussion of paradox theory.

Key words: Paradox, Audit Control, Dynamic Audit Knowledge, Audit Team Dynamic

Dedication

I dedicate this work to Almighty Allah, my beloved wife, Dewi, my dearest sons, Fahmi and Faiz, and my parents, Abu Bakar and Umamah.

Acknowledgement

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Chapter 1 Introduction

1.1 Background

> *What do auditors really do when they are on site with a client? What kind of model will be most helpful in understanding and explaining auditor behavior? [...] Given their unique and critical role as public accountants, these are important questions.* (Pentland 1993, 605)

The above questions may reflect a majority of public opinion in terms of what auditors actually do during an engagement in the field since the loss of public confidence in the profession following the scandals at Enron, Parmalat and WorldCom in the early 2000s (Asthana et al. 2009; Church and Shefchik 2012). There has been considerable public discussion on the importance of audit quality in the period since these scandals. It is believed that one of the factors that may threaten audit quality is auditor misconduct in the performing of audit engagements (Coram et al. 2008). Much of the auditors' work takes place within the entities being audited, with their behaviour behind the walls of audited organisations typically not being seen (Malsch et al. 2013). There has been very little of what we know as 'field work' in auditing (Power 2003) and there is a need to question the *rationalized accounts of the audit process and explore the complex back stage of practice'* (Power 2003, 379)

Studies on audit quality have used two broad approaches: audit firm differentiation and behavioural perspectives. The former examines the differences between audit firms using different proxies of audit quality measurement, such as pricing differentials (e.g., Asthana et al. 2009), firm size or reputation (e.g., Kanagaretnam et al. 2009), litigation risk (e.g., Venkataraman et al. 2008), industry specialisation and users' perceptions of audit quality (for example, Venkataraman et al. 2008). The latter investigates audit quality based on work performed by audit personnel and uses a more direct approach. Coram et al. (2003, 38) referred to this approach as *'looking behind the audit veil'*. It involves the investigation of auditors' behaviour that may reduce audit quality during the audit engagement in which they are conducting audit procedures.

Furthermore, in the academic literature, this behaviour is commonly referred to as reduced audit quality behaviour (RAQB) (e.g., Kasigwa et al. 2013; Coram et al. 2000; Herrbach 2001), dysfunctional audit behaviour (e.g., Donnelly et al. 2003; Herrbach 2001; Khan et al. 2013; Paino et al. 2011; Yuen et al. 2013), quality threatening behaviour (e.g., Sulaiman 2011; Sweeney and Pierce 2004), reduced audit quality acts (Coram et al. 2008; Coram et al. 2004) and irregular auditing (e.g., Lee 2002; Willett and Page 1996). According to Coram et al. (2003), RAQB refers to the actions conducted by auditors during an audit assignment that threaten the validity of the audit opinion. In addition, Herrbach (2001) describes RAQB as auditors' inappropriate, intentional actions that compromise audit quality. These actions may harm the users of financial statements because they lead to increased risks in forming an inappropriate audit opinion.

In the light of the importance of audit quality and also the likely serious consequences of unobservable auditor behaviour on audit quality, it could be argued there is a need for research that captures the complex issues of the phenomenon. Such research could construct a more comprehensive understanding of the specific types of behaviours that could be classified as RAQB, the reasons for these actions and whether there have been effective responses from the auditing society in terms of tackling such behaviour. The next subsection will highlight the motivation of this research to address some of the issues mentioned previously.

1.2 Motivation of Research

It could be argued that the first study into RAQB was found in the seminal survey conducted by Rhode (1978) for the American Institute of Certified Accountants (AICPA), which investigated various aspects of auditing that may influence auditor performance. The main findings of that study were concerned with alarming practices within auditor behaviour that had the potential to reduce audit quality. Since the study, significant further research has been conducted to investigate the phenomenon (e.g., Alderman and Deitrick 1982; Kelley and Margheim 1990; Malone and Roberts 1996). However, it is worth noting that a considerable amount of previous research on RAQB focused mainly on the determinants of RAQB (e.g., Otley and Pierce 1995; Carcello et al. 1996b; Alderman and Deitrick 1982), with most studies also conducted using self-reported surveys, questionnaires, experiments and other documentary evidence using quantified measurement and variables (Herrbach 2001). Sweeney and Pierce (2004) pointed out that quantitative research to find some of the variables identified as the determinants of RAQB were first seen in studies by Alderman and Deitrick (1982) and Kelley and Margheim (1987). The majority of studies utilised a postal questionnaire (e.g., Otley and Pierce 1996a, 1996b) or experimental case approach (e.g., McDaniel 1990; Margheim and Pany 1986).

However, considering the sensitive nature of the behaviour being studied, it is very likely that informants will be unwilling to reveal their true behaviours (Rhode 1978; Alderman and Deitrick 1982; Otley and Pierce 1996a). Kelley and Margheim (1990) and Bryman (2012) suggested that a self-reported questionnaire survey conducted to investigate behaviour will tend to fail to capture the consistency between how people say they are likely to behave and how they actually behave. For example, Gundry and Liyanarachchi (2007) proved the existence of a gap between what people say they do (measured by questionnaires) and their actual behaviour (measured by direct observation) in their study into racial prejudice. In such a way, if a self-reporting method is inadequate as a means of accurately observing behaviour, other alternatives such as direct observation should be employed (Bryman 2012; Kelley and Margheim 1990). Thus, in view of the sensitivity of the topic of RAQB, there may be a need for research to gain a deeper understanding of the phenomenon through

methods other than survey questionnaires and experimental cases that are capable of revealing participants' true behaviours (Herrbach 2002).

In addition, not only in the study on RAQB, but also more generally in auditing research, studies on understanding auditors' behaviour and audit work practices have concentrated on identifying key correlations and the construction of predictive models that link variables and outcomes (Humphrey 2008). Relatively little discussion is devoted to addressing the process by which such outcomes arise. Auditing research *'did not favour any one qualitative methodological perspective and did not exclude quantitative analysis'* (Humphrey 2008, 171) and *'there is no serious consideration given as to the potential of adopting qualitative methodological approaches or ways of viewing auditing and the task/obligations of audit research that seek to engage much more closely with the social construction of audit practice'* (Humphrey 2008, 177). Many scholars remain reluctant to carry out qualitative studies through, for example, direct observation, to investigate the imbalance of knowledge of auditors' work, much of which takes place within the organisations being audited (Humphrey 2008; Jönsson and Macintosh 1997; Radcliffe 2008; Malsch et al. 2013).

Interestingly, Humphrey (2008) added that this is mainly because it is much easier to get quantitative-oriented audit research published in US-based journals. Furthermore, qualitative audit research has been seen as more difficult to undertake for researchers with English as a second language as it requires more advanced English writing abilities and much greater levels of contact with audit professionals (Humphrey 2008). Therefore, it would be a worthy and challenging task to conduct a piece of auditing research, particularly on the topic of RAQB, applying a qualitative approach through direct observations on audit teams conducting audit assignment fieldwork and also interviews with the auditors involved. The intention would be to search for direct empirical evidence from auditors conducting the audit practices and their unobservable behaviour behind the audit fieldwork curtain.

In addition, since the earliest studies on RAQB were conducted, the audit environment has changed considerably, with little attention paid to these changes in more recent studies (Sweeney and Pierce 2004). Accordingly, Solomon and Trotman (2003) suggested there is an urgent need for auditing research in general to address the changing environment and evolving task demands encountered by auditors. They found, for example, that based on the study of auditing articles published for the 25-year period since issuance of the first Accounting, Organisations and Society journal, academics have given little response to the considerable changes in public sector auditing. In such a way, the results of this study may reveal some new insights not revealed by previous studies as a result of the changing environment.

Moreover, studies on RAQB have tended to be conducted more in the private than the government audit sector. In general, although both types of audits may have different environments,

they have similar essential audit processes consisting of planning, controlling, data collection, opinion-forming and reporting (Jones and Bates 1990). Considering this similarity in practices, government auditing may pose similar problems to those in private-sector auditing in this regard. However, little research has been undertaken into this issue in the context of government auditing. Furthermore, RAQB may be argued as being a worldwide phenomenon. Studies have been carried out in many countries including the United States (e.g., Alderman and Deitrick 1982; Malone and Roberts 1996; Donelly et al. 2003), United Kingdom (Willett and Page 1996), Ireland (Pierce and Sweeney 2004), New Zealand (Cook and Kelley 1988), France (Herrbach 2001), and Malaysia (Paino et al. 2011). However, little attention has been paid to Indonesia, including the Indonesian government audit context. Therefore, this research is a direct response to these perceived research gaps.

To conclude, the main motivational factor for conducting this research is an attempt to examine those RAQBs in the context of government audit practice that may remain unobservable. It is intended to explore how RAQB occurs behind the audit fieldwork curtain. It seeks to construct a comprehensive understanding of specific RAQBs that could be prevalent among government auditors, the drivers of such behaviour and the audit organisation's responses to dealing with such behaviour. To achieve this, unlike previous studies, this study employs the qualitative methods of direct observation, interview and review of documents as a response to the limitation of using a questionnaire survey and experimental cases to elicit the true behaviour of observed auditors. In addition, considering the rapid changes in the accounting and auditing sector since the first study into RAQB, this research may provide significant new insights and findings that may not have been explored as part of prior studies. The next subsection outlines the contribution of this research.

1.3 Contributions of Research

This research aims to add to the literature about RAQB and to have important empirical and practical implications. This research will contribute to both the academic and audit practice literature in a number of different ways. Academics will derive benefit from both the findings and methodology applied. This would be novel research on RAQB exploring the phenomenon of how such behaviour occurs, yet remains invisible, in a government audit context, by applying a qualitative approach through direct observation of several audit teams conducting audit engagements at the client site. Direct observations will be corroborated through interviews and also a review and analysis of the auditors' documents produced during the audit assignments, such as their working papers. As previously explained, although public accountants have a unique and critical role in society and there is a need for a model that is helpful in understanding and explaining auditors' behaviour when they are conducting an audit engagement, empirical attempts to consider this issue have remained limited (Skærbæk 2009; Pentland 2000). Academic research on auditing and also

RAQB may also be limited to application of an experimental as opposed to a practical setting. Power (2003, 379) argues such, stating *'very little is known about auditing in practical, as opposed to experimental, settings'*. Therefore, the findings from this study may contribute to the practical empirical evidence on auditors' behaviour in the academic literature.

In the auditing practice context, the findings of this research would be beneficial to government auditors, government audit organisations, professional bodies and government auditing standard setters. This research will provide a better understanding of reduced audit quality practices among government auditors. According to Gendron and Bédard (2001), auditing research is to a large extent useful to mainly a particular subset of auditing research stakeholders, i.e. to auditors and members of the auditing profession. Its usefulness for other stakeholders, such as members of the public or government, is very limited. There is still a gap between what society expects from auditors and the real duties and performance of auditors in the field (Porter 1993). This research aims to fill this gap and provides fresh insights on the issue of RAQB, as the public may not recognise or be able to directly observe the behaviours.

In addition, this research could help government audit organisations and government auditing standard setters to implement policy, control systems or other attempts to mitigate such practices. This research will be of value to government audit institutions, as they need to understand and identify the misconduct behaviours of their auditors that may hamper organisational goals and objectives. The results will provide and explain the control systems that might be applied to mitigate such behaviours. Thus, effective strategies could be designed in order to improve audit quality in general. Other stakeholders are government or government departments that are the clients of government auditors. Each year, they have direct contact with auditors. By understanding this problem, they might be aware of and be able to identify such behaviours to help the audit organisations increase their audit quality control and the value of audited financial statements and information. The public, such as taxpayers or citizens, other governments and international organisation funder groups might be concerned with the results of this study. The government auditor is an independent third party that is mandated by the public to audit government budgets and activities. However, the public do not have direct access to the process of audit that government auditors use to carry out this mandate. Thus, a bad audit may lead to the release of misleading information to the public that may result in negative consequences such as the taking of incorrect political decisions, inaccurate budget planning or inappropriate public lending and which may even pose a risk to public health and safety. Therefore, in knowing the results, the public will have a better understanding and be aware of the quality of audited information and may be able to use it to inform particular political or non-political decisions.

1.4 Research Objectives and Questions

The first objective of this study is to explore specific prevalent behaviours displayed by government auditors that may reduce audit quality. Some studies have sought to examine specific actions committed by private-sector auditors that could be classed as RAQB (see Chapter 2). However, this study focuses on government auditors through the use of direct observation, interviews, and analysis of their working papers.

Research question 1: What are the types of government auditor behaviour that may reduce audit quality?

The second objective of this study is to examine the probable factors associated with RAQB. This study applies paradox theory as a theoretical lens (see Chapter 4). The theory is used to explain paradoxical tensions that may be the sources of RAQB. These tensions are grouped into three areas of discussion including audit control, dynamic audit knowledge, and audit team engagement management.

Research question 2: What are the paradoxical tensions associated with RAQB in government audit in relation to audit control, dynamic audit knowledge, and audit team engagement management?

The last aim is to explore the positive and/or negative responses to these tensions from the perspective of both individual auditors and the government audit organisation. The organisation needs to seek to deal with the resolution to both the paradoxical tensions and RAQB in order to achieve its organisational goals.

Research question 3: How do auditors and the government audit institution respond to the paradoxical tensions associated] with RAQB?

1.5 Outline of the Thesis

In order to address the research questions outlined above and achieve the research objectives, this thesis is organised into the following chapters:

Chapter 2: Literature Review

This chapter provides discussion on the literature underlying this research, with a focus on the dynamic and constant changes within the audit environment that influence audit practice, including a shift in audit methodology from an unstructured to a more structured approach. The chapter also focuses on the competence, skills and expertise of auditors that contribute to audit quality. Because auditors work in teams comprising people from different backgrounds, and with a variety of expertise and characteristics, there may be problems inherent to the teams that inhibit audit completion. There have been some studies exploring the influence of team cohesion and conflicts on

audit quality. Audit control in the form of review and a supervisory process will also be presented in this chapter. The chapter also looks at some of the issues and problems that arise within public sector auditing. Finally, this chapter explores the literature on audit quality and the behaviours that may threaten it. It includes specific actions classified as RAQBs and their probable causes.

Chapter 3: Research Context

The objective of this chapter is to explore the underlying context of this research. The first discussion deals with the historical development of private-sector auditing and also the issue of audit as a double-agency relationship, firstly, between the users of financial statements and the audit organisation and, secondly, between partners and auditors. The following two subsections highlight the differences between the private and government audit sectors, including the focus of audits, their roles and the environments involved. The next discussion explores the historical development of government auditing in Indonesia since the Dutch colonial period, independence and the New Order era, up to the present time. It outlines the changes in political systems that have led to changes in audit law and regulations, audit organisation structure and also the types of audit. It provides an explanation of the financial statement audit process followed by auditors working for the National Audit Board (NAB), upon which this study focuses. Finally, it also talks about the issues arising in public sector audit in Indonesia.

Chapter 4: Theoretical Framework

The objective of this chapter is to present the underpinning theoretical framework of this research. The first discussion focuses on the important role of theory in qualitative field research. Next, it explains the paradox theory lens that is used in this research to explore the phenomenon of RAQB in the observed audit organisation. Studies of paradox in organisations have identified various types of paradoxes, including those of belonging, performing, organising and learning. According to the literature, there are two significant elements of paradoxes, i.e. underlying tensions and the responses that embrace these tensions (Lewis 2000; Smith and Lewis 2011). This study will examine these two perspectives in relation to government audit practices. Finally, this chapter explores the model of paradox equilibrium proposed by Smith and Lewis (2011) to explain the equilibrium cycles of latent and salient paradoxical tensions and management strategies in response to the tensions leading to organisation's sustainability.

Chapter 5: Research Method

This chapter outlines the strategy, designs, and methods employed in this research. The first section highlights the field research process at the observed audit organisation. This is followed by a presentation of the methods used in this study to collect empirical evidence, including observations, interviews and review of documents. The next discussion is concerned with the process of data

analysis gained from the data collection using the thematic analysis technique. Finally, this chapter includes data validation strategies applying respondent validation and data triangulation. The last part of this chapter also explains this research's compliance with the relevant ethical considerations.

Chapter 6: Reduced Audit Quality Behaviour

This chapter aims to address the research question of what types of RAQBs are very likely to be prevalent among government auditors. Through observations, interviews and a review of documents, this study can identify the occurrence of RAQB. Some of the types of RAQBs found are similar to those identified within previous literature. The empirical data reveal three dominant specific types of behaviour: premature or false sign-off of an audit procedure; superficial audit supervision; and reduction or modification of the number of tested items required in a sample.

Chapter 7: Paradox of Audit Control

This chapter highlights the paradoxical tensions within the NAB that may contribute to the occurrence of RAQB. This chapter identifies two control-related paradoxical situations, i.e. the tension between control and efficiency and the battle between structured and flexible audit procedures. The former denotes the contradictory pressure between the need to improve controls through an increase of audit control supports and the requirement to operate in the most effective and efficient way. The latter is concerned with the tension between the use of standardised audit procedures that facilitate ease of control over an individual auditor's work, and which also promote consistency, but which may, on the other hand, encourage rigidity. This chapter also provides evidence of how these paradoxical conditions have contributed to RAQB. It also presents the organisation's responses to both RAQB and the paradoxical tensions with the aim of identifying resolutions.

Chapter 8: Paradox of Dynamic Audit Knowledge

This chapter discusses contradictory tensions in relation to the complexity and dynamic nature of audit knowledge that can lead to paradoxical pressures in the NAB. This chapter aims to firstly draw attention to the paradoxical tension related to the need for an organisation to adapt its routines in line with dynamic audit changes that, at the same time, may also threaten stability. This tension is mainly related to senior auditors and their attempts to maintain the status quo by continuing to adhere to older practices. Seniors auditors' defensive attitudes and behaviour aimed at maintaining consistency with dated practices leads to the learning tensions experienced by junior auditors. They do not have sufficient coaching and mentoring from seniors to improve their audit experience and expertise. Similar to the previous chapter, this chapter also includes a discussion of the potential reduced quality of audit practices as a result of those tensions and also some organisational responses to the tensions.

Chapter 9: Paradox of Audit Team

This chapter aims to highlight the final paradoxical tensions found in the study, which were those found within a heterogeneous audit team. The main focus is on the plurality of auditors working on a team engagement from various academic backgrounds and who bring differing expertise, individual characteristics, values and motivations that, on the one hand, are required in the audit, but which, on the other hand, may threaten team cohesion and result in poor auditor performance. Similar to two previous literature, this chapter is also organised by providing evidence of the paradox of audit team tension, its negative consequences and the organisation's responses to both the tensions and its adverse consequences.

Chapter 10: Discussion and Conclusion

This final chapter presents the discussion and conclusion of the thesis. It explains the findings that may provide important additional insights into RAQB, as revealed from the paradox perspective. This chapter outlines the contributions of the thesis to both auditing research and paradox theory. The framework adapted from Smith and Lewis (2011) helps to explain RAQB as a consequence of the paradoxical tensions in the organisation. This chapter also provides the reflections of the researcher and the research limitations, in addition to suggestions for future research.

Chapter 2 Literature Review

2.1 Introduction

This chapter aims to highlight prior literature discussing topics in this research. First, this chapter examines the evolution of audit research. Audit is dynamic and constant changes have affected auditors' approach to their practice. One of the most noticeable transformations concerns the movement towards more structured approaches. Second, the chapter highlights research concerning auditors' skills, competence and knowledge in the context of audit success, whether they are a product of education, training or experience. Third, it explores the plurality of an audit engagement team in which auditors come from different backgrounds and have different expertise, motivations, and beliefs. Fourth, this chapter explains the control systems applied in an audit engagement team in order to maintain audit quality. It then talks about the issues and problems arising in public sector audits. The following discussion continues to describe the audit quality itself, which can be viewed from different perspectives. The last discussion explores the literature on reduced audit quality behaviour (RAQB), including some specific types of RAQB, the prevalence of such specific behaviours and also the factors associated with the occurrence of RAQB.

2.2 Auditing: The Evolution of Audit Approach

As was noted in the discussion on the history of auditing practice (Chapter 2), it can be argued that auditing is dynamic, rather than static, following the dynamic changes to its environment (Lee and Azham 2008; Turley and Cooper 1991; Flint 1988). Brown (1962) suggests that audit objectives and techniques have changed over a period of centuries, in line with changes in society, and that client expectations have also been affected by contextual factors at particular points in time, including economic, political and sociological. In addition, Robson et al. (2007) point out that audit change is also affected by changes in the organisational fields (such as competitors, regulators and suppliers) in which the audit firm operates. Examples of changes include the adoption of complex and advanced information technology (IT) systems by clients (Bamber et al. 1989; Walker and Pierce 1988), the globalisation of capital markets (Beck et al. 1988; Bowrin 1998), clients' increased and innovative capital instruments (Bowrin 1998), the increased threat of litigation faced by audit firms (Lys and Watts 1994) and also changing audit standards in response to, for example, numerous auditing scandals and failures (Johnson et al. 2002; Schilder 2013; Turley and Cooper 1991).

The gradual shifting of audit practices has attracted attention from scholars. In recent developments in audit research, scholars have attempted to gain access to audit firms to more closely examine changing audit processes (Khalifa et al. 2007; McNair 1991; Pentland 1993; Barrett et al. 2005; Power 2000). For example, some studies have found that as audit has become more

technological and scientific audit, practices have shifted from 'decision by judgement' towards 'decision by technique' in order to justify auditing practices to clients, the courts and other stakeholders (Fogarty 1996; Pentland 1993; Fischer 1996; Khalifa et al. 2007). The practice has moved towards a more formalised and codified form of audit, allowing it to become more mobile and transferable to organisations that have previously been unexplored (Fogarty 1996; Pentland 1993; Fischer 1996). Audit practices have shifted from individual expertise towards scientific sampling (Francis 1994; Francis 1990; Khalifa et al. 2007). The audit process has also become comfortable with numbers involving interrelated regulations and methods, thereby enabling auditors to gain the confidence of stakeholders (Khalifa et al. 2007; Pentland 2000; Pentland 1993).

In general, it is argued that the main focus of research on changing auditing practice has been concerned with examination of the development of methodologies aimed at rendering audit more efficient and effective (Khalifa et al. 2007; Robson et al. 2007). Turley and Cooper (1991) suggest that the development of audit practice considers the pressures related to cost and efficiency (i.e. how to increase standards while simultaneously keeping costs down) in an increasing competitive market. Robson et al. (2007) argue that since publication of 'The Audit Explosion' (Power 1994) there have been significant developments in research, for example, discussion of audit effectiveness and efficiency, and also new types of audit such as environmental audit (Pentland 2000). The main discussion of the changing methodology includes the use of a more structured audit approach, as presented in the following subsection.

2.3 Audit Methodologies: Structured vs Flexible Approach

Turley and Cooper (1991) suggest that, in the UK, over time, audit methodologies have experienced three overlapping phases, from systems-based auditing in the 1960s and 1970s, followed by the substantive approach used in the 1970s and 1980s, to today's risk-based auditing approach. These changing methodologies have led to a corresponding change to auditors' approach to data collection. Bowrin (1998) suggests that the increasing complexity of the business environments faced by both the audit firms and auditees has led audit firms' move towards a more structured audit. Audit structure can be classified into three conceptual definitions, namely a structured audit approach, organisational structure and task structure.

Cushing and Loebbecke (1986, 32) define a structured audit approach as '*a systematic approach to auditing characterized by a prescribed, logical sequence of procedures, decisions, and documentation steps, and by a comprehensive and integrated set of audit policies and tools designed to assist the auditor in conducting the audit*'. The structured approach may relate to standardisation of the audit procedure, that is, making audit tasks more routine and mechanical (Turley and Cooper 1991). However, according to Turley and Cooper (1991), the structured approach does not necessarily mean that auditors are required to abandon their flexible professional judgement. Some

auditors still prefer to use their flexible professional judgement, employing their intelligence rather than a set of standardised procedures. In other words, the structured approach means that audit firms tend to rely more on the structure or framework for the flexible exercise of professional judgement as a means of promoting the intellectual side of the audit, in contrast to prescriptive procedures employing, for example, the use of documents to be completed. In such a way, the structured approach could mainly relate to the determination of what, when and in which order the judgements are to be used. The judgement expressions may continue to be critically applied during the phases of audit planning, risk analysis, materiality determination, analytical review and evaluation of audit evidence.

Organisational structure concentrates more on interrelation of the segments or unit in audit firms, including the specialisation of different organisational segments, standardisation of procedures within these segments, centralisation of decision-making authority and the formalisation of procedures, rules, instructions and communications (Burns and Stalker 1961; Hage et al. 1994; Bowrin 1998; Mohr 1971; Thompson 1967b; Dirsmith and McAllister 1982). On the other hand, task structure refers to *'how the different aspects of task are organised and inter-related, and how well they are understood'* (Bowrin 1998, 42). Unstructured tasks are those tasks related to undefined problems, with few or no guidelines, and undefined alternatives that require judgement and insight. On the other hand, structured tasks refer to *'routine, well-defined problems, limited well-defined alternatives, and requiring little judgement'* (Abdolmohammadi and Wright 1987, 4).

Although there has been a tendency towards the use of a more structured rather than flexible audit approach, some scholars have argued that there are positive and negative impacts of both (Bowrin 1998). Some studies have revealed that a structured approach promotes audit effectiveness and efficiency (e.g., McDaniel 1990; Morris and Nichols 1988), reduces litigation exposure (e.g., Lys and Watts 1994), requires fewer staff per partner (e.g., Kinney 1986) and less experienced auditors to review audit tasks (e.g., Prawitt 1995), features less role ambiguity and role conflict (Bamber et al. 1989), increases auditors' perceived satisfaction with accuracy and timeliness (Bamber et al. 1989) and enhances job satisfaction and reduces staff turnover (Bamber et al. 1989). On the other hand, a structured approach also reduces auditors' ability to exercise professional judgement (Francis 1994), negatively affects the judgement and decision-making processes (Spires 1991; Prawitt 1995), leads to a loss of professional autonomy leading to the departure of partners (Francis 1994) and leads to the performance of unnecessary procedures (e.g., Cushing and Loebbecke 1986).

In relation to RAQB, Kachelmeier and Messier (1990) found that auditors from structured firms were less likely to engage in RAQB than auditors from unstructured firms. Likewise, Alderman and Deitrick (1982) also found that 96% of respondent auditors agreed or strongly agreed that specific audit procedures help them to conduct a better audit. However, this finding is not supported in a study conducted by Malone and Roberts (1996) which suggested there is no relationship between

audit firm structure and RAQB. This finding from Malone and Roberts was, however, challenged by Bowrin (1998, 47), who argued that their finding '*may be misleading as the participating firms did not differ significantly in terms of the degree of structure employed in their respective audit approaches*'. In addition, other studies have suggested that the tendency among auditors to avoid established procedures by, for example, performing premature sign-off (PSO, the signing off on audit programmes without performing one or more required steps, or noting the omission of such steps) on audit procedures, or working backwards, may not adequately offset the effectiveness resulting from the use of structured audit approaches (Abdolmohammadi 1992; Ashton 1990; Rhode 1978).

Scholars argue that the move towards a more structured audit approach is due to the need for consistent audit approaches (Arens and Loebbecke 1988) and for managing both the efficiency and effectiveness of the audit engagement (Grobstein and Craig 1984). It is also used to encourage audit quality control because the approach provides detailed procedures and checklists and structured decision aids promoting consistent performance evaluation and compliance with the auditing standards and regulations (Cushing and Loebbecke 1986; McDaniel 1990). However, although the results of some studies support the above arguments (Libby and Libby 1989; Butler 1985), the results of other studies suggest that structure is not associated with greater consistency (Kachelmeier and Messier 1990; Bamber et al. 1989).

Furthermore, it is worth noting that the continual dynamic transformation of practice can have impacts in terms of it leading to auditors struggling to learn and follow new and changing procedures (Fischer 1996). For example, Khalifa et al. (2007, 828) point out that it is very likely that '*the new technologies fail to become embedded within old or previous audit practices such that auditors follow rules ritualistically, without much understanding of supporting principles, and in ways which merge comfortably with prior beliefs and judgments about the client*'.

Dynamic organisational changes have taken place within a more general organisational context, and have received a lot of attention from scholars (Chia 1999; Nasim and Sushil 2011). Organisations tend to become more developed, sophisticated and diverse in line with the development of their operating environments, which may give rise to uncertainty regarding the future (Lewis 2000). Some organisations will prefer to retain their core capabilities, which may eventually encourage frustration (Leonard-Barton 1992). If members of an organisation choose to place a strong emphasis on core capabilities, this also brings with it the potential to foster the development of core rigidities, which serve to prevent them from considering any changes that are needed. In order to avoid the pressures associated with change, the organisation and its members need to concentrate on its favourable aspects as a means of avoiding fears and frustrations and thereby enabling them to better adapt to the changing environment (Vince and Broussine 1996). Organisational inertia was discovered by some studies, meaning organisations affected by it

struggled to deal with the continuous changes required in order to be successful within the context of a dynamic environment (Leonard-Barton 1992; Cialdini et al. 1995; Heider 1958; Weick 1993).

In summary, the approach taken to audit has developed over time, and has attracted a large amount of attention from scholars. However, as a sequence of processes, an audit involves interrelated elements and parties that have also been the object of academic and practical research. The following subsection highlights the audit process, the internal factors affecting it and how the literature talks about them.

2.4 Auditor's Proficiency: A Product of Education, Training, or Experience?

> *Has the development and adaptation of more sophisticated audit procedures led to a real improvement in the quality of the audit or is the package of skills and techniques which the auditor brings to his or her task flawed such that potentially fatal elements in a client's business remain undetected?* (Foreword from J Arnold, in Turley and Cooper 1991)

Frantz (1999) suggests that the level of an auditor's skills affects the audit quality required by the auditing standards. However, auditors' skills differ and may not always be observable. In a seminal study on RAQB carried out by Rhode (1978), it was revealed that respondents claimed the primary reasons for their poor audit performance were related to incompetence, lack of training and inexperience. Furthermore, Flint (1988) points out that auditor competence is the first and fundamental requirement for the authority of the audit profession. *'Audit competence requires both knowledge and skill, which are the product of education, training, and experience'* (Flint 1988, 48). In addition, Watkins et al. (2004) point out that competence is a fundamental principle of auditing because audit requires auditors to have an understanding of financial reporting and business issues, in addition to expertise in assessing the evidence necessary to complete an audit report. Consequently, auditors must conduct an audit in line with the professional competence derived from their qualification, training and practical experience. According to the above discussion, it could be argued that there are three main elements relating to auditor proficiency, namely education, training and experience.

Regarding the relationship between auditors' education and their competence, the survey conducted by Rhode (1978) found that the education auditors gained from college was inadequate to prepare them for their role as auditors. A significant majority of respondents claimed this was the result of a lack of application of the auditing theory studied to their own implementation in practice. Other responses suggested that college did not provide enough of the relevant skills that they needed when entering into the audit profession. In addition, there has been literature on the relationship between auditors' capabilities and audit quality. Most studies have suggested that the competence of audit personnel may affect the quality of the audit (Libby and Luft 1993; Raghunathan 1991; Otley and Pierce 1996a). However, when examining the relationship between

newly qualified chartered auditors and RAQB, Willett and Page (1996) revealed that auditor RAQB was not related to whether or not they held a relevant accounting degree.

Furthermore, the study conducted by Rhode (1978) found that a significant number of respondents suggested that a way to reduce the gap between college training and real-life practice was to provide meaningful training experiences, for example, in the form of internship programmes in an audit firm. The majority of respondents (91%) also argued that training provided by their company helped them carry out a better audit. However, opportunities for attending such training tended to be limited. Some argued that the training function was administered on the job during their engagement, but due to the limited time available to practise audit, it did not function well. Correspondingly, Flint (1988) suggests that auditors need training because auditing is intellectually demanding, thus it requires a trained mind that has the capacity to exercise judgement.

Moreover, Frederick (1991) suggested that audit deals with specific knowledge of subject matter requiring judgement based on prior knowledge. An auditor's level of experience and how they use and apply their existing knowledge determine their performance. Other studies also support this claim, suggesting that auditors' level of experience influences their ability to carry out audit tasks successfully (Biggs et al. 1988; Wright 1988b; Bedard 1989a; Libby and Luft 1993). Moreover, Tubbs (1992) found that auditors with greater auditing experience had more accurate error knowledge which would eventually help them to conduct audit tasks effectively.

However, when completing an audit, an auditor does not work alone. He or she works in a team comprising several other auditors from different backgrounds and with different levels of skill, knowledge and experience, in addition to different positions and roles. The whole team needs to work together, with its inherent diversity managed well, in order for it to achieve its goals. It can be argued that an effective audit team with a good level of teamwork and cohesion can contribute to the success of an audit. The following discussion looks at the literature exploring the issues within an audit team.

2.5 Audit Team Engagement: Managing Plurality

> An engagement team includes a person using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement. However, a person with such expertise is not a member of the engagement team if that person's involvement with the engagement is only consultation. (IAASB 2009b, ISA 220 par A10)

In addition to the above statement related to the need for individual auditor's expertise, the standards also state that an auditor working in a team engagement and the engagement partner shall consider the appropriate skills, capabilities and competence expected of the engagement team as a whole, including technical expertise, such as in a specific area of auditing and accounting, and

also relevant IT skills (IAASB 2009b, ISA 220 par A10). In a similar way, Flint (1988) suggested that due to the judgemental nature of auditing and also due to the environment in which they operate, auditors require a knowledge of accounting, information systems, computing, law, management, political economies and a functional specialism in business such as production, purchasing and labour. In addition, Bamber et al. (1998) argued that one of the important issues in auditing relates to its complex environment involving many tasks that are too involved to be tackled by a single person. The tasks that need to be performed involve multiple interrelated knowledge bases, skills and also perspectives. Similarly, Vera-Munoz et al. (2006) suggest that because each auditor in an engagement team performs a distinct part, role and task within the overall audit process, they need to share their knowledge and expertise in areas such as accounting, auditing and regulatory issues. The ability of auditors to share their skills and knowledge in such a way (both formally and informally, among individuals or in a team-based setting), to capture knowledge for reuse and to reduce information overload will influence the effectiveness, efficiency and quality of the audit. In addition, Solomon (1987b) pointed out that an audit engagement consists of auditors who work together at various hierarchical levels as part of a sequential, iterative, hierarchical process involving interactions conducted mainly through written media and review.

However, the combination of such wide-ranging tasks, expertise and backgrounds within the hierarchical nature of an audit team may bring about negative consequences such as inhibiting teamwork (Bamber et al. 1998). The relatively complex audit processes and activities may also lead to other group problems, such as the issue of proximity, the size of the group and relationships between group members (Solomon 1987b; Bamber et al. 1998). Nelson and Tan (2005) suggest that auditors do not work in isolation, and this highlights the importance of understanding the influence of auditors' interactions with the people, tasks and environment with which they are engaged during the performance of their work. In addition, Bobek et al. (2012) found that good and effective auditor communication with each engagement member, in addition to effective communication with auditees, can be effective in helping an auditor resolve any personal challenges faced during an audit assignment.

An audit team is described by Notgrass et al. (2013) as unique because it is generally small in size, is required to function for only a short duration and must rapidly coalesce. They also point out the role of team dynamics within an audit team due to its structure and level of processes, flexibility in terms of the size of the team, the sharing of knowledge and expertise among its members, and team decision-making processes. Audit team dynamics involve a level of trust and engagement on the part of team members, some element of conflict and also the need for team cohesion.

Group cohesion can be defined as '*a dynamic process that is reflected in the tendency for a group to stick together and remain united in the pursuit of its instrumental objectives and/or for the satisfaction of member affective needs*' (Carron et al. 1998, 213 as cited in Gammage et al. 2001, 3).

Cohesion requires interpersonal attraction, commitment to the task and group pride (Beal et al. 2003; Mullen and Copper 1994). Team cohesiveness affects members' ability to conform to group norms (Beal et al. 2003; Gammage et al. 2001) and allows individual members to concentrate on synergetic interactions that impact performance (Barrick et al. 1998; Gammage et al. 2001). In the context of auditing, Notgrass et al. (2013, 4) suggest that *'auditing team cohesion is necessary since a stratum of organizational knowledge and abilities are necessary to achieve the desired end result'*. In their study of team cohesion among IT auditors, they found that the auditors set team expectations that promoted such cohesion. Team cohesion is significantly affected by the behaviour exhibited by its leadership, increasing when the team leader displays an enthusiasm for the team's objectives, has a strong sense of purpose and behaves in ways that encourage respect from other team members. On the other hand, team cohesion was observed to be low when the team leader refrained from interacting with members and taking corrective actions in the event that problems became significant. In addition, as a member of an audit team, an auditor can be forced to adhere to the team norms (ethical or unethical) that can eventually put pressure on him or her (Alleyne 2010). For example, in a study of external auditor teams, Alleyne (2010) found that group cohesion had a moderating effect on the relationship between individual factors and whistle-blowing intentions among external auditors.

Furthermore, the conflict that may be found within an audit team can either be a positive or negative element. Conflict in a positive form may help to promote creativity, provide new solutions and better decision-making, in addition to encouraging learning processes (functional conflict) (Amason et al. 1995; Jehn 1995; Notgrass et al. 2013). It can also act as a defence against groupthink, that is, the dysfunctional phenomenon in a group that places group agreement above group dynamics (Parker 1990), potentially leading to unsupported decisions (Notgrass et al. 2013). In contrast, conflict in its negative guise is more concerned with the inability of the audit team to discuss issues in order to achieve an optimal resolution, the avoidance of addressing important issues and a splitting of the team into different factions or sub-groups (Notgrass et al. 2013). Notgrass et al. (2013) suggest that conflict increases when a team leader searches for many alternative opinions from the team members, proposes new ways of examining assignments and takes into account the moral and ethical consequences of decisions. In contrast, an avoidant team leader has a negative correlation with conflict within the team.

To summarise, there is the potential for problems to arise within an audit team as a result of auditors having different tasks and bring differing levels of knowledge and expertise. Cohesion and teamwork are thus required for the audit team to achieve its intended goals. In addition to the need for such positive team characteristics, the audit also needs to be controlled to ensure auditors deliver good audit quality, as discussed in the following subsection.

2.6 Control Systems of the Audit Process

Otley and Pierce (1996b) suggest that an effective control system is a significant factor contributing to good audit quality. However, there will a serious issue relating to control in the audit practice, referred to by McNair (1991) as 'proper compromises' of the conflicts between audit cost and quality (Sweeney and Pierce 2004). Because the quality of an audit is difficult even for auditors to measure (see subsection 3.7 for discussion about audit quality), and remains unobservable to the public, auditors and audit firms may sacrifice this unseen audit quality in order to reduce cost (Sweeney and Pierce 2004; Power 2003; McNair 1991; Pierce and Sweeney 2004). Rhode (1978) argued that audit is a labour-intensive process and the effectiveness with which a firm controls the time spent auditing will be a significant determinant of the total cost of the audit. However, audit firms complete aggressively on price in order to provide lower fees (Beattie and Fearnley 1998; AICPA 1978; Rhode 1978), especially in a *no growth market'* (Turley and Cooper 1991, 35). As such, firms need to be run both effectively and efficiently, with increases in quality equating to greater time and control, which may in turn incur significant additional costs (Pierce and Sweeney 2004; Sweeney and Pierce 2004). Accordingly, Rich et al. (1997) point out that increasing competitive pressure means that audit firms have to pay careful attention to audit costs, including those associated with the review control process. This is because the most costly personnel are audit supervisors, managers and partners with supervisory roles (Rich et al. 1997; Bamber and Ramsay 2000).

Previous literature on audit control can be grouped into two main discussions: control of audit time budgets and control of the audit quality review process. The former is concerned with how the audit firm controls its audit time budget so that it can be met by audit personnel using, for example, participative target setting (Otley and Pierce 1996b; Pierce and Sweeney 2004; Sweeney and Pierce 2004), in addition to the choice of performance evaluation employed (Sweeney and Pierce 2004). Most prior studies in this area have focused on the impact of pressure on time budgets on RAQB (e.g., Kelley and Seiler 1982; Margheim et al. 2005). The focus for these has mainly been control of the audit quality review process, that is, the control mechanism that evaluates and reviews the work of auditors documented in audit working papers (Rich et al. 1997).

According to professional auditing standards, there are two main types of audit quality review control. The first deals with review within an audit engagement team that is carried out *'on the basis that work of less experienced team members is reviewed by more experienced engagement team members'* (IAASB 2009c, ISQC 1 par 33). This review process is a quality control aimed at determining whether work has been performed and documented in accordance with professional standards, whether the evidence obtained is sufficient and appropriate to support the auditors' conclusions and report and whether the objectives of the audit procedures have been achieved (IAASB 2009b, ISA 220 par A17). The review process includes the detection and undertaking of correction to the work

of audit team members presented in their working papers (Brumfield et al. 1983).

The review is carried out in line with the hierarchical order of the engagement team, with more senior members evaluating the work of more junior members (Rich et al. 1997). In other words, the work of the team member (or staff or junior auditor) is supervised and reviewed by the team leader (senior auditor) or supervisor, up to the manager and partner (IAASB 2009c, ISQC 1 par 33; NAB 2007, 2015). As an audit involves a degree of professional judgement, Solomon (1987a) argues that the review process is concerned with multi-person decision-making in order to reduce judgement variance and improve accuracy (Trotman and Yetton 1985; Ramsay 1994). The audit team members who prepare the working papers have great influence on what and how audit evidence is collected, choosing what and what not to document, and determining the frame and format of the working papers (Bamber and Ramsay 2000; Miller et al. 2006; Rich et al. 1997). Because of these influences, however, there are suggestions within some of the literature that audit team members may be able to shape or style the working papers in a persuasive behaviour in order to maintain their reputation in the minds of reviewers acting as their performance evaluators (Libby and Trotman 1993; Rich et al. 1997). However, the literature also suggests that not all these behaviours have negative consequences (Rich et al. 1997).

It is also suggested in the literature that in order to improve efficiency, there is a need for specialisation in the review of audit working papers, i.e. seniors focus more on mechanical errors and managers on conceptual ones (Bamber and Ramsay 2000; Bacsik and Rizzo 1983): 'each level of review has a different focus and intentions. A combination of all levels insures a quality set of engagement work papers' (AICPA 1989, 12 as cited in Bamber 2000). However, according to surveys of practitioners (e.g., Milliron and Mock 1981; Bamber et al. 1988), this type of specialisation is not universally followed. Both seniors and managers carry out all-encompassing and complete reviews, with no limitation on the areas focused upon. Furthermore, Bamber and Ramsay (2000) also found that specialised review roles do not automatically improve efficiency.

The second type of quality review is one conducted by an external party outside the engagement team, such as 'a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report' (IAASB 2009b, ISA 220 par 7c). The review process is designed 'to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report' (IAASB 2009b, ISA 220 par 7b). This evaluation includes discussion of significant matters such as the review and evaluation of proposed audit reports, audit conclusions and select documentation related to significant judgements that provide the basis for the conclusions (IAASB 2009b, ISA 220 par 20).

This second type of review process is also concerned with the external review conducted by other accounting firms (peer review), or by a regulatory body such as the Public Company Accounting Oversight Board (PCAOB). It has been argued that since the audit scandals at Enron and other big companies in the early 2000s, there has been considerable public concern about the effectiveness of audit quality control practices (Asthana et al. 2009; Lin et al. 2003). In the wake of these scandals, there has been increased effort to oversee accounting firms in order to improve audit quality and to regain public confidence. In the USA, the audit scandals led to the establishment, by the US Congress, of the PCAOB in 2002, with the Sarbanes-Oxley Act of 2002 (SOX) intended to oversee the audits of public companies in order to protect the interests of investors and further the public interest. It required the auditors of US public companies to be subject to external and independent oversight for the first time in history after the profession was previously self-regulated and employed a system of peer review carried out under the auspices of the American Institute of Certified Public Accountants (AICPA) (Church and Shefchik 2012). The main objectives of the SOX are to improve audit quality, reduce the risk of auditing failures and to promote public trust in both the financial reporting process and auditing profession (PCAOB 2003).

Prior to establishment of the PCAOB, AICPA-conducted peer review was the primary means used by the accounting profession to monitor audit quality (Church and Shefchik 2012). However, although the peer review system was beneficial (Woodlock and Claypool 2001; Hilary and Lennox 2005), the process was ineffective because peer reviews were not independent due to the fact that accounting firms were able to select their reviewers and the system was generally non-punitive (Fogarty 1996; DeFond 2010). In contrast, the PCAOB's inspection staff are independent and have both investigative and disciplinary authority over registered audit firms that fail to comply with the rules of the PCAOB, the SOX and other rules, laws and professional standards. It has also the authority to impose fines and to prohibit accounting firms from carrying out audits of public companies by suspending or revoking their registration (PCAOB 2003). PCAOB inspections are based on the riskiest areas of engagements, including evaluation of accounting firms' quality control and a review and examination of certain high-risk elements of selected engagements (PCAOB 2003).

To sum up, the above discussion has examined the development of different audit approaches and the ways in which an audit engagement operates. Chapter 3 will explain the differences between public and private sector auditing. In terms of audit process, public sector auditing employs a very similar mechanism to its private sector counterpart. Thus, the following subsections focus only on the issues, problems and challenges faced by public sector auditing.

2.7 Public Sector Auditing: Issues and Problems

Public sector audit can be defined as the assessment of the accountability of those who are charged with carrying out public policy or activities that are required to explain their actions to the

public or their electorate (Suzuki 2004; Glynn 1985). Furthermore, government audit is the evaluation of government agencies' accountability (Suzuki 2004). Private and public sector audit employ a very similar audit process, especially in relation to financial statement audit, although, over time, both the scope and type of public sector audit have expanded to include other aspects of audit such as performance, compliance and investigative audit (Jones and Bates 1991). This research focuses on government financial statement audit and the audit process is very similar to that used in the private sector (refer to Chapter 3 regarding the research context).

Scholars and practitioners have identified significant changes to auditing practice since the early 1980s as a result of the growing need for effective public accountability (Schultz 2004; Staats 1981b). There have particularly been changes at the legislative level (Brown 1980), yet these have attracted little attention from academics. The 1990s saw a significant shift of public auditing practice from financial statement audit to the inclusion of performance audit (Suzuki 2004; Jones and Bates 1991). The early 21st century saw the rapid development of public accounting and auditing standards requiring public sector audit institutions to improve their roles (Power 2003; Guthrie 1992; Dwiputrianti 2011). There have also been growing public concerns about governmental reforms aimed at ensuring the effective use of public funds and resources (Barrett 2000). The government audit institution is needed to improve government's accountability, transparency regarding public income and expenditure (Houghton and Jubb 2003), including, in a broader sense, anticorruption programmes in countries such as Vietnam, Brazil and Indonesia (Nicoll 2005).

Similar to in its private sector counterpart, auditors' proficiency determines the audit outcome. With the increasing roles played by public audit institutions, growing demand for effective government accountability and also improvements to public auditing standards, public audit organisations have faced a shortage of qualified public sector auditors that has in turn affected their quality (Frantz 1999). An increasingly diverse range of audit types highlights the need for more skilled auditors across a range of disciplines (Al-Nofaie 2003). In a team engagement, they need to work collectively, which may in turn pose problems such as a lack of team cohesion (refer to Chapter 9).

In terms of control, public sector audit works in a very similar way to private sector audit. For example, Fargher et al. (2005) noted:

> *Similar to the private sector, audit tasks are performed in hierarchically structured teams and the audit decision-making environment is characterized by sequential and iterative review processes. A typical audit team includes of an engagement controller, an engagement manager, and a senior and a staff auditor. Discussion with senior staff supported the importance of the review process as a quality control mechanism.* (Fargher et al. 2005, 88)

A detailed explanation of the internal audit engagement review process in government audit, particularly in the observed audit organisation, is provided in Chapter 7. With regard to external review, Wilkins (1995), in an examination of the performance of three national audit offices from the United Kingdom, Australia and Sweden, suggested the importance of external quality review in the three offices. He argued that peer reviews from independent external parties conducted at least once every three years affected audit performance. In addition, it is also argued that the quality of an audit report can be improved if government auditors see that their work is reviewed and that penalties for poor quality will be imposed (Aldons 2001, as cited in Dwiputrianti 2011 p.61).

2.8 Audit Quality

Audit quality has been interpreted in many ways. According to Watkins et al. (2004), the practitioner literature suggests that audit quality refers to the degree to which audit complies with the relevant applicable auditing standards (Krishnan and Schauer 2001; Tie 1999; McConnell and Banks 1998; Aldhizer et al. 1995; Cook 1987). On the other hand, accounting researchers have proposed multiple dimensions of audit quality, including *the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach*' (DeAngelo 1981, 186), the probability that an auditor may fail to modify the opinion of financial statements that are materially misstated (Lee et al. 1999), the accuracy of auditors' reporting information (Titman and Trueman 1986; Beatty 1989), the degree of audit failures or violations found by an oversight body (Feroz et al. 1991), process measures in relation to auditor performance (Sutton 1993; Malone and Roberts 1996) and the degree to which bias within an audit may be reduced and the quality of accounting data improved (Wallace 1980).

Audit quality is an abstract notion, is difficult to measure directly and is not easily observable (DeAngelo 1981; Power 1997). The US General Accountability Office or GAO (1986, 4) defines audit quality as *compliance with professional standards and contractual terms set out for the particular type of audit being conducted*'. On the other hand, DeAngelo (1981) argues that audit quality is the probability that auditors discover and report a breach and irregularity in the client's financial reporting. Similar to growing concern about audit quality in the private sector, government audit quality has also become a vital issue since the US GAO (1986) released a report indicating that 34 per cent of 120 audits examined were substandard.

2.8.1 The Framework of Audit Quality

The first formal audit quality framework was introduced by the UK's Financial Reporting Council in 2008 (see Figure 3.1). It proposed five drivers of audit quality and a number of potential indicators of audit quality for each driver (Knechel et al. 2013). The first driver relates to the audit firm culture as indicated by its leadership's effort to make a positive contribution to audit quality in

terms of a supportive environment, reward systems and monitoring mechanism to ensure a high quality of audit is achieved. The second refers to the skills and personal qualities of audit partners and staff displayed by, for example, adherence to auditing and ethical standards, professional scepticism and also adequate levels of experience, training and mentoring. The third looks at the effectiveness of the audit process, including the collection of sufficient audit evidence and the effective review of audit work. The fourth is concerned with the reliability and usefulness of audit reports containing auditors' opinions to reach conclusions on the truth and fairness of financial statements and communications with the audit committee. The last driver is related to factors outside the control of auditors, such as the existence of active and professional audit committees able to address any issues that arise as part of the audit process.

Figure 2.1 Audit Quality Framework: UK's Financial Reporting Council
Sources: (adapted from FRC 2008; Knechel et al. 2013)
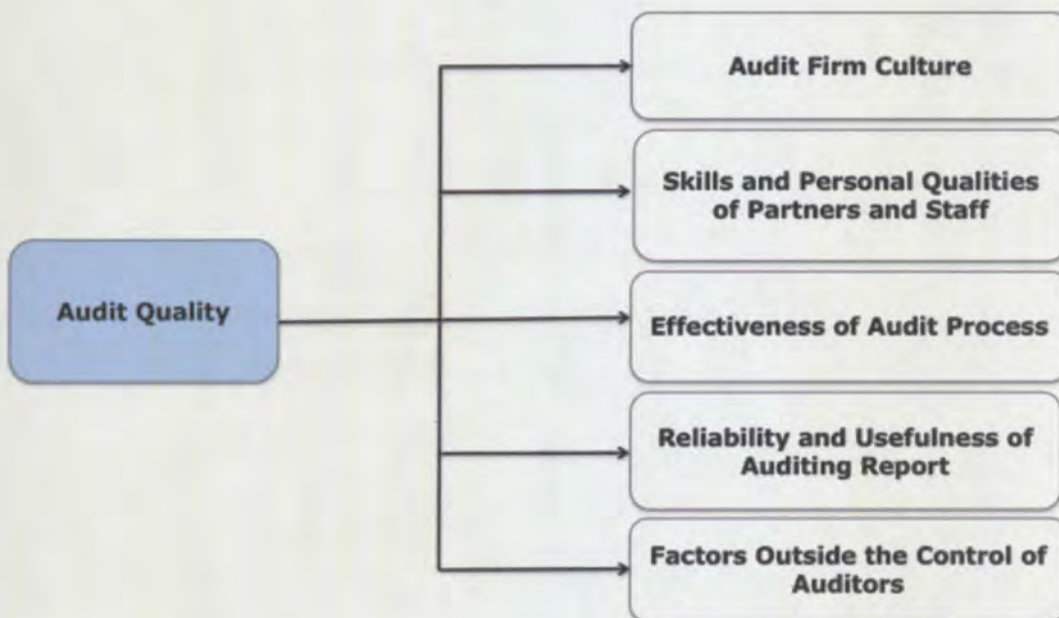
Subsequently, in 2013, the PCAOB proposed the concept of an audit quality indicator to identify quantitative measures related to higher audit quality. In 2015, it issued 28 potential indicators falling into three groups, namely audit professionals, audit process and audit results (PCAOB 2015). The main objectives of the indicators are *'to identify a portfolio of quantitative measures of public company auditing (called "indicators"), whose consistent use may enhance dialogue about and understanding of audits and ways to evaluate their quality; and to explore how and by whom the portfolio of indicators can best be used. Ultimately, this effort may produce higher quality audits'* (PCAOB 2015, 2). The set of indicators can be used to improve the ability of someone involved in the evaluation of audit quality and also to stimulate competition for audit quality among audit firms.

Similarly, in 2014, the International Auditing and Assurance Standards (IAASB) issued a framework for audit quality applicable to both private and public sector audit. The framework

comprises five elements, namely input, process, outputs, key interactions within the financial reporting supply chain and contextual factors (IAASB 2014). *'The Framework applies to both private sector and public sector audits although, due to their societal role and constitutional mandate, public sector audit bodies may give specific emphasis to certain factors'* (IAASB 2013, p. 62).

The input element involves appropriate values, ethics and attitudes and also sufficient knowledge, skills, experiences and time allocated to the performance of audit work. These are subsequently separated into the three levels of engagement, audit firm and national level. For example, at the engagement level, the team is required to be independent, take account of the wider public interest, comply with ethical requirements, exhibit objectivity and integrity, professional competence and due care, and professional scepticism. At the firm level, the firm needs to safeguard its independence, promote and reward individuals through an appraisal system supporting audit quality, not impair audit quality as a result of financial considerations, provide partners and staff with continuing professional development and high-quality technical support, promote a culture of consultation on difficult issues and have robust mechanisms in place for making client acceptance and continuance decisions. At the national level, there are active regulators, national standards setters and professional accountancy organisations to ensure that ethics are understood and applied.

Similarly, the process factor is also split into three levels, including quality control procedures to be taken during the completion of audit processes. At the team engagement level, the engagement team should make sure they comply with auditing standards, laws and regulations and quality control procedures. They also need to make appropriate use of IT and ensure there is effective interaction with others involved in the audit. At the firm level, the firm ensures that the audit methodology is adapted to auditing standards and internal quality control. The audit also requires effective systems of supervision and audit review. At the national level, there must be effective mechanisms in place to investigate allegations of audit failure and to take appropriate disciplinary action where necessary.

Output factors are related to the usefulness and timeliness of the audit outputs received by different stakeholders. These outputs may provide broader insights into the quality of the audit and the impact of this quality. Relevant outputs fall into two levels: engagement and firm/national levels. The engagement level comprises three groups of outputs: (1) the auditor, including the auditor's report to users of audited financial statements, those charged with governance, management and financial and prudential regulators, (2) the entity, such as the audited financial statements and reports from those charged with governance and (3) audit regulators (regulators providing information on individual audits). At the firm or national level, reports may come from audit firms, such as reports on transparency, annual and other reports, and also from audit regulators, including an aggregate view of the results of audit firm inspections.

This chain deals with *'the people and processes involved in the preparation, approval, audit, analysis and use of financial reports'* (IFAC 2008, 37). The interactions include both formal and

informal communications. The people involved include auditors, management, users, those charged with governance and regulators. For example, interactions between auditors and management relate to the ability of auditors to obtain full and timely access to relevant information in order to gather audit evidence. Shareholders, as the users of financial statements, can interact with auditors regarding any significant matters about audit in the general meeting. Public sector auditors communicate with the users in order to provide unbiased and politically neutral insight into audit reports and also constructive and timely recommendations.

The final element refers to contextual or environment factors. These factors include the applicable financial reporting framework, corporate governance, information systems, broader cultural factors, the financial reporting timetable, attracting talent, the litigation environment, audit regulation, business practices and commercial law and laws and regulations regarding financial reporting.

2.9 Reduced Audit Quality Behaviour (RAQB)

RAQB can be defined as auditors' inappropriate actions during an audit engagement that compromise audit quality and threaten the validity of the audit opinion (Coram et al. 2008; Herrbach 2001; Malone and Roberts 1996). It could be argued that the first seminal study to investigate RAQB was conducted by Rhode (1978) for the Commission on Auditors' Responsibilities to *'ascertain the influence of selected aspects of auditors' work environment on professional performance of CPAs'* (AICPA 1978, 175). The questionnaire survey used in the study revealed two main findings concerning the prevalence of alarming RAQB practice among the auditors surveyed: PSO and the under-reporting of chargeable time (i.e. the completion of audit work without reporting chargeable hours) (Rhode 1978; AICPA 1978).

Since this study, a significant volume of research has been conducted on RAQB. A variety of terms have been used to refer to RAQB, such as dysfunctional audit behaviour (e.g., Donnelly et al. 2003; Herrbach 2001; Khan et al. 2013; Paino et al. 2011; Yuen et al. 2013), irregular auditing (e.g., Lee 2002; Willett and Page 1996), quality threatening behaviour (Sulaiman 2011; Sweeney and Pierce 2004), reduced audit quality acts (Coram et al. 2008), audit quality reduction acts (Kelley and Margheim 1987) and audit quality reduction behaviour (Herrbach 2001). The following discussions highlight the literature discussing the types of actions classified as RAQB, the prevalence of RAQB among auditors and the probable antecedents of such behaviours.

2.9.1 Specific Types of RAQB

Since the seminal report of Rhode (1978), a significant number of studies have sought to investigate specific actions performed by auditors during the course of an engagement that could be identified as RAQB. Some early scholars following Rhode (1978) focused on examining empirical

evidence in relation to the practices of PSO and under-reporting chargeable time (UCT), as identified in the report. Although the methodology employed in Rhode's report has been criticised (Kay 1979), studies conducted subsequently have supported the report's findings (Alderman and Deitrick 1982; Lightner et al. 1982; Buchman and Tracy 1982; Kelley and Seiler 1982). For example, Alderman and Deitrick (1982) replicated Rhode's work and acquired evidence to support the original findings. They conducted a questionnaire survey of 279 auditors from 19 large audit firms and found 31 per cent of participants indicated a general perception that PSO was conducted by some auditors, with 25 per cent believing that colleagues in their firms engaged in PSO. Other important studies by Lightner et al. (1982) and Lightner et al. (1983) also identified the incidence of UCT leading to potential lost revenue, erroneous planning and poor personnel decisions. Margheim and Pany (1986), applying a case approach, also supported the previous findings. Their study suggested that a number of factors (quality control standards, time pressure, the size of the CPA firm, the perceived necessity of the audit step and the perceived materiality of a budget overrun) would affect the likelihood of there being PSO and UCT.

However, RAQBs other than PSO and UCT have not attracted much attention, although a report by the Treadway Commission (1987) contained the recommendation that accounting firms seek to control a number of organisational factors that are very likely to lead to reduced audit quality (Kelley and Margheim 1990; Treadway-Commission 1987). In 1990, however, a subsequent significant study was conducted by Kelley and Margheim (1990) looking at seven types of RAQB. They examined the influence of time budget pressure and other moderating variables (senior consideration, senior structuring behaviour, senior Type A personality and staff Type A personality) on the seven types of RAQB studied, including: (1) UCT (not directly reducing audit quality); (2) PSO; (3) reducing the amount of work performed on an audit step to a level below what the auditor would consider reasonable; (4) failing to research an accounting principle; (5) making superficial reviews of client documents; and (6) accepting weak client explanations. The first and second behaviours are derived from the previous studies noted above, with the third and fourth based solely on a study conducted by Fleming (1979). The final two types of RAQB acts are new actions that have not been examined in previous studies (Fleming 1979, as cited in Kelley and Margheim 1990; Kelley and Margheim 1990).

In addition, Willett and Page (1996) conducted a study of the types of irregular auditing derived from an analysis of audit methods and also discussion with auditors in practice, along with actions identified from the previous literature. They suggest that the spectrum of irregular audit varies from expediency to dishonest recording of the work carried out. Extreme behaviour concerned a false report conducted by an auditor, in which it was stated that the results of a test had been satisfactory although in reality they had not been. They also identified the use of some irregular shortcuts to speed up testing, such as reducing sample size, not testing items deemed to be

immaterial and not performing audit procedures perceived as unnecessary. The specific RAQBs and their definitions, as identified from the main previous studies, are given in Table 2.1 below.

Table 2.1 Specific RAQBs Identified from Main Previous Studies

Specific RAQBs Investigated	Definitions	References
(1) Premature sign-off (PSO)	Prematurely signing off a required audit step, which is not covered by other steps, without completing the work or noting the omission procedures.	Rhode (1978), Fleming (1979), Margheim and Pany (1986), Alderman and Deitrick (1982), Kelley and Margheim (1990), Raghunathan (1991), Malone and Roberts (1996), Coram et al. (2008).
(2) Under-reporting chargeable time (UCT)	Completing audit work without reporting the chargeable hours.	Fleming (1979), Kelley and Seiler (1982), Lightner et al. (1982), Lightner et al. (1983) Margheim and Pany (1986), Kelley and Margheim (1987), Kelley and Margheim (1990).
(3) Reducing the amount of work performed on an audit step below what the auditor would consider reasonable	Doing less work than normal and reducing the work and effort to produce quality audit when executing audit procedures.	Fleming (1979), Kelley and Margheim (1990), Malone and Roberts (1996), Otley and Pierce (1996a).
(4) Failing to research an accounting principle or technical issue	Not checking the technical and professional standards relevant to the issue, even though the auditor is unsure of the correct accounting treatment.	Fleming (1979), Kelley and Margheim (1990), Malone and Roberts (1996), Otley and Pierce (1996a), Coram et al. (2008).
(5) Making superficial reviews of client documents	Quickly reviewing the supporting documents without paying much attention to their validity and accuracy.	Kelley and Margheim (1990), Malone and Roberts (1996), Otley and Pierce (1996a), Coram et al. (2008).
(6) Accepting weak client explanations	Accepting audit evidence about which they were doubtful or accepting client explanations and using them as a substitute for other evidence that the auditor could reasonably expect to be available.	Kelley and Margheim (1990), Willett and Page (1996) Malone and Roberts (1996), Otley and Pierce (1996a), Coram et al. (2008).
(7) Failure to pursue questionable items	Failure to extend the scope of examination when suspicious transactions are detected.	Malone and Roberts (1996), Coram et al. (2008).
(8) Rejecting awkward-looking items from a sample	Discarding items that seem complex and/or time-consuming and replacing them with others during examination of the sample, or speeding up testing by rejecting awkward-looking items from samples and taking shortcuts.	Willett and Page (1996), Coram et al. (2008).
(9) Not testing all the items in a reported sample	Not performing designated audit procedures on each item selected.	Willett and Page (1996), Coram et al. (2008).

Accordingly, from a practical perspective, the types of RAQBs can also be found in an examination of audit engagement teams from selected accounting firms conducted by the PCAOB. As previously noted, the PCAOB has carried out inspections of selected accounting firms to monitor audit quality, investigate whether registered accounting firms comply with the PCAOB rules, the SOX and other rules, laws and professional standards and to impose suspension or revocation of accounting firms' registrations (PCAOB 2003).

Church and Shefchik (2012) conducted a study investigating the PCAOB's inspection reports of eight large accounting firms in the USA issued from 2005 to 2010, for the inspections years of 2004 to 2009. The PCAOB's inspections are based on the riskiest area of engagements including an evaluation of accounting firms' quality control and a review and examination of certain elements of high-risk areas of selected engagements. The reports detailing findings related to audit deficiencies are also publicly disclosed. According to the PCAOB (2008, 7), audit deficiencies refer to *'those for which sufficient, competent evidential matter does not appear to have been collected to support the audit opinion on the issuer's financial statements'*. They classified deficiencies into several categories: the severity of deficiency, the nature of deficiency (to identify common audit deficiencies), the specific account(s) affected and the primary emphasis as to the financial statement(s) impacted. Some of the important audit deficiencies commonly found include the failure to test an account and/or assertion, failure to adequately or properly evaluate an accounting issue and/or whether the accounting treatment was appropriate, failure to perform or document sufficient procedures/analyses when testing, using sample sizes that were too small and/or not appropriately testing all of the items in the sample, failure to appropriately project the effect of errors identified in the sample to the entire population and failure to select a sample that is representative of the underlying population. These audit deficiencies are considered as having serious implications for audit quality. It is worth noting that some common audit deficiencies reported by the PCAOB are similar to those outlined in the findings of other studies, as described in Table 3.1 above.

In summary, viewed from the perspectives of both scholars and practitioners, there are a number of actions that may act to threaten audit quality. However, questions may arise as to whether these actions are prevalent among auditors. The following discussion will address this concern.

2.9.2 RAQB: Prevalent Practice Among Auditors?

The seminal study of Rhode (1978) suggested that almost 58 per cent of respondents had at one time committed PSO, and that 80 per cent of those had done so infrequently (fewer than 10 times). Staff auditors were perceived to be more susceptible. The report also revealed that 55 per cent of the respondents had completed work without reporting it as chargeable time. Subsequently, a replication and extension of Rhode's work was conducted by Alderman and Deitrick (1982). They surveyed 19 offices of the Big Eight firms, including 1,902 auditors. The results supported previous findings suggesting that PSO does occur, particularly when auditors carry out review and testing of a client's internal control. Similarly, Lightner et al. (1983) conducted a questionnaire survey of 1,500 auditors from three national audit firms and 18 offices of three national accounting firms, finding that 67 per cent of respondent auditors had under-reported time during the previous year.

McNair (1987b) conducted a study of five Big Eight audit offices to explore the relationship between budget pressure, control systems and the practice of under-reporting time. The findings confirmed the occurrence of under-reporting. There were also high correlations between PSO and the other RAQBs. In addition, Margheim and Pany (1986) examined the influence of five factors on PSO and under-reporting in two cases, finding that audit staff are more likely to perform PSO and that, on average, auditors from non-Big Eight firms were more likely to commit PSO compared to those from the Big Eight.

Furthermore, Kelley and Margheim (1990) conducted a questionnaire survey of 260 auditors from two offices of a Big Eight firm. They found that 54 per cent of staff auditors had performed at least one of the six types of RAQBs examined (see Table 3.1) during an engagement. Of those, 33 per cent accepted a weak client explanation, 31 per cent reduced the amount of work when performing audit steps, 26 per cent failed to research an accounting principle, 25 per cent superficially reviewed client documents and 8 per cent committed PSO on at least one programme step. These findings confirm the previous study of Fleming (1979) indicating that occurrences of the above-noted three types of RAQBs, namely PSO, reducing the amount of work and failing to research an accounting principle, accounted for 19, 56, and 35 per cent respectively.

Accordingly, Willett and Page (1996) examined the frequency of three types of RAQB (not testing all items in a sample, rejecting awkward-looing items from a sample and accepting doubtful audit evidence) and found that 22 per cent of respondents had never engaged in such behaviours. This is consistent with a study by Otley and Pierce (1996b) in which it was found that 64 per cent of respondents claimed to have committed one or more of the specified acts at least sometimes.

In addition, Malone and Roberts (1996) examined the occurrence of six RAQBs. The main finding from this study suggested that over 75 per cent of respondents admitted to have occasionally performed less work than normal on at least one occasion. The statistical results can be interpreted as showing that, on average, the respondents engaged in about six acts of RAQB during their career. In the same way, Coram et al. (2008) conducted a self-reported survey on the frequency of seven RAQBs and discovered false sign-off to be the most prevalent, with the least reported type being not testing all items.

However, different results were found in a study conducted by Raghunathan (1991) comprising a questionnaire survey of 409 respondents (out of 1,100 questionnaires despatched) from two local Big Eight accounting firms. Unlike previous studies, a total of 85 per cent of respondents overall said that they never, very rarely or rarely committed PSO. He suggested that 'premature sign-offs, while not uncommon, do not appear to occur frequently', implying that PSO is not a critical issue to be worried about (Raghunathan 1991, 77). The results of this were supported

by Malone and Roberts (1996), who suggested that 75 per cent of respondents claimed to have never engaged in false sign-off.

Furthermore, auditor behaviour that may threaten audit quality in audit firms is believed to be a worldwide phenomenon. Studies seeking to explore these behaviours have been conducted in a large variety of international contexts, including in the United States (e.g., Alderman and Deitrick 1982; Malone and Roberts 1996; Donelly et al. 2003), United Kingdom (Willett and Page 1996), Ireland (Pierce and Sweeney 2004), Sweden (Jan Svanberg and Ohman 2013), New Zealand (Cook and Kelley 1988), France (Herrbach 2001), Malaysia (Paino et al. 2011), Uganda (Kasigwa et al. 2013) and Indonesia (Simanjuntak 2008). Pierce and Sweeney (2006) noted that the findings of these studies revealed a relatively high incidence of RAQB practices reported in all of the countries examined.

To summarise, the majority of previous studies suggest that auditors have committed specific RAQBs during their audit engagement, with some studies suggesting relatively high occurrences of such behaviours. With regard to an auditor's motivational factors for engaging in RAQB, along with the level of an auditor's competence and experience, as noted previously, there has been considerable discussion within the literature of the likely causes of such RAQB, which are explained in the following section.

2.9.3 Factors Influencing RAQB: Why Do Auditors Resort to Performing RAQB?

Several studies have been conducted investigating factors that may be associated with RAQB. Several studies have also examined independent variables that may influence such behaviour. This study has summarised some of the causes of RAQB gleaned from previous literature, and shown in Table 2.2 below.

Table 2.2 Summary of Factors Associated with RAQB from Previous Studies

Factors and Variables	Previous Studies
Individual:	
Type A behaviour (hard driving/competitive), the need for approval, need for achievement, the locus of control, self-esteem, organisational commitment, professional commitment, intent to stay, laziness or boredom arising from tedious work.	Malone and Roberts (1996), McNair (1987a) Rhode (1978), Alderman and Deitrick (1982).
Audit Team:	
Audit steps are not considered material or necessary, audit steps are not understood, leadership style, inadequate supervision.	Otley and Pierce (1995), Kelley and Margheim (1990), Rhode (1978), Malone and Roberts (1996), Herrbach (2001).

Organisation:	
Time budget pressure, quality control, enforced reward/penalty system, client size, high client leverage, a fixed fee audit contract, level of firm structure over procedures, firm ethical culture, style of evaluation.	Kelley and Margheim (1987), Carcello et al. (1996a) Malone and Roberts (1996), Rhode (1978), Alderman and Deitrick (1982), Otley and Pierce (1996b), McDaniel (1990), Sweeney and Pierce (2004).
External:	
Client-imposed deadline pressure (level of client influence over time budget), perceived environmental uncertainty, client's size, client's leverage.	Rhode (1978), Carcello et al. (1996a), Otley and Pierce (1995), Raghunathan (1991).

In general, as outlined in the above table, this study has grouped factors associated with RAQB into four categories: individual, audit team, organisation and external. Initially, through a questionnaire survey, Rhode (1978) identified factors attributable to the incidence of PSO. The top five responses include time budget pressure (34%), audit steps not considered material or necessary (21%), audit steps not understood (12%), client-imposed deadline pressure (7%) and laziness or boredom arising from tedious work (6%).

Following the study, the most mentioned and influencing factor at the organisation level is time budget pressure (e.g., Rhode 1978; Alderman and Deitrick 1982; Margheim and Pany 1986; McNair 1987b; Otley and Pierce 1995; Willett and Page 1996). As previously noted in subsection 3.6, time budget is one of the fundamental aspects of auditing (Pierce and Sweeney 2004; Sweeney and Pierce 2004). A significant number of auditors perform some form of RAQB in order to meet their budgets (Otley and Pierce 1996b; Sweeney and Pierce 2004) because the time and budgets allocated by audit firms to the conducting of an audit seem to be unrealistic, arising out of a competitive audit market (Rhode 1978; AICPA 1978). Another important antecedent looks at audit control. Malone and Roberts (1996) pointed out that auditors' perception of the strength of a firm's quality control, review process and also penalties for performing RAQB are inversely associated with the occurrence of RAQBs. McNair (1987b) supports this result and suggests that the reward/penalty system enforced can have a significant influence on the undertaking of RAQB. On the contrary, however, Margheim and Pany (1986) suggested that the existence of quality control has no influence on RAQB. McDaniel (1990) and Malone and Roberts (1996) examined the influence of firm and audit programme structure and found no significant relationship between firm structure and RAQB. In relation to ethical culture, Sweeney et al. (2010) suggested a weak correlation between ethical culture and RAQB. However, contrastingly, Jan Svanberg and Ohman (2013) found a relationship between three ethical culture factors (presence of ethical leadership, punishment of unethical behaviour and an organisational expectation of obeying authority) and RAQB. Similarly, Sweeney and Pierce (2004) suggested that style of evaluation using either formal or informal performance measures also has an impact on RAQB.

At the individual level, a comprehensive study by Malone and Roberts (1996) examined the individual characteristics of auditors in relation to the incidence of RAQB. They included the factors of auditors' professional characteristics involving professional commitment and intent to stay, in addition to personality traits including self-esteem, locus of control, Type A or competitive behaviour and the need for approval and achievement. The results of this study suggest that auditors with personality characteristics related to the need for achievement (high internal drivers for success), need for the approval of others and need for achievement are less likely to engage in RAQB. The other personality characteristics examined, in addition to professional characteristics, were not found to be significantly related to RAQB. However, in another study, Otley and Pierce (1996a) found that organisational commitment had a significant influence on auditors' misbehaviour. In addition, Herrbach (2001) employed a model of psychological contract in relation to RAQBs. The psychological contract refers to the exchange relationship between an organisation and its employees that is not necessarily precise and explicit but rather ambiguous and implicit. He found that elements of such a psychological contract dealing with the professional aspect of auditing influenced the occurrence of RAQB. Furthermore, similar to Rhode (1978), Willett and Page (1996) found that some respondents admitted that boredom was the reason for why they were tempted to engage in RAQB.

Audit team factors are concerned with reasons for RAQB emerging within the team during the course of an audit engagement. For example, when performing audit procedures, some auditors admitted that they committed RAQB because they believed the audit steps appeared unnecessary or immaterial (Otley and Pierce 1996b; Alderman and Deitrick 1982; Raghunathan 1991; Willett and Page 1996; Margheim and Pany 1986). In addition, the relationship between leadership style in an engagement team and RAQB was investigated by Otley and Pierce (1996a). They found audit managers' leadership style to have a significant influence on auditors' RAQB. This finding is consistent with those from previous studies suggesting a relationship between a high structure and low-consideration leadership style with the highest level of RAQB (Margheim and Pany 1986; Otley and Pierce 1995). In contrast, Kelley and Margheim (1990) found that auditors were less likely to engage in RAQB when supervised by a supervisor who has lower Type A personality scores and when supervisors allocated them more structured job tasks. Furthermore, regarding the review process during the assignment, some studies suggested that inadequate supervision and review processes were associated with occurrences of RAQB (Alderman and Deitrick 1982; Herrbach 2001; Malone and Roberts 1996).

The external factors deal with reasons arising within the external audit team or outside the control of the auditors' firm. For instance, large client size and also high client leverage are associated with RAQB at the level of partner (Carcello et al. 1996b). Moreover, the external environments faced by auditors during the course of conducting fieldwork at client sites also has an effect on RAQBs. Raghunathan (1991) suggested that one of the most commonly cited reasons for

RAQB relates to the availability of audit evidence being collected. Auditors may be tempted to commit PSO if the required information is not available until much later. In other words, RAQB could be dependent on the level of client cooperation in providing data required by the auditors (Malsch et al. 2013) or else by perceived uncertainty within the environment (Otley and Pierce 1995). Moreover, another cause that is noted in relation to the external audit environment includes client deadline pressure, i.e. the level of client influence over time budget (Otley and Pierce 1996b; Rhode 1978).

To conclude, there are four aspects of reasons for RAQB that can be summarised from prior literature. It could be argued that although some of these factors may be identifiable, RAQB may still occur. The subsequent discussion will explain some of the reasons why RAQB continues to exist within auditing practice.

2.9.4 Why Does RAQB Still Occur?

It is argued that the phenomenon of RAQB is likely to persist because at the heart of audit, there is always a tension between cost and quality (McNair 1991). Pierce and Sweeney (2006) argue that because it is difficult to measure the quality of auditors' work and to control auditors' behaviour, audit companies place considerable reliance on the recruitment and training process and audit partners' personal commitment to preventing misconduct. Furthermore, the control of such behaviour might not always be effective due to factors such as a lack of continuous supervision in the field (Sweeney and Pierce 2004), the absence of re-performance of audit work (Pierce and Sweeney 2005) and minimal levels of audit file documentation (Barrett et al. 2005).

Kaplan (1995a) argued that attempts at the formal prohibition of RAQB have received little attention because RAQB is perceived to have a low risk of detection, let alone eradication. Another difficulty of preventing RAQB could be the lack of high standards of integrity and moral reasoning among audit professionals (Pierce and Sweeney 2006). The quality of auditors' professional judgement depends on their level of moral reasoning (Gibbins and Mason 1988). Moizer (1995) argued that codes of ethics in the accounting profession are viewed as a series of duties that are morally obligatory for its members, but there is a lack of sufficiently clear rules such that problems arising in accounting may not easily be resolved by reference to ethical codes of conduct (Gibbins and Mason 1988; Hull et al. 1999).

2.9.5 RAQB and Ethical Issues

Aside from the probable drivers of RAQB discussed previously, the issue of whether auditors either deliberately or inadvertently commit RAQB was also raised in Rhode's (1978) study. His report suggests that 202 respondents (just over 12 per cent) claimed that the motivational factor for an individual to commit PSO was due to an audit step not being understood. This is in line with the findings from the study of Sweeney and Pierce (2004) claiming that lower-quality audit work is often

merely the result of a junior auditor's lack of understanding of the required standard of work when performing audit steps. Some juniors may perform acts of RAQB without realising it. For example, juniors may say *'oh yea it's fine'* to something that seems not to be acceptable or that they are not supposed to do (Sweeney and Pierce 2004, 798). In general, Rhode (1978) also suggested that 34 per cent of respondents (highest among other factors) stated that the reason for substandard audit performance is associated with personnel incompetence, inexperience and inadequate training. Similarly, Otley and Pierce (1996b) suggested that one of the causes of PSO is auditors' lack of technical knowledge. This may imply that some auditors, particularly juniors, may unintentionally engage in RAQB due to their lack of knowledge and because there is no *'senior in the field to sit down and explain the work'* (Sweeney and Pierce 2004, 798). This is consistent with the findings of other research in the field of organisation studies suggesting that decreases of staff experience can lead to a rise in the number of inadvertent errors committed (Simons 2000). Furthermore, they also pointed out the existence of a positive relationship between the level of staff responsibility and inadvertent RAQB. In addition, McDaniel (1990) also suggested that time pressure results in unintentional RAQB.

In the case of unintentional RAQB, further literature discusses audit supervisors' reporting intentions when they detect inadvertent or intentional RAQB. Kaplan (1995b) suggested that supervisors are hesitant to report cases of PSO if these have been committed inadvertently by staff auditors. These findings are supported by Sweeney and Pierce (2004) and Hyatt and Prawitt (2011).

However, notwithstanding inadvertent or deliberate action, it is argued that RAQB can be classified as an act that goes against the code of ethics and auditing standards. According to the NAB's Ethical Code of Conduct as stipulated in the Regulation of NAB Number 2/2011, article 9 paragraph 1 sections f) and i), when conducting an audit, an auditor should perform his or her work rigorously, thoroughly and accurately, complying with auditing standards, manual, and guidance (NAB 2011c). Formal penalties and sanctions can be imposed on an auditor who fails to comply with the code of ethics. According to the Regulation of NAB Number 2/2011, article 10 paragraph 3, such sanctions range from formal notice or suspension to dismissal. In addition, auditing standards require auditors to exercise due professional care (NAB 2007, Statements No. 1, Par 29) and their professional scepticism when performing an audit (NAB 2007, Statements No. 1, Par 30) since any failure to effectively apply these attributes can lead to reduced audit quality (NAB 2007, Statements No. 2, Par 3c).

2.10 Conclusion

This chapter has covered a broad range of literature on the topics explored within this research. Changes to audit practice have attracted increasing interest from researchers. These changes include the development of audit methodologies to move towards more efficient and

effective audit and also to follow changes to the audit environment. One of the main discussions is concerned with changes to methodology towards a more structured audit approach. Another area that has been highlighted deals with the parties involved in the audit engagement. This includes auditor expertise, background and teamwork that can influence the quality of their work. The effectiveness of audit review control conducted by senior auditors in supervisory roles also contributes to audit quality, or to a lack thereof. The latter discussions above relate to audit quality and the types of behaviour that can negatively impact on it. The literature identifies some specific actions classified as RAQB. Some studies have reported findings of relatively high occurrences of these behaviours among auditors that are caused by several individual, team, organisational, and external factors. The next chapter will explore the relevance of paradox theory to explore the occurrence of RAQB as a result of paradoxical tensions within the audit process.

Chapter 3 Research Context

3.1 Introduction

The objective of this chapter is to highlight the underlying context, nature and historical development of government auditing, particularly in the Indonesian context. The first discussion deals with the historical development of auditing. This is followed by an explanation of auditing as a double-agency relationship. This issue is may be important because one of the factors contributing to RAQB may be the absence of direct monitoring of auditors' work in the field by audit partners in the private sector, or by an auditor general in government audit, and also by the public in general. The next subsections highlight the type of auditing fields including private, public and government auditing, and the differences between them. The next discussion presents the historical development of government auditing in Indonesia. It also talks about the National Audit Board (NAB) in which this study carried out. It highlights the whole process of audit at the NAB including the planning, conducting and reporting phases. Finally, the last subsection presents the issues arising in public sector audit in Indonesia.

3.2 The Historical Development of Private Sector Auditing

Auditing has existed for as long as commercial life itself and has evolved in line with changes in the corporate environment (Power 1997). Financial auditing has been regarded as a benchmark of auditing practice, with the earliest financial audit being oral in form and judicial in structure, intended to establish the trustworthiness of agents (managers) acting as agents of a principal and designed to verify the honesty of individuals charged with fiscal rather than managerial responsibilities (the owners) (Power 1997; Littleton 1933). In the nineteenth century, the main purpose of financial auditing was fraud detection. However, the role of auditors has evolved over time in line with increasing business complexity (Power 1997). Financial auditing began to take shape with the introduction of statutory requirements for auditing. In the UK, for example, following introduction of the Companies Act 1948, the aim of financial auditing was to provide an opinion on the financial statements of an enterprise. At the same time, auditors were required to become members of a recognised professional body and were duly accorded rights and duties (Power, 1997). Today, the modern external audit has been defined as an ' ... *expression of opinion on the financial statements of an enterprise by a qualified auditor'* (Power 1997, 17). Gray and Manson (2011), in a more detailed definition, explain that an audit is:

> *An investigation or a search for evidence to enable reasonable assurance to be given on the truth and fairness of financial and other information by a person or persons independent of the preparer and persons likely to gain directly from the use of the information, and the issue of a report on that information with the intention of increasing its credibility and therefore its usefulness.* (Gray and

Manson 2011, 23)

3.3 The Differences Between Private Sector and Government Sector Audit

In general, there are two main different fields of auditing: private sector, and public sector or government auditing. Private sector auditing refers to audit conducted by certified public auditors to publicly traded companies. The term government auditing is used interchangeably with public sector auditing. According to Suzuki (2004), the concept of public sector auditing was adopted in the UK Exchequer and Audit Department Act of 1866 and the US Budget and Accounting Act of 1921. These acts refer to public sector auditing as the discharge of public accountability. Glynn (1985, 143) points out that *'public sector accountability means that those who are charged with drafting and/or carrying out policy should be obliged to give an explanation of their actions to their electorate'*. Suzuki (2004, 40) suggests that *'what is focused on in terms of public accountability will influence public accounting and auditing, namely the structure of government auditing'*. Government auditing is conducted to assess the performance of public accountability of government agencies.

Initially, government auditing dealt only with compliance audit that assessed the accuracy of financial matters. Its scope has expanded over time to include assessment of the effectiveness, efficiency and economy of government activities and programmes (Suzuki 2004). This is one of the main distinctions between government and private sector auditing, even though both types share a similar essential audit process comprising the stages of planning, controlling, data collection, opinion forming and reporting (Jones and Bates 1991). Moreover, Jones and Bates (1991, 4) argue, *'at the technical level public sector audit is similar to audit anywhere'*. However, compared to private sector audit, government auditors also place an emphasis on various other aspects of audit, such as fraud and value-for-money audit. They further point out that *'often work such as fraud investigation and value-for-money assessment would be considered the realm of specialist accountants in the private sector, yet such work is tackled as audit throughout the public sector'* (p. 4).

There are two types of the most common government audit organisations: independent executive or legislative auditors, and internal auditors in government departments, agencies or institutions (Hancox 2006). The former have the constitutional or statutory authority to conduct audits of government financial reports, programmes and activities. Their role is one of providing oversight and they report their audit findings to Parliament. On the other hand, the latter are required by head of governmental departments/agencies to ensure their organisations operate appropriately and in compliance with the law and regulations, and that their employees are correctly performing established policies and procedures. Auditors report their findings to the relevant department management as a form of control tool and for the purposes of decision-making.

3.4 The Development of Public Sector Audit in Indonesia

Javanese culture, having been influenced by its Dutch administration, dominated public auditing and administration in Indonesia prior to independence in 1945 (Dwiputrianti 2011; Hoadley 2006). *Algemene Rekenkamer* (Audit Board of Dutch Indies) was recognised as the first official audit function during the Dutch colonial period. After the country's Independence Day on 17 August 1945, as stipulated in the 1945 Constitution of Indonesia, the first Indonesian Audit Board (the NAB) with responsibility for auditing accountability in the state finances was officially established on 1 January 1947 (NAB 2016).

During its early formation period, the NAB employed only nine staff and continued to apply the legislation used by *Algemene Rekenkamer*, i.e. *Indische Comptabiliteitswet*, or ICW (laws for financial accountability for the East Indies) and *Instructie en verdere bepalingen voor de Algemeene Rekenkamer*, or IAR (instructions and further provisions for the office of the state audit) (NAB 2011b, 2003, 2016; Dwiputrianti 2011). During the era of the Federation of the Republic of Indonesia (RIS), a Financial Supervisory Board (FSB) was established in 1950 based on the Interim Constitution (UUDS 1950) and the NAB was subsequently merged with the FSB. However, in July 1959, Indonesia returned to the original 1945 Constitution of Indonesia and as a consequence, the FSB was closed down and the NAB re-established. The ICW and IAR continued to be used throughout this transitionary period (NAB 2011b, 2003, 2016). In 1973, however, a regulation (Audit Board Act Year 1973) was issued regarding the NAB's position and roles. It emphasised the NAB's position as an institution independent of any government influence and power (Article 1, GOI 1973). However, during the New Order era (1966–98), Indonesia was led by a centralised authoritarian regime (Dwiputrianti 2011; Lev 2000). This regime undermined the independence of the NAB. In practice, the NAB was controlled and operated under the influence of the government (Boediono 2005; Lev 2000; Dwiputrianti 2011). One of the influences of the government was the establishment of the Financial and Development Supervisory Board, which operated under the president and had greater power and authority than the NAB (NAB 2016; Dwiputrianti 2011).

Finally, during the Reform era (1999–present), the 1945 Constitution was amended in line with strong demand for good governance from the public (Dwiputrianti 2011). This amendment strengthened the position of the NAB, which was supported by the People's Consultative Assembly of the Republic of Indonesia (MPR) in the 2002 Annual Session, emphasising its position as the only external auditor of state finance. The Third Amendment to the 1945 Constitution of Indonesia included additional articles and paragraphs about NAB's position and roles comprising three articles (23E, 23F and 23G) and seven paragraphs. Subsequently, the Parliament and government also issued a set of laws and regulations covering state finance to support the work of the NAB, namely The Law on State Finances (2003), Law of Audit (2004), Law of The State Treasury (2004), Law of State

Financial Management and Accountability and the Law on the NAB (2006) (NAB 2011b, 2003, 2016; Dwiputrianti 2011).

In Indonesia, there is currently only one independent external government audit agency, the NAB. The NAB operates independently of government in the way that it is free to conduct audits of any government entities and select its own audit programmes, scope, personnel, techniques, procedures and activities without government intervention. The Indonesian Audit Law (2004) and Indonesian Law on the NAB (2006) require independence of the NAB regarding its personnel and other aspects of auditing. The NAB also reports its audit results to the country's national and regional parliaments. According to the Third Amendment to 1945 Constitution of Indonesia, the NAB is responsible for conducting financial statements audit, performance audit and special purpose audit of national spending and services delivered by central and regional governments.

Table 3.1 Indonesian External and Internal Audit Institutions
Source: (adapted from Dwiputrianti 2011)

	External Auditing		Internal Auditing		
	Central Level	Regional Level	Central Level		Regional Level
Audit Institutions	NAB	NAB	General Inspectorates	BPKP	Regional Inspectorates
Report to Main Stakeholders	National Parliament (DPR)	Regional Parliament (DPRD)	Minister/Head of Agencies	President	Governor/Regent /Mayor

In addition, each central and regional government department and public agency in Indonesia has its own internal auditors, as shown in Table 3.1 above. These fall under and are part of the management or executive and report their results to the respective management. Internal auditing in central government is carried out by the General Inspectorate under the Minister or Head of Public Agencies. Internal auditing in regional government is conducted by a regional inspectorate under the head of regional government (governor and regent or mayor) (Dwiputrianti 2011). Currently, there are 68 central government departments, bodies and agencies and 548 regional/local governments consisting of provinces, cities and regencies that have regional inspectorates (GOI 2015a, 2015b). According to (NIK 2014) reports, in 2012, the NAB was obliged to carry out financial audit in all ministries, political parties and local governments, comprising a total of more than 3,000 entities.

In addition, there is the Financial and Development Supervisory Board (BPKP), another internal auditor institution directly under the president. This has responsibility for the internal inspection of both central and regional government budgets, activities and programmes under the special order or assignment of the president.

3.5 Type of Audit at the NAB

According to the law and regulations, there are three types of audit conducted at the NAB, namely, financial statement audit, performance audit and special purpose audit. The aim of financial statement audit is to express an opinion on the financial statements of state, regional or local governments and also state-owned and local government-owned enterprises and other government entities when these are prepared in accordance with accepted government accounting standards. The audited financial statements include budget realisation, balance sheets, cash flow statements and notes to financial statements (GOI 2004a, 2003, 2004b). Performance audit, also referred to as value-for-money audit, is intended to assess the effectiveness, efficiency and economy of state or local government financial resources and also government programmes and activities. The final type of audit deals with specific areas outside the scope of financial statements and performance audits including, for example, environmental, tax-related and investigative audit (GOI 2006b, 2004a, 2003; IMF 2006).

3.6 Audit Process: The Phases of Financal Statement Audit Completion

The NAB has been mandated by law (GOI 2004a, 2003) to conduct financial statement audits of every area of Indonesian local and central government, comprising ministries and other government bodies (NAB 2014a). A financial statement audit at the NAB consists of three main phases: planning, conducting and reporting (NAB 2015). The following subsections discuss each phase.

3.6.1 Audit Planning: Budgeting Process – How to Fund the Audit

Budgeting is the starting point of the audit planning process. During the budget process the financial and resource requirements that are needed to appropriately service the types and number of audit engagements are determined. Not all NBA-conducted audits are funded by the audited organisations in the form of audit fees, but at times are funded via allocations from the national government budget. As illustrated in Figure 3.1, according to laws and regulations (GOI 2004a, 2003, 2010b), the NAB is each year accorded a maximum spending ceiling by the Ministry of Finance and the Ministry of National Development Planning as a basis for proposing an annual organisational budget (phase 1). The amount of this maximum ceiling results from an iterative process between the audit organisation and the Ministries of Finance and National Development Planning, taking into consideration fiscal capacity, national development policy and priorities and current budget spending (phase 1). Based on this maximum budget ceiling, the NAB creates a proposed budget and submits this to the two aforementioned ministries for their review and approval (phase 2). The Minister of Finance reviews and subsequently approves the NAB's proposed budget (phase 3). The Minister of Finance compiles a national budget in accordance with the approved budgets of the NAB and other ministries and government bodies, for submission to Parliament (phase 4). Parliament

approves the national budget and returns it to the Minister of Finance (phase 5). The audit organisation then receives its own approved budget from the Ministry of Finance as the basis for its annual spending limits (phase 6). The NAB and Ministry of Finance each nominate three independent audit firms and Parliament then appoints just one of these to audit NAB spending and publish its reports for public release and to the NAB (phase 7).

Figure 3.1The NAB Budgeting Process
Sources: (GOI 2004a, 2003, 2010b)
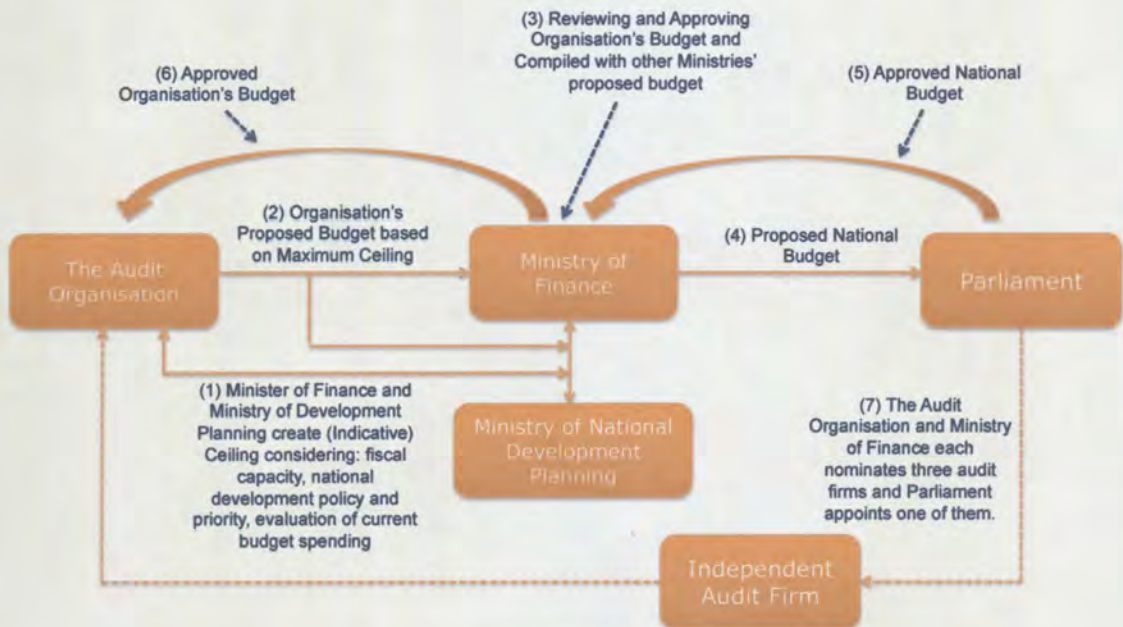
The NAB employs a bottom-up audit budgeting process, that is, the total audit budget is derived from lower units' proposals in accordance with its annual and five-year strategic plans. Each year, based on the five-year strategic plan and estimated annual funding allocation, the organisation asks each audit unit to plan how many and what type of audit engagements they need to perform. Each audit engagement is broken down into a number of audit man-days but does not mention specific auditor names at this time. A finance manager explains this process below:

> We request each unit to plan the number of engagements for the year ahead such as the financial statements audit as the mandatory audit and also other types of audits based on the budget ceiling we have. At that point, they have not included the individual auditor's name, just the total man-days. (Finance Manager 2, Male)

The audit man-days figure includes the total number of auditors, days and cost (calculated for daily expense rather than based on auditors' working hour costs) that are needed to complete one engagement. The type and amounts of audit costs are standardised by a regulation issued by both the Ministry of Finance and the audit organisation. A review of audit team documents and interviews with two finance managers reveals that audit costs are broken down into two types of expenditure: lump sum and at cost. Lump-sum expenditure means that auditors have a fixed amount of money allocated to spend and they normally receive payment in advance to cover planned expenditure

without actually incurring the expense themselves. The auditor retains any difference remaining between the sum paid to them and the amount spent. These costs typically include things such as a daily allowance to cover daily audit needs such as food. Auditors receive the money in advance and are not required to provide receipts for this type of expenditure. A maximum amount payable per day is given in the cost standards issued by the audit organisation and Ministry of Finance. This lump-sum amount also includes an extra daily allowance given to the audit organisation's auditor on a daily basis, referred to as 'daily money for extra work'. This second type is at-cost expenditure which refers only to the real amounts of expense incurred, as stated in receipts submitted by the auditor. This may include hotel bills, transport costs and stationery. Two finance managers explain:

> According to the cost standards, there are at-cost and lump-sum expenses. The at-cost expense follows the standards that are used by all government employees. For example, in the standards, the maximum accommodation cost is set based on in what province or district they stay. The auditors can't spend more than the maximum amount and the real expense incurred based on the receipts or bills they provide. Lump-sum cost includes auditor's daily allowance, for covering daily expenses, for example, food and drinks. The maximum amount is also standardised. If the auditors do not spend all of it, it goes to their own pocket. Auditors also get daily engagement allowance as a lump-sum expenditure during their engagement period. Auditors call it "uang lelah harian" (daily money for extra work). It is regulated by our own organisation and has been approved by the Ministry of Finance. This allowance may add to their total take home pay. Initially this scheme is for maintaining auditor's independence, for example, preventing them from getting money or facilities from the auditees and also considering that auditors quite often work more than 8 hours' normal time. But this additional revenue is not so much (compared to their fixed monthly salaries). (Finance Manager 1, Interview)

> For a lump-sum expense, the auditors do not need to provide receipts and submit them to us. Normally they receive the money in advance before the engagement begins. (Finance Manager 2, Interview)

According to Finance Manager 2, because the funding of audit expense does not come from clients, these man-days and the cost of audits to complete an engagement are flexible. In other words, if the team requires more than the planned number of days to complete the audit, they can propose an additional budget amount, so long as the total annual allocated budget for the unit is not exceeded. In the planning process, after receiving the individual audit programme, each auditor is given a daily schedule for conducting their allocated audit procedures. Because the individual daily hour cost does not relate to how many hours per day an auditor works, some auditors' daily working hours will vary depending on how quickly he or she can perform the audit procedures. Auditors are not required to record their daily work on a time sheet.

This scheme is very different from that operating within private sector audit. In private audit firms, according to regulation covering audit charge calculations issued by the Indonesian Institute of Certified Public Accountants (IAPI 2016), the agreed total charges for an audit are paid by the client

based on a calculation of the auditors' working hours and other costs incurred in the course of completing the audit. In this way, auditors are required to control the number of hours worked in order to meet the initial planned budget (for a further detailed explanation, refer to the problem of under-reporting hours in Chapter 4, Literature Review).

3.6.2 Audit Planning: Preliminary Audit

According to the Audit Manual (NAB 2015), a financial statement audit in the audit organisation consists of three main phases: planning, conducting and reporting. As illustrated in Figure 3.2, the laws and regulations (GOI 2004a, 2003, 2010b, 2004b) require auditors to complete their audit and issue a report to Parliament during the 60 days either between 1 April and 31 May, or after central or local governments have issued their financial statements (on 31 March at the latest) for financial statements ended 31 December. This maximum 60-day period is considered sufficient to undertake a substantive test.

Figure 3.2 Financial Statement Audit Phases and Client's Financial Statement Preparation
Sources: (GOI 2004a, 2003, 2010b, 2004b)
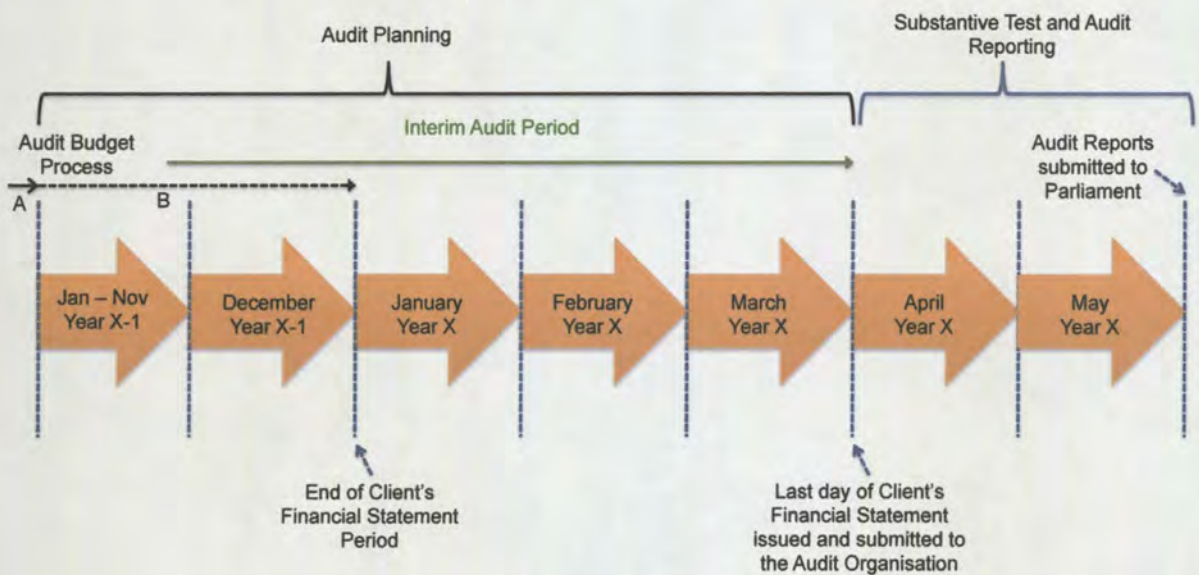
A = Approved Budget Allocations for Year X-1
B = Budget Process for Year X and Revisions for Year X-1

Planning is the first phase of conducting an audit (NAB 2015). Auditors should properly plan the audit to help them develop overall audit strategies covering the following areas: the nature, extent and timing of audit evidence to be collected, preparation of a budget and a schedule, identifying staff requirements and a team for the audit, allocation of team member responsibilities, expected conduct, identifying important areas and potential problems and managing and organising

the audit engagement to ensure it is performed effectively and efficiently (INTOSAI 2007b; IAASB 2009a; NAB 2007; INTOSAI 2007a; Kaplan 1985).

The planning process includes understanding the audited entity's business and industry, an assessment of the entity's business risk, evaluation of previous audit results, preliminary analytical procedures, assessment and determination of audit risk and materiality and understanding and assessment of the entity's internal control system (NAB 2015, 2009). According to the Audit Manual (NAB 2015), all of the above-mentioned activities can be performed in the NAB office (desk audit) or at the audited entity's office (field audit). The planning process for a field audit is usually conducted during the interim audit phase that is aimed mainly at assessing and testing the entity's internal control. The output of the planning process is the audit programme. Along with the above activities, the planning process also includes the appointment of an audit team and audit support management.

3.6.3 Audit Planning: The Conducting of an Interim Audit

As part of the planning process, there may also be an interim audit. The interim audit phase is conducted prior to the audit of year-end financial statements or prior to the financial statements being submitted to the audit organisation. It is used for planning purposes as well as to carry out an initial evaluation of internal control and compliance with laws and regulations (NAB 2015). The output of the interim audit is not submitted to either the auditee or Parliament but is rather used internally for planning purposes (NAB 2015, 85). The interim audit is commonly carried out during the month of December, prior to the end of the auditee's financial year (31 December). This period is very often extended until 31 March, prior to the auditee issuing and submitting the financial statements to the NAB for auditing.

The interim audit, used mainly to assess and test the auditee's internal control for developing strategies for substantive tests in the form of an audit programme, is signed by an audit manager (NAB 2015). According to a review of an audit team's interim audit programme, an interim audit aims to: (1) understand the internal and external environments of the audited entity, including its business processes; (2) review and test the effectiveness of internal control and its compliance with law and regulations; (3) assess the fairness of presentation of a selection of financial statements' accounts that have been prepared up to the interim process; and (4) to conduct a risk assessment on the entity (Interim Audit Programme of Audit Team Two, pp. 1–2, Review of Documents). The interim audit is conducted mostly at the client's site. From the objectives outlined above, it could be concluded that the interim process is used not only to evaluate and test internal controls but also to carry out substantive tests for certain accounts that have been prepared up to the time of the interim process.

According to the following audit manager, for reasons of efficiency and auditor availability, an interim audit would only be conducted if the entity in question was of a considerable size or else was perceived as being sufficiently risky. The auditors would directly conduct a substantive test audit of those small entities perceived to have lower risks.

> *Whether or not we conduct interim audit depends on the size and the risks of the entity. For example, recently we have conducted the interim audit at one province that has increasing risks and has big budget spending. We conducted interim in December and then followed by substantive test audit after they issued and submitted to us their financial statements reports. We also consider the availability of the auditors. The interim audit period is normally our busiest time because we usually conduct performance audits and also in our unit during that period our auditors are usually also employed by other audit divisions to conduct thematic audit there.* (Auditor 40, Manager, Written Correspondence)

According to a review of audit engagement documents, the team for a local government interim audit normally consists of five auditors, to include one audit manager, one supervisor, one team leader and two team members. For an audit team working on a ministry audit, the numbers will be higher and may reach as many as 20 auditors, split into several sub-teams, with each sub-team having its own leader (Engagement Letters of Audit Team 1–7 and Annual Audit Plan, Review of Documents). Auditors spend most of the interim audit period at the audited entity's site. According to a review of the observed teams' documents, the output of the interim audit is used internally for the subsequent substantive test audit and is not released either to Parliament or the public (Audit Programme of Audit Team Two, page 11, Review of Documents). The reports include an assessment of internal control, a calculation of audit materiality and determination of the sample sizes for substantive tests based on this assessment, and also reports of compliance with laws and regulations (Audit Programme of Audit Team Two, page 11, Review of Documents).

3.6.4 Audit Engagement Team

According to the Audit Manual (NAB 2015), the names of auditors included in an audit team engagement are determined during the audit planning phase. The two main outputs from audit planning are a letter of assignment and an audit programme. The Head of the Audit Division or Head of the Representatives Office prepares the annual auditor requirements plan to estimate how many auditors will be needed for each proposed team engagement, taking into account the size and complexity of the entities to be audited and the availability of auditors. According to this annual plan, they will determine the members of each audit engagement team in line with advice from the auditors in relation to the team's collective competence, including the auditors' experience and educational backgrounds, independence and previous performance evaluations. Once auditors for the engagement team have been selected, based on the agreed audit programme, the appointed team members prepare the individual audit programme, which is then reviewed and agreed by the appointed team leader.

Figure 3.3 below illustrates the composition of a typical audit engagement team, made up of independent auditors. In other words, it is free from the influence of other parties and the team is responsible for the audit report they produce. The independent team is given a mandate by the Chairman of the NAB (or other officials appointed by the NAB to provide auditors with the mandate to conduct an audit). According to the review of audit engagement documents, a typical engagement team for a substantive audit of a local government financial statements would normally consist of six auditors, including one audit manager, one supervisor, one team leader and three team members while for a ministry audit, the numbers can be higher and could reach 20 auditors divided by several sub-teams and each sub-team has its own sub-team leader (Letter of Audit Assignments of Audit Team 1-5 and Annual Audit Plan, Review of Documents). Auditors spend most of the audit period at the audited entity's site.

Figure 3.3 A Financial Statement Audit Engagement Team
Source: (NAB 2015)
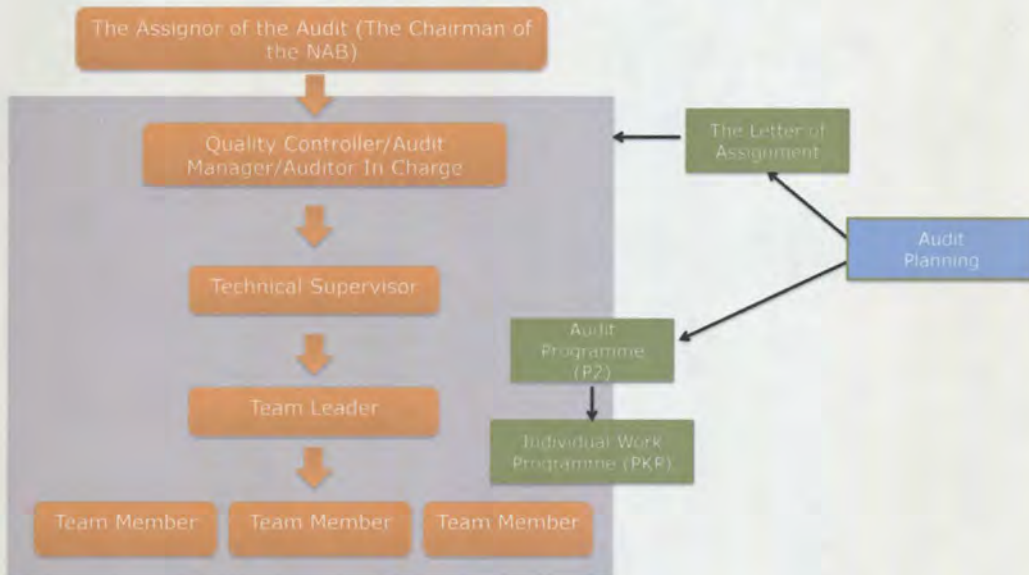
Table 3.2 Audit Engagement Team Roles
Source: (NAB 2015)

Auditors Involved	Main Roles and Responsibilities *(NAB 2015)*
Audit Manager/ Auditor in Charge	To ensure quality control, check that the audit is in line with auditing standards and the audit and quality control manual. He or she may also be responsible for signing the audit opinion/reports if mandated to do so by the Chairman of the NAB.
Supervisor	To control, monitor and evaluate the audit on a day-to-day basis and to ensure the audit is carried out effectively and efficiently, in accordance with the audit programme.
Team Leader	To organise, direct and monitor audit fieldwork and to ensure the audit output is accurate, comprehensive and timely.
Team Member	To prepare the task given by the team leader and to record all his or her work in the audit working papers.

Table 3.2 describes the roles of each auditor in the audit team. The highest-ranking role in the independent team is the audit manager, who may also be referred to as the auditor in charge or the quality controller. His or her main duty is to make sure the audit is carried out in accordance with the auditing standards. He or she may sign the audit reports if mandated to do so by the Chairman of the NAB. A supervisor works under the audit manager. Unlike the audit manager, his or her main responsibilities lie with the technical aspects of the audit engagement. He or she must ensure that the audit is conducted according to the agreed audit programme. The team leader, working under the direct supervision of the supervisor, is in charge of organising and monitoring the team members' work to ensure they complete the assigned schedule in a timely manner. Finally, the team members work based on their allocated individual audit programmes that typically comprise a number of audit procedures and steps to perform. All of their work must be documented in the working papers. Team members' work is reviewed by the team leader. *'An individual audit programme looks like a work contract agreement between the team member and the team leader and it is the team leader's job to make sure all individual procedures are done well'* (Auditor 15, Team Leader, Interview). The team member must also complete a weekly progress report. Team members' reviewed work is then agreed by the supervisors.

3.6.5 Substantive Test Audit

Substantive testing is part of the financial statement audit phase that is conducted to examine the financial statement accounts, transactions and activities/programme in order to test management assertions (NAB 2009, 2015). According to the audit programme of one audit team observed, the aim of a substantive test audit is to gain reasonable assurance that the financial statements are free of material misstatement and have been prepared in accordance with general accounting principles, considering: (1) compliance with Government Accounting Standards (SAP); (2) sufficiency of disclosure; (3) effectiveness of the internal control systems; and (4) compliance with laws and regulations (Audit Programme of Audit Team Three, page 1, Review of Documents).

A financial statement audit substantive test is normally conducted in the period between 1 April and 31 May (60 days). In practice, however, auditees may issue their financial statements earlier or later than the required latest date (31 March). Auditors will immediately conduct a substantive audit only after having received the financial statements from the auditees. The NAB must have issued the audit opinions and reports by the end of 31 May. Observations reveal that a substantive test audit takes place at the auditee's site within a 30–45-day period following issuance of the financial statements, with any weeks remaining prior to 31 May used to prepare audit reports at the auditors' own office (Engagement Letters of Five Observed Audit Teams and Annual Audit Planning, Review of Documents).

3.6.6 Reporting Phase and Issuance of the Audit Opinon/Reports

According to the law and regulations (GOI 2006b, 2004a), the NAB is required to issue the audit reports/opinion by 31 May. Auditors prepare the audit reports during the substantive test period and normally continue at the auditors' office until 31 May, or for a maximum 60 days after they receive the financial statements from the auditee. A peer review process is carried out during the reporting period by several senior auditors at the office. Peer reviews and discussions focus on significant matters and aim to ensure conformity with, for example, the accounting treatment of some issues. Feedback, suggestions and decisions that have been made must be followed up in the final audit reports that are signed by the audit managers or the head of the audit organisation.

For financial statement audits, auditors issue three types of reports or books. The first refers to the auditor opinion on the financial statements. The second is concerned with reports on compliance with internal control systems. The third refers to findings on compliance with the law and regulations. All of the audit reports are submitted to Parliament and the audited entities. If the audit has revealed findings relating to illegal activities such as corruption, auditors are required to forward the report to the relevant parties such as the country's Attorney General (GOI 2006b, 2004a; NAB 2009, 2015, 2007).

3.7 Issues Arising in Public Sector Audit in Indonesia

Improvements to public sector auditing in Indonesia have arisen out of the desire for good public accountability (Schultz 2004; Dwiputrianti 2011). Since the 1980s, scholars and practitioners have acknowledged these changes (Dwiputrianti 2011). Staats (1981a) suggested the changes have been characterised by the need to meet the public's demanding expectations, improve performance evaluation and deliver greater public accountability of government activities, including social accounting concerns, employing IT audit and paperless transactions systems and the development of fraud prevention systems. For example, Guthrie (1989) points out that there have been significant changes in Australian public sector audit practice, and also overseas, to increase public accountability. These changes, for example, include the increased role of public sector audit institutions reflected by the transformation of their nature, scope and staffing, and also the development of performance auditing (Broadbent and Guthrie 1992; Guthrie 1992).

In Indonesia, Dwiputrianti (2011) points out that since 1946, Indonesian public sector audit has not evolved a great deal in terms of promoting greater government accountability and transparency. Indonesia has been characterised by ineffective public sector accountability systems, with government internal and external auditing not functioning satisfactorily (Dwiyanto 2003). Since 1998, Indonesia has experienced a transition from a centralised to a decentralised government through the Reformation era (Dwiyanto 2003; Dwiputrianti 2011). Harun et al. (2012) noted that reforms have led to the demand for improvement in the quality of public sector reporting. One

change includes the implementation within the Indonesian public sector accounting practice of an accrual accounting system, in line with an international trend, in order to ensure spending is carried out effectively and efficiently (Harun et al. 2012; Saleh and Pendlebury 2006). Since that time, public budgeting, operational reporting and outcomes, and government accountability and transparency have come under close public scrutiny (Harun et al. 2012). In addition, international agencies such as the World Bank, the Asian Development Bank (ADB) and the International Monetary Fund (IMF) have helped Indonesia design guidance and policies for improved governance and transparency (Nasution 2008).

However, this rapid alteration has also brought with it a number of significant consequences, including worsening corruption, collusion and nepotism at both the regional and central levels as more powers and authorities are delegated and dispersed (Dwiyanto 2003). This situation has required public audit institutions to increase their roles and functions (Dwiputrianti 2011). Although the NAB has been accorded a mandate for greater roles by the third amendment of the 1945 Constitution, Booth (2005) argued that the institution of public sector audit has not performed satisfactorily. Reports from the Asian Development Bank (ADB 2003, 2004a, 2004b, 2004c) reveal that Indonesian public sector audit has faced significant problems, such as a shortage of qualified auditors, poor public accountability and unsettled institutional arrangements (Dwiputrianti 2011). Despite the significant transformations undertaken within Indonesian public sector auditing, Dwiputrianti (2011) points out that little attention has been paid to this area by academics and professionals.

3.7.1 Public Scrutiny: The Quality of Government Auditors' Reports

One of the reforms to public audit policies involves more open access to government audit accountability reports. External independent auditors are required to report their findings to the public (Chaturvedi 1987; Guthrie and English 1997). In line with recent advancements in IT, audit reports are openly and routinely published electronically through Internet websites (Debreceny and Gray 1999; Bertsk 2000). In Indonesian public sector auditing, according to Act No. 15/2014, once government external auditors' reports have been submitted to Parliament, they can also then be opened to the public (GOI 2004a). This is in line with Freedom of Information Act No. 14/2008 which states that as public entities, government entities need to routinely publish their financial statements reports to the public through electronic or non-electronic tools such as newspapers and websites.

According to a peer review report from Supreme Audit Office of Poland or NIK (2014), the NAB needs to share its audit results not only with auditees and central or local government, but also with the media and public in order to ensure credibility of the audit function. According to a peer review conducted by the (NIK 2014), the NAB published all of its audit reports in full on its Internet website

until 2011. However, this practice was discontinued to avoid the misreading and misuse of reports. The decision to terminate the service was taken due to the alarming number of cases of blackmail and threats received by government officials on the basis of information derived from the NAB's published audit reports. As a result, the NAB currently publishes only executive summaries of audit reports on the Internet. Should a member of the public wish to have full access to the reports, they are required to submit a request.

However, such limited access to the auditor reporting system has attracted public comments. The public and media have urged the NAB to reintroduce publication of the entirety of its full audit reports on its Internet website (Julaikah 2014; Trisnawati and Achmad) and have emphasised the need for more open access (NIK 2014). NIK (2014) believes that this restricted access instead leads to the likelihood of information leakage, misinterpretation of partially disclosed data and misunderstanding of findings and recommendations. One of the recommendations of NIK (2014) suggests that the NAB is required to ensure full access to its audit reports and also their publication on its website. In order to minimise improper use, the NAB should provide necessary explanation and clarification regarding the findings, including auditees' comments and the NAB's replies to them.

Dwiputrianti (2011) revealed that increased public access to audit reports has brought with it considerable advantages. For example, it has granted the public favourable opportunities to oversee the activities of government, their policies and performance. Growing public concern related to public sector audit has led to greater awareness of the quality of auditor reports and also of other critical auditing issues (Guthrie 1992; Dwiputrianti 2011). The publication of government auditor reports also has an influence on the quality of audit information (Widodo 2004) and may reduce the likelihood of the same identified problems occurring (Mikesell 2003).

With regard to public awareness, the media plays an important role in terms of publicity (Dwiputrianti 2011), as an effective dissemination actor and as an indirect enforcement officer for auditees to implement auditors' recommendations (Santiso 2008). This can be done effectively if the auditors' positive or negative conclusions are summarised and published promptly (Arter 2003). This type of publication would help to build public trust in audit institutions (Hope 2008; Dwiputrianti 2011).

In Indonesia, such open access has increased public interest in and awareness of auditor reports and has generated comments from the public. The public have shown growing concern over the quality of the NAB's audit reports. For example, although there has been remarkable progress made in the quality of audit opinions for central and local governments (NIK 2014), in addition to improvements in the quality of the NAB's audit reports over the last few years (NIK 2014), corruption, collusion and nepotism have continued to be prevalent as practices (Dwiyanto 2003).

This has led to public scrutiny of the quality of Indonesian government auditors' work. The public have also highlighted the perceived low quality of auditors' reports (Savitri 2015; Tribunnews 2010; detiknews 2012; poskotanews 2012). The NAB may be under pressure from current growing public expectations (NIK 2014). For example, some media news stories have reported on the public's questioning of the accuracy and reliability of some auditors' reports, as in one case, for example, significant fraud and breach of procurement regulations at one government ministry, which had gone undetected in a recent audit, were discovered by the Indonesian Corruption Eradication Commission, (detiknews 2012; poskotanews 2012). Another example was noted by Khadafi (2010), who reported that the NAB's audit findings for an entity may not fully reveal the actual facts from the field, citing various significant perceived issues that were not examined by the auditors. Another case reveals that the auditee in one local government audit (Carina 2015a) suspected that auditors had not checked actual physical assets in the course of conducting their audit, as differences were discovered between audit reports and the actual conditions verified (Carina 2015b, 2015a). Pressure has been put on auditors to publicly disclose the audit procedures they carry out (Aziza 2015).

3.7.2 Auditor Litigation Cases

According to a review of prominent media reports and other documents, a number of legal cases involving auditors' reports have attracted public attention. There is currently a tendency for the auditee to question the auditors' reports and bring them to the court (Tribunnews 2010). For example, one of the Regents of Regency in Indonesia took legal action against government auditors over their reports. He accused the auditors of reporting inaccurate findings and of having damaged his reputation (Wisanggeni 2010; NAB 2010). He won the lawsuit and the court ordered the auditors to revise their reports (NAB 2010; ISC 2012).

In another case, a government contractor rejected auditors' claim that the company was in breach of a construction contract agreement. It brought a legal claim over the auditors' reports to court (Merdeka 2010). Another notable lawsuit against auditors was taken to court by an auditee regarding the calculation of state financial losses that he must return (NAB 2011a; Sari 2011). Recent times have seen media news reporting the public scrutiny of auditors' reports. A number of cases show various parties rejecting auditors' reports and others urging auditors to improve the quality of their findings (Beritasatu 2016; Aziza 2015; Carina 2015b).

3.8 Conclusion

To summarise, the underlying context of this research is Indonesian government audit, that is, the NAB as the only external government audit institution in Indonesia responsible for carrying out the financial statements, performance and special purpose audits of government entities. The process of Indonesian government audit has been recorded since the period of Dutch colonialism. The position of the NAB has always changed in line with changes in the Indonesian political system.

Currently, it has gained great power and authority as an independent audit institution authorised within the Constitution and other laws and regulations.

There are three main phases of financial statements audit in the NAB, namely planning, conducting and reporting. The planning phase includes the budgeting process, appointment of audit team members, in addition to the interim audit in which auditors assess the auditee's internal control and develop audit strategies. The conduct of the audit refers to the fieldwork undertaken at the client's site to gain evidence for use in expressing an audit opinion on the fairness of the auditee's financial statements. The reporting phase involves the completion of audit reports up to the time that the reports are issued and submitted to Parliament.

Chapter 4 Theoretical Framework

4.1 Introduction

An audit is a series of interrelated processes involving individual auditors, the audit team, audit and auditee organisations and related external parties such as standard setters, regulators, the auditors' professional body and the public as the user(s) of audit reports. The audit process also involves a rather complex and dynamic, as opposed to static, environment (Turley and Cooper 1991) incorporating many disciplines such as accounting, management, computing and statistics. In such a way, examining the completion of an audit and the behaviour of audit professionals during the audit engagement process may be viewed as part of a social research practice that may not be separated from other social sciences. Thus, investigating auditor behaviour within this relatively complex environment and also its connection to other social sciences may require the application of relevant underpinning theory. Bryman (2012) argues that the connection between research method and practice with the wider social scientific interface might be reflected in the relationship between the collected research data and a theory.

This chapter aims to discuss the theory that I use to underpin this research, beginning with an explanation of the role of theory in qualitative field research, recognising that this piece of research may not simply be empirical but may rather be shaped by the researcher's theoretical perspective (Ahrens and Chapman 2006). Second, I continue with a section on paradox theory consisting of the paradoxes of belonging, performing, organising and learning and also some of the various responses to these paradoxes. Finally, I explain the application of paradox theory as a theoretical lens using the framework proposed by Smith and Lewis (2011).

4.2 The role of theory in qualitative research

Theory has been defined as consisting of *'logically interconnected sets of propositions from which empirical uniformities can be derived'* (Merton 1967, 39) or *'an explanation of observed regularities'* (Bryman 2012, 21), and *'(a) in the general sense, any more or less formalized conceptualization of the relationship of variables; or (b) any generalized explanatory principle'* (Marx, 1963 cited in Naylor et al. 1980, 1). Although the nature of the link between theory and research is not always straightforward, the literature emphasises the importance of theory in research (Ahrens and Chapman 2006).

Theory plays an important role in social research because *'it provides a backcloth and rationale for the research that is being conducted. It also provides a framework within which social*

phenomena can be understood and the research findings can be interpreted' (Bryman 2012, 20). Ahrens and Chapman (2006) point out that theory helps the researcher organise masses of data and construct and inform its significance.

Furthermore, in a qualitative methodology, Ahrens and Chapman (2006) suggest that research is *'not just part of the empirical world but is shaped by the theoretical interest of the researcher'* (p. 820) and is thus a profoundly theoretical activity. In other words, *'doing qualitative field studies involves an ongoing reflection on data and its positioning against different theories such that the data can contribute to and develop further the chosen research questions. Data are not untainted slices of objective reality but aspects of recorded activity that a study finds significant for theoretical reasons'* (p. 820). Instead of guiding us to determine what, when and where to do things, a theory mainly helps us to eliminate some of the innumerable options we face when needing to choose between different alternatives (Chambers 1996).

This research applies the lens of paradox theory. Jarzabkowski et al. (2013) suggest that organisations are intrinsically paradoxical. As noted above, an audit comprises several phases involving relatively complex processes and environments that may lead to paradoxical conditions such as control versus flexibility and tensions between an individual auditor's own values, beliefs and interests and the goals of the group or organisation (Jarzabkowski et al. 2013). These paradoxical conditions may be the drivers of RAQB. An explanation of paradox theory and its role in this research will be outlined in the following discussion.

4.3 Paradox Theory

The word 'paradox' derives from the Greek word 'paradoxos', meaning contrary to expectation (Eisenhardt and Westcott 1988). It also has the synonym antinomy, referring to an apparent contradiction between even, well-based assumptions that appear sound when considered separately but contrary or contradictory when considered together (Van de Ven and Poole 1988). The concept of paradox has been explicitly recognised in Eastern religion and philosophy and written about in the West by Zeno of Elea in the fourth century B.C. (Hughes and Brecht 1975; Smith and Berg 1987). The notion of paradox, then, has grown from ancient teachings such as Tao Te Ching to more recent concepts from the philosophies of Kierkegaard, Hegel, Hampden-Turner, and also the psychological concepts of Freud, Rothenberg and Warzalawick (Lewis 2000; Smith and Berg 1987; Smith and Lewis 2011).

Although paradox can be considered to have numerous meanings, common meanings refer to the existence of contradictory actions, oppositional tendencies, or polarities. Philosophers from ancient Greece to the Existentialists have recognised paradox in human life such as tensions between life and death, self and other, good and evil (Hampden-Turner 1981; Schneider 1990; Lewis 2000). In contemporary research, paradox has developed into a valuable theoretical lens in efforts to

understand contemporary organisations (Lewis 2000). The foundational research on paradox theory in modern organisation studies can be found in the work of Smith and Berg (1987), Cameron and Quinn (1988), and Poole and Van de Ven (1989). These scholars suggest that by examining paradoxical contexts, researchers could move beyond polarised and simplified notions of conflict and resistance to recognise the diversity, complexity, and ambiguity of organisational life (Lewis 2000). Through studying paradox in organisation, insights into an array of organizational tensions can be explored (Schad et al. 2016), especially in contradictory elements embedded within a statement (e.g. Murnighan and Conlon 1991), the oppositions occurring in common beliefs (e.g. Davis et al. 1997), and the unintended consequences of action (e.g. Sitkin and Bies 1993).

Putnam et al. (2016) discuss paradox as the contradictory features and tensions in organizations that exist and persist simultaneously and synergistically over time. The tensions and contradictions become increasingly exposed and reflect back on each other, and can develop into seemingly irrational or absurd situations. The continuity of tensions and contradictions creates situations in which options appear mutually exclusive, thus making choices among them difficult. Lewis (2000) discusses how paradoxical tensions create reinforcing cycles, which require responses or actions to manage them (Lewis 2000; Cameron and Quinn 1988). The persistence of paradoxical tensions and contradictions have been explored particularly in relation to conflicting demands, opposing perspectives, and apparently illogical findings (Lewis 2000; Smith and Berg 1997).

There are two underlying elements within paradoxes, namely (1) underlying tensions, i.e. elements that appear logical when in isolation, but inconsistent, irrational and absurd when juxtaposed; and (2) responses that embrace tensions simultaneously (Lewis 2000; Smith and Lewis 2011). The tensions that persist overtime through reflection or interaction (Ford and Backoff 1988) in an organisation include, for example, collaboration versus control (e.g. Sundaramurthy and Lewis 2003), individual against collective (e.g. Murnighan and Conlon 1991), and flexibility facing efficiency (e.g. Smith and Tushman 2005). Tensions may become increasingly prominent and persistent in a dynamic and complex organisation (Lewis 2000). In these circumstances, managements' responses to the tensions may be a critical factor of the destiny of the organisation (Cameron and Quinn 1988).

In organisation studies, the theory of paradox has developed particularly to explain conflicting demands, opposing perspectives and apparently illogical findings (Lewis 2000). According to Smith and Lewis (2011), the foundational research of paradox theory in studies of modern organisational contexts can be found in the work of Smith and Berg (1987), Cameron and Quinn (1988) and Poole and Van de Ven (1989). These scholars suggest that by examining paradox, researchers could move beyond polarised and simplified notions to recognise the diversity, complexity and ambiguity of organisational life (Lewis 2000). In this context, paradox can be defined as *'contradictory yet interrelated elements that exist simultaneously and persist over time'* (Smith and Lewis 2011, 382). This definition underlines two elements of paradoxes, namely (1) underlying tensions, i.e. elements

that appear logical when in isolation, but inconsistent, irrational and absurd when juxtaposed; and (2) responses that embrace tensions simultaneously (Lewis 2000; Smith and Lewis 2011). The tensions that persist in an organisation over time through the action of reflection or interaction (Ford and Backoff 1988) include, for example, collaboration versus control (e.g. Sundaramurthy and Lewis 2003), individual as opposed to collective (e.g. Murnighan and Conlon 1991) and flexibility against efficiency (e.g. Smith and Tushman 2005). Tensions may become increasingly prominent and persistent in a dynamic and complex organisation (Lewis 2000). In these circumstances, managements' responses to the tensions may be a critical factor in the destiny of the organisation (Cameron and Quinn 1988).

Paradoxes can be distinguished from similar tensions existing in an organisation such as dualities, dilemmas and dialectics (Smith and Lewis 2011; Cameron and Quinn 1988). Dualities refer to *'opposites that exist within a unified whole'* (Smith and Lewis 2011, 387), with the existence of an internal boundary creating distinction and highlighting oppositions. The external boundary unites the overall system, emphasising synergies, binding and juxtaposing the opposing elements and creating a dynamic relationship that is persistent over time (Smith and Lewis 2011; Cameron and Quinn 1988; Lewis 2000). Dualities are paradoxical if the elements are both interrelated and contradictory, and the external boundary magnifies their paradoxical nature (Smith and Lewis 2011; Lewis 2000). Dilemmas refer to competing choices that each have advantages and disadvantages (McGrath 1982), becoming paradoxical if the choices are interrelated and contradictory so that any option is only temporary and gives rise to a resurfacing of tensions (Smith and Lewis 2011). Dialectics are concerned with *'contradictory elements (thesis and antithesis) resolve through integration (synthesis), which, over time, will confront new opposition'* (Smith and Lewis 2011, 387). A dialectic is paradoxical when *'a thesis does not exist despite its anti- thesis, but because of it. Each pole of the dialectic needs the other to sustain its presence'* (Clegg 2002, 29).

Schad et al. (2016) in exploring the nature of paradox, considers paradox as a noun, which shows 'concrete, discernable tensions between distinct elements, and highlights their contradictory and oppositional nature'. Studying paradox is useful to delineate tensions across diverse contexts and analysis, which includes the macro level - in a context of national culture stereotypes and the behavioral variations across borders (Fang 2010) for example, and also tensions relating to inter-organizational relationships (Raza-Ullah et al. 2014; Spira and Page 2003; Goddard 2004; Christopher et al. 2009; Adams and Larrinaga-González 2007)

Recent development of theory in organisation studies suggests there are four main types of paradoxes, namely, belonging (identity/interpersonal relationships), performing (goals), paradoxes of organising (processes) and learning (knowledge) (Jarzabkowski et al. 2013; Smith and Lewis 2011; Lewis 2000). Each paradox will be discussed as follows:

4.3.1 Paradox of Belonging

The crux of the paradox of belonging is tensions between self and others (Lewis 2000). The paradox of belonging, also known as tensions of identity, can be driven by complexity and plurality. The paradox of belonging emphasises the need for actors to become integral members of a group because there might be tensions between the individuals and the aggregate, or of individuality versus collective actions (Smith and Lewis 2011; Smith and Berg 1987; Brewer 1991; Kreiner et al. 2006). At the level of the firm, tension of belonging is underlined by opposing yet coexisting roles, memberships and values (Smith and Lewis 2011; Golden-Biddle and Rao 1997).

Smith and Berg (1987) identified tensions of belonging when investigating paradoxes of group life. They found four kinds of tensions in paradoxes of belonging: identity, involvement, individuality and boundaries. Identity denotes the link between individual and group identity that *'is expressed by the struggle of individuals and the group to establish a unique and meaningful identity where each is an integral part of the other'* (p. 90). Norms are important informal ground rules for a group that can provide guidelines for appropriate and inappropriate behaviour. If tension arises between an individual action and the norms adopted by the group, the group may eliminate the individual or at least his or her troublesome behaviours if the group perceive the variance as characteristic of the member expressing it. Involvement deals with the commitment of oneself to the group. In other words, there may be degrees of and individual's involvement or detachment that create contradiction and tension. The tension attendant on individuality in a group concerns connections between its members. On the one hand, a group requires conformity, similarity and connections for its existence but, on the other hand, the group becomes strong only if the individuality of its members can be expressed. There is a battle between the *'group's dependency on the individuality of its members and the individual's dependency on the commonality of the group'* (p. 102). Boundaries refer to the definition of what the group is and what it is not, or who belongs to it and who does not. The paradox of boundaries emerges when these boundaries *'simultaneously make it possible for a group to take actions and limit those actions by what the boundaries define'* (p. 103). For example, in a group whose boundary is defined as management, performance of the function of management is possible, but the option of becoming a worker is removed.

4.3.2 Paradox of Performing

The paradox of performing arises when actors as individuals perform contradictory roles and activities over organised intended planned (Lewis 2000). This contradiction occurs when there are tensions between identification and goals as actors negotiate individual identities with social and occupational demands (Lewis 2000). These actors may work towards different visions of success and failure (Jarzabkowski et al. 2013). This paradox may appear in an organisation that has differentiated structural units in which individuals need to perform multiple and frequently inconsistent roles and

tasks (Denis et al. 2007; Jarzabkowski and Fenton 2006; Smith and Lewis 2011; Luscher and Lewis 2008).

4.3.3 Paradox of Learning

The paradox of learning arises when there is tension between old and new, i.e. *'a struggle between the comfort of the past and the uncertainty of the future'* (Lewis 2000, 766). The paradox of learning is associated with the ability of actors to assimilate new knowledge into their routines (Lewis 2000). Leonard-Barton (1992) suggests that the required core capabilities may either promote or frustrate innovation. Members placing great emphasis on core capabilities may foster core rigidities preventing others from considering changes.

> *Many paradoxes are caused by the hangover of one set of assumptions or beliefs into a new age or environment and proliferate when change is dramatic or rapid. Paradoxes emerge when beliefs or assumptions fail to keep up with external changes.* (Cannon, 1996: 110)

The organisation and its environment may become more developed, sophisticated and diverse. Members of the organisation need to concentrate on the favourable aspects of change to avoid fears and frustrations so that they may be able to adapt to the changes (Vince & Broussine, 1986). Scholars suggest the application of three elements to manage the paradox of learning: shock, open communication and experimentation and paradoxical leadership (Lewis 2000). Shock refers to enforcement actions to expose the shortcomings of extant practices (Bartunek, 1988; Leonard-Barton, 1992; Miller, 1993; Ropo & Hunt, 1995; Westenholz, 1993). The organisation also needs to encourage open communication through discussion with its members (Vinve and Brooussine, 1996) and to promote experimentation to reduce the risk of testing new knowledge or practices (Leonard-Barton, 1992). Finally, the organisation needs to have a paradoxical leader who is able to think paradoxically in order to guide social reflection and to assist others to examine the tensions they may experience (Leonard-Barton, 1992; Westenholz, 1993).

4.3.4 Paradox of Organising

> *Any action, any act of cognition, definition, or concept is based on and establishes distinctions. Thus, the very actions of organizing involve the drawing of distinctions; organization itself is a source of tension.* (Ford & Backoff, 1988: 86-87)

The paradox of organising emerges *'as complex systems create competing designs and processes to achieve a desired outcome'* (Lewis 2000). There is a need to cohere as a collective system because there may be a clash between different organisational parts, tasks and groups (Smith and Lewis 2011, 383-384). Tensions may also occur *'between organisational structures that shape actions and the actions through which organisational structures are constructed'* (Thompson 1967a). The paradox of organising arises when there are tensions between control and flexibility (Jarzabkowski et al. 2013, 247; Lewis 2000). In other words, organisational routines and capabilities

require stability, clarity, focus and efficiency on the one hand, while on the other hand, they also need to enable dynamic, flexible and agile outcomes (Lewis 2000). Other researchers argue that the paradox of organising arises when the organisation attempts to foster empowerment (Eisenhardt and Westcott 1988; Klein 1994; Sabelis 1996) or increase formalisation (Hatch and B. 1993; Sitkin and Bies 1993). For instance, in the practice of just in time (e.g. Eisenhardt and Westcott 1988) and total quality management (e.g. Klein 1994), an employee requires not only formal statistical and monitoring controls but also his or her discretion and problem-solving skills (Lewis 2000). Sitkin and Bies (1993) highlighted the role of legalisation, i.e. formalisation that mirrors legalistic procedures, in promoting employees' fair treatment and providing someone in power with the means of legitimating potentially unfair decisions (Lewis 2000).

In summary, Smith and Lewis (2011) summed up the interrelatedness of the four types of paradoxes in an effective organisation's life:

> In creating organizations, leaders must decide what they are going to do, how they are going to do it, who is going to do it, and in what time horizon. By defining what they are trying to do, the leaders define what they are not trying to do, highlighting goals and strategies and creating **performing** tensions, such as global versus local and socially focused versus financially focused. By defining how they are going to operate, they define how they are not going to operate. Doing so creates **organising** tensions, such as loosely coupled versus tightly coupled, centralized versus decentralized, and flexible versus controlling. Responding to questions about who is going to do what highlights conflicting identities, roles, and values, creating **belonging** tensions. Finally, as leaders consider the time horizon for their actions, they face **learning** tensions between today and tomorrow or between looking forward and looking backward. (Smith and Lewis 2011, 388).

4.3.5 Responses to Paradoxes

As was discussed previously, scholars in organisational studies have identified the incidence and persistence of paradoxical conditions in organisations. In recent research, the concept of paradox has developed into a crucial theoretical lens to understand contemporary organisations (Lewis 2000). However, some researchers argue that paradox requires a guiding framework rather than the definition of its characteristics (Lewis 2000). In a recent development, some scholars have gone beyond simply explaining the persistence of paradoxical tensions to propose a more comprehensive framework that may be used as a tool to explain paradoxical tensions, reinforcing cycles and the resultant responses or management actions required to promote organisational sustainability and achieve short- or long-term success (Lewis 2000; Cameron and Quinn 1988; Smith and Berg 1987).

For example, Poole and Van de Ven (1989) propose four models for working with paradoxes. They suggest four ways in which two contradictory demands (A and B) might be associated: (1) keeping A and B separate and appreciating their contrast (opposition); (2) situating A and B at two different levels or locations (spatial separation); (3) separating A and B in the same location temporarily (temporal separation); and (4) finding some new perspective which eliminates the

opposition between A and B (synthesis). Andriopoulos and Lewis (2009) highlight two approaches to managing paradox, namely integration and differentiation. The former relates to focusing on the interdependence between the contradictions and facilitating coordination. It captures both paradoxes in a creative and effective way, helping members share and connect divergent knowledge. The latter deals with emphasising either the exploitative or exploratory qualities of contradictory elements by separating them to highlight their distinct values (Eisenhardt 2000).

In the recent development of responses to paradoxes in the organisation, Jarzabkowski et al. (2013) summarised and grouped responses to paradox into two categories: active and defensive responses. Active responses are concerned with the long-term acceptance of paradox as a natural work condition (Lewis 2000; Smith and Lewis 2011; Jarzabkowski et al. 2013). Defensive responses refer to attempts to temporarily overcome paradoxical tensions without providing a new way of working within or to understand the paradox. These are aimed at short-term relief. The responses consist of the following methods: (1) splitting, (2) reaction formation, (3) projection, (4) repression, (5) regression and (6) ambivalence (Lewis 2000; Smith and Lewis 2011).

Splitting (1) separates the two contradictory elements and prevents interaction that may cause tension (Andriopoulos and Lewis 2009). This method is also known as opposition or differentiation (Poole and Van de Ven 1989) and stresses the distinct values between two poles. Unlike the splitting responses that may prevent serious conflict, *reaction formation (2)* aligns with one pole of the paradox, thereby generating or strengthening opposition to the other pole (Lewis 2000; Jarzabkowski et al. 2013). *Reaction formation* manifests practice that is intended to oppose the threatening one (Lewis 2000). Such polarised responses occur when actors become unwilling to engage in compromise (Luscher and Lewis 2008; Smith and Berg 1987) and have the potential to lead to spiralling conflict and vicious circles (Smith and Lewis 2011).

Projection (3) denotes the transfer of conflicting attributes, usually onto a scapegoat (e.g. workers blaming management and vice versa) (Lewis 2000). Bovey and Hede (2001) suggest that projection is a defence mechanism related to falsely attributing unacceptable thoughts or feelings to another party. On the one hand, *repression (4)* or denial refers to a refusal to acknowledge reality or experience that is apparent to others by a blocking of awareness of tenuous experiences or memories. In contrast, *regression (5)* involves utilising actions that have yielded security in the past, or else returning to the comfort of past practices (Lewis 2000). *Ambivalence (6)* entails the attempt to negotiate the paradox with 'lukewarm' reactions that lose the vitality of extremes (Lewis 2000; Smith and Lewis 2011). A compromise to reduce the intensity of oppositional forces at the expense of forcing out a group's vitality can eliminate the 'hot' and 'cold', until eventually the lukewarm remains (Smith and Berg 1987). In summary, *'While the extent of conflict arising from different defensive responses varies, critically, they are avoidance tactics, rather than longer-term ways to reconceptualise actors' experience of paradox'* (Jarzabkowski et al. 2013, 249).

In contrast, active responses acknowledge paradox as a natural work condition and try to handle it on a longer-term basis (Lewis 2000; Smith and Lewis 2011; Jarzabkowski et al. 2013). Responses include acceptance (1), confrontation (2) and transcendence (3) (Lewis 2000; Smith and Lewis 2011). *Acceptance (1)* is associated with the desire to seek a solution to balance the elements giving rise to tension (Poole and Van de Ven 1989; Sundaramurthy and Lewis 2003). *Confrontation (2)* deals with tackling and working through the sources of tension, usually through the use of external facilitation (Engeström and Sannino 2011; Lewis 2000; Luscher and Lewis 2008; Poole and Van de Ven 1989). *Transcendence (3)* views paradoxical elements as complex interdependencies rather than competing interests that are applied by reframing the paradox (Seo and Creed 2002), confirming interests as equally valid (Miron-Spektor et al. 2011), or through paradoxical leadership and thinking (Lewis 2000; Smith and Lewis 2011; Sundaramurthy and Lewis 2003; Smith and Tushman 2005). In order to assimilate the paradoxes into the organisation, Lindblom (1965) suggests that all active responses need partisan mutual adjustment between parties. However, the active responses may offer only partial relief because the important paradox persists and needs to be tackled continuously (Abdallah et al. 2011).

To sum up, studies on paradox in organisations have identified some significant concepts of what is defined as paradox, empirically identified different kinds of paradoxes and examined responses to the underlying tensions. The next discussion presents a more comprehensive framework of paradoxical tensions that can be applied to the achievement of organisational sustainability (Smith and Lewis 2011).

4.4 Dynamic Equilibrium Model of Paradox

Smith and Lewis (2011) suggest a dynamic equilibrium model of paradox in an organisation, as illustrated in Figure 4.1. They divide the model into three areas: (1) latent and salient paradoxical tensions, (2) management strategies in response to these tensions, and (3) the outcome of the strategies adopted on sustainability. Paradoxical tensions may result from both inherent organisational system problems and social construction arising out of organisational members' cognition or rhetoric. Tensions emerge from organising, performing, learning and belonging activities. Thus, environmental conditions have brought them into interrelated dualities that are embedded in the organisation's process. The tensions may remain dormant, latent or ignored until such time as actors' cognitive efforts and environmental factors, including plurality, change and scarcity, render them salient. Plurality refers to a diversity of views in the context of dispersing power (Denis et al. 2007), creating uncertainty and inconsistent processes (Cohen and March 1986). Change deals with the opportunities of addressing short- or long-term conflicts (Balogun and Johnson 2004; Luscher and Lewis 2008) and competing yet coexisting roles (Huy 2002). Scarcity refers to temporal, financial or human resource limitations (Smith and Tushman 2005).

Figure 4.1 Dynamic Equilibrium Model of Paradox in an Organisation
Source: (Adapted from Smith and Lewis 2011)
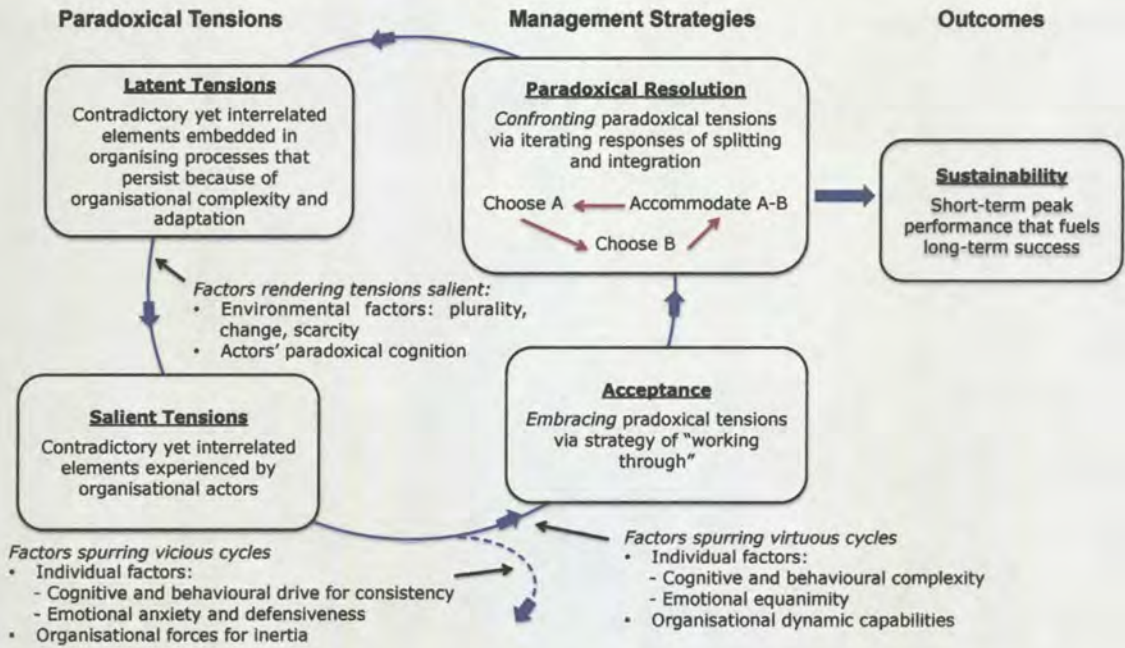
Once rendered salient, the paradoxical tensions fuel either positive or negative reinforcing cycles (Lewis 2000). Negative or vicious cycles (indicated by the dashed downward arrow in Figure 4.1) are derived from anxiety, defensiveness and organisational forces for inertia. Actors may apply defensive mechanisms such as denial and repression when encountering contradiction (Vince and Broussine 1996). Members of an organisation may react by choosing and focusing on one agenda (Cialdini et al. 1995) or maintaining a mindless commitment to prior behaviour that may become reinforced by organisational dynamics that have embedded inertia into processes (Gilbert 2005), routines (Eisenhardt and Martin 2000) and capabilities (Leonard-Barton 1992).

Positive or virtuous cycles deal with a management strategy of acceptance and resolution instead of defensiveness. Management views this as an invitation for creativity and opportunity (Beech et al. 2004) and may discover a link or create a framework that gives meaning to the contradictions (Smith and Berg 1987). Acceptance requires dynamic organisational capabilities that enable members to host and accept paradoxical conditions (Smith and Tushman 2005), thereby creating potential synergies (Suedfeld et al. 1992). Along with organisational abilities, acceptance also requires actors' emotional equanimity and cognitive and behavioural complexity so that they are able to acknowledge and accept the underlying tensions rather than respond to them defensively (Smith and Lewis 2011).

Acceptance, 'provides a comfort with tensions that enables more complex and challenging resolution strategies. Resolution involves seeking responses to paradoxical tensions, either through splitting and choosing between tensions or by finding synergies that accommodate opposing poles'

(Smith and Lewis 2011, 392). Paradoxical resolution deals with *'purposeful iterations between alternatives in order to ensure simultaneous attention to them over time'* (Smith and Lewis 2011, 392). Poole and Van de Ven (1989) argue that splitting (Tushman and Romanelli 1985) or synergistic integration (Bledow et al. 2009; Jarzabkowski and Sillince 2007) strategies are ideal types that can be used together. However, Smith and Lewis (2011) argue that doing so may require consistent inconsistency as managers shift decisions in a frequent and dynamic way. This means that other actors also need to make choices in the short term by remaining aware and embracing the polarities in the long term.

The outcome of the virtuous cycle of managing tensions unleashes the power of paradox to promote sustainability (Smith and Lewis 2011). Some studies have suggested that simultaneously managing contradiction is associated with high-performing groups (Murnighan and Conlon 1991), career success (O'Mahony and Bechky 2006), exceptional leadership capabilities (Denison et al. 1995) and organisational performance (Tushman et al. 2010). Sustainability refers to the achievement of short-term excellence while making certain that performance fuels adaptation and growth enables long-term success (Cameron and Lavine 2006). Smith and Lewis (2011) propose a dynamic equilibrium that promotes sustainability in three ways: (1) allowing learning and creativity, (2) encouraging flexibility and resilience, and (3) unleashing human potential.

In summary, the model outlines how the tensions lead to two vicious or virtuous cycles. Management need to find resolutions to paradoxes in order to achieve short- and long-term success. The next subsection presents the tensions that are likely to occur within the context of this research. The application of the above model in this research will also be explained.

4.5 Paradoxes in Government Audit Practices

The application of paradox theory in this study aims to help identify paradoxical tensions, the persistence of such tensions together with related responses and possible resolutions. Even though most organisations have inherent paradoxical elements, some contexts are more vulnerable than others to undesirable outcomes (Jarzabkowski et al. 2013). An audit requires several stages involving auditors from different roles and positions working together in a team to produce audit reports on behalf of the audit organisation (Crous et al. 2012). Auditors also work in relatively complex environments that include the auditee, government, standard setters, public and other stakeholders. These relatively complex processes and environments may lead to paradoxical conditions. This study therefore seeks to identify the likely paradoxical tensions that exist within the audit organisation. The dynamic equilibrium model of paradox developed by Smith and Lewis (2011) is used to explain the sources of tensions, including the audit organisation's scarcity of sources, plurality of auditors and constant changes in audit knowledge. The model is also used to explore both organisational

negative and positive responses within organisations and also identify any potential resolutions that may enable the organisation to achieve its goals.

4.5.1 Types of Paradoxical Tensions

In line with the different types of paradoxes discussed previously, a paradox of poor performance in the audit organisation might arise when an auditor, as an individual actor, displays variations in the performance of his or her tasks and roles. The work of an auditor involves a substantial degree of judgement that may give rise to variations in results (Libby and Luft 1993; Meixner and Welker 1988). The literature suggests that RAQB may be difficult to detect because of the complexity of audit work incorporating significant elements of judgement (Gibbins and Mason 1988). Auditors may be able to exercise this professional judgement as part of their own discretion, however this may be contradictory to a more desirable course of action. Such a contradiction may also arise when there are tensions between identification and goals, as auditors may negotiate individual identities with occupational or social demands (Lewis 2000). Auditors may work towards different motivations and commitment (Libby and Luft 1993; Malone and Roberts 1996) that may result in, for example, boredom (Willett and Page 1996), carrying out less work than normal (Malone and Roberts; Otley and Pierce; Coram et al. 2008), the creation of different visions of success and failure (Lewis 2000) and which may even result in auditors putting in different levels of effort to their work on less programmable tasks, their physical remoteness from day-to-day control, and to them placing heavy reliance on the maintenance of a favourable audited environment in the field.

This type of paradox may also appear in an organisation that has differentiated structural units in which individuals are required to perform multiple different roles and tasks (Jarzabkowski et al. 2013). Some government audit organisations, including the Indonesian audit organisation examined in this study, do not have specialised divisions based on the type of audit conducted. In other words, auditors must work with various distinct roles and a broad range of expertise as a result of the fact they are not specialists in only one type of audit (financial, performance and special purpose audit such as investigative audit, environment audit or tax audit) but rather are expected to master all audit types, despite the fact that each type employs a different methodology and approach. In addition, in the government audit organisation observed, audit supervisors and managers have a concurrent position as both auditor and also as the person responsible for managing daily administrative matters. This variety of multiple distinct tasks may bring about a polarisation that may reduce desired outcomes.

The paradox of belonging occurs as the group or team, as actors, interact over their roles and face identity conflicts. Auditors work in a team and this team has its own identity, goals, beliefs and values. When the actors interact with other individuals in their group, or with different groups, they may struggle to reconcile their values, beliefs and identities (Denis et al. 2007; Jarzabkowski and Fenton 2006; Smith and Lewis 2011; Luscher and Lewis 2008). The paradox of belonging emphasises

the need for actors to become integral members of a group because tensions may exist between the individuals and the aggregate, or between individuality versus collective action (Jarzabkowski et al. 2013). Some literature suggests that audit team condition influences audit quality. RAQB may be affected by poor and ineffective communication between audit team members (Alderman and Deitrick 1982). Otley and Pierce (1995) found the misbehaviour of auditors to be influenced by a leadership style characterised by high structure and low consideration. Malone and Roberts (1996) found that auditors' professional and personal characteristics may be associated with the occurrence of RAQB.

The paradox of organising appears when organisational procedures fail to adequately consider other elements of the paradox (Smith and Lewis 2011; Lewis 2000). There is a need for an organisation to cohere as a collective system because there might be a clash between different organisational parts, tasks and groups (Jarzabkowski et al. 2013). The crux of the paradox of organising is a tension between control and flexibility (Jarzabkowski et al. 2013). In other words, organisational routines and capabilities require stability, clarity, focus and efficiency whilst at the same time also needing to deliver dynamic, flexible and agile outcomes (Lewis 2000). Control and flexibility may be considered critical issues in audit. Some researchers suggest that a lack of quality control may serve to reduce audit quality (e.g. Malone and Roberts 1996), but auditors must also be granted autonomy to do their jobs as their work encompasses high degrees of professional judgement, analytical thinking and decision-making within an unpredictable and dynamic environment. In addition, audits also face a management-control dilemma whereby the audit organisation is faced with a cost-quality trade-off (McNair 1991).

There are two other tensions in the paradox of organising regarding empowerment and formalisation (Eisenhardt and Westcott 1988; Klein 1994; Hatch and B. 1993; Sitkin and Bies 1993). Audits involve a collection of judgements about, for example, the adequacy of management's disclosure, risk of misstatement and the sufficiency and appropriateness of audit evidence (Burns and Fogarty 2010). In such a way, it is argued that the ability to exercise sound professional judgement and decision-making is the most important auditor proficiency (Libby and Luft 1993; Meixner and Welker 1988). However, there have been attempts to make auditing more programmable using techniques such as the creation of more structured audit programmes consisting of, for example, detailed procedures or checklists (Curtis 2006). This may help an audit organisation to control audit quality because it offers a more consistent audit approach and assessment of performance (Armstrong et al. 1975; McDaniel 1990; Arens and Loebbecke 1988; Grobstein and Craig 1984).

Audit standards, techniques and methods have changed and developed over time, for example, to respond to the development of new audit practices, regulatory changes and audit failures (Burns and Fogarty 2010). The nature of financial statements reporting has also been

evolving and is now more complex and includes more areas of judgement and qualitative disclosure (Schilder 2013). Government auditing also incorporates regulatory requirements applicable to both auditors and the organisations they audit. These regulations affect the way auditors may achieve quality. Considering these dynamic conditions, auditors are required to continually adapt to new knowledge. There will be a paradox of learning or a tension between old and new if the auditors fail to adapt the changing context into their routines.

4.5.2 The Framework of RAQB as Seen Through the Paradox Lens

The dynamic equilibrium model of paradox proposed by Smith and Lewis (2011) will be utilised in this research to frame the phenomenon of RAQB in relation to the occurrence and observation of paradoxical conditions. As outlined in Figure 4.2, potential contradictory tensions in audit organisations may be generated by scarcity, plurality and change. These tensions may result in either negative or positive responses. In this context, the negative responses (indicated by the dashed downward arrow) refer to RAQB. RAQB is concerned with those actions performed by auditors that may undermine audit quality as a result of paradoxical tensions. RAQB may be a cognitive and rhetorical response by the auditors to the tensions in the form of anxiety, defensiveness and forces of inertia. However, the organisation is able to take action aimed at addressing both the tensions and also the RAQB. Such an organisational response is aimed at identifying and ideally finding resolutions to paradoxes by either splitting (Tushman and Romanelli 1985) or synergistic integration (Bledow et al. 2009; Jarzabkowski and Sillince 2007). The audit organisation may expect short- and long-term success, otherwise the cycle would need to recommence from scratch.

Figure 4.2 The Framework of RAQB as Seen through the Paradox Lens
Source: (Adapted from Smith and Lewis 2011)
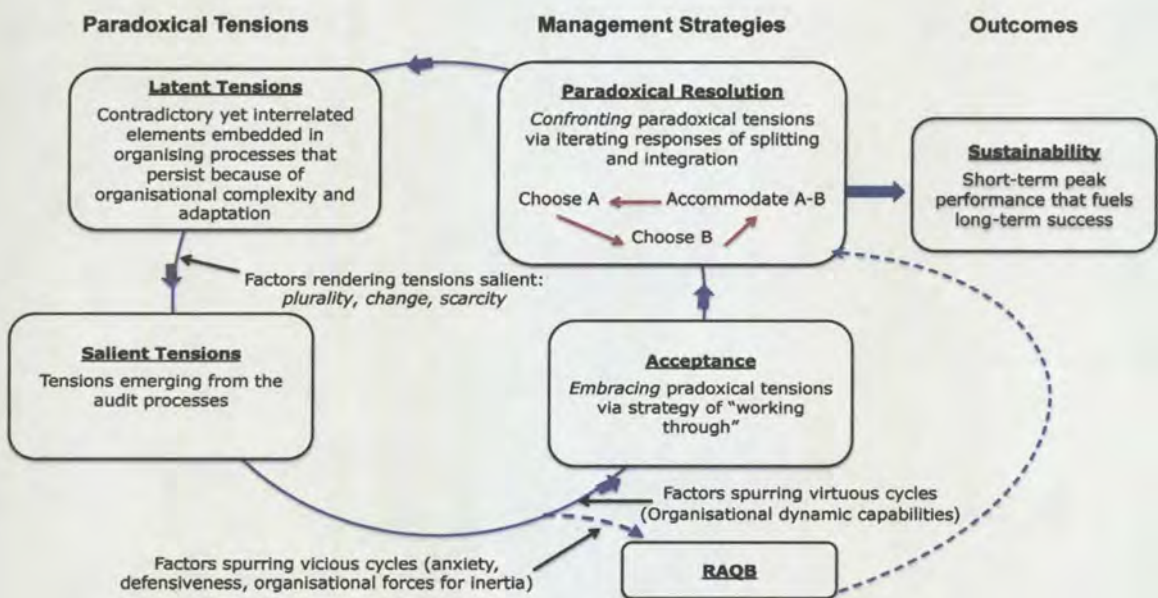
4.6 Conclusion

The objective of this chapter has been to present the underpinning theoretical framework of this study. This research uses the lens of paradox to provide an appropriate perspective to exploring the phenomenon of RAQB in the observed audit organisation. It is believed that the conduct of the audit process involves inherent tensions. Studies of paradox have identified two significant elements, the underlying tensions and the corresponding responses that embrace or occur in relation to those tensions (Lewis 2000; Smith and Lewis 2011). This study engages these two perspectives in theorising the empirical findings gathered from the field and explores the tensions emanating from the audit process. The model of paradox equilibrium developed by Smith and Lewis (2011) is employed to explain the relationship between the tensions and the occurrence of RAQB. This model also explains how organisations need to tackle both the paradoxical tensions and RAQB in order to ensure success.

Chapter 5 Research Method

5.1 Introduction

This chapter outlines the research strategy and design, research methods and empirical data collection techniques based on the philosophical considerations explained in Chapter 1. The first section details aspects of the field research process. The second explains the case study and case study selection. The third section discusses the three methods used: observations, interviews and review of documents. The following section presents details of the data analysis. The final section outlines the consideration of ethical issues and provides conclusions.

5.2 Research Philosophy

A paradigm refers to a net of epistemological (what kind of being is a human being? what is the nature of reality?), ontological (what is the relationship between the inquirer and the known?) and methodological premises (how do we know the world, or gain knowledge of it?) (Denzin and Lincoln 2003; Guba 1990). It is a *basic set of beliefs that guides action* (Guba 1990, 17). This is an interpretive research, which, from its epistemological perspective, refers to the understanding of the social world or phenomena by examining the interpretation of the world by its participants. From its ontological position, this research is described as constructionist, meaning that social properties are the outcomes of interactions between individuals instead of phenomena that are separate from those involved in their construction (Bryman 2012; Lee and Lings 2008).

By its nature, the phenomenon of RAQB involves complex qualitative assessment that might not be easily quantifiable and may be actively constructed by the people who perform audit practices. In such a way, an in-depth study seeking to understand and investigate the topic through the eyes of those participants who actively construct the phenomena in the natural setting where human behaviours occur, using an interpretive (qualitative) approach, may be more appropriate and insightful. It allows the involvement of a deeper and more contextual and comprehensive investigation rather than just testing the phenomenon through measurable variables and then seeking to generalise. Qualitative research focuses on participants' perceptions, experiences and the way they make sense of their lives. It attempts to understand multiple realities of how things occur, the process and also the product or outcome (Lincoln and Guba 1985; Merriam 1998). Power (2003) argues that there is a need to conduct research on the nature of actual audit practices by exploring the meaning for those who carry out audits and how the audits have been constructed by them.

Therefore, from the philosophical and methodological standpoint, this study applies a qualitative research methodology using observation, interviews and review of documents.

Observation is the main method used and is carried out with five audit engagement teams performing financial statements audits. The audit teams are from an Indonesian external government audit institution, the National Audit Board (NAB). Observation as the main research method in this study is defined as *'the systematic noting and recording of events, behaviours, and artefacts (objects) in the social setting chosen for the study'* (Marshall and Rossman 1999, 107). Observation is used to document and describe complex actions and interactions. The observation can vary from highly structured, detailed notation of behaviour that is guided by the use of checklists, to a holistic description of events and behaviour (Marshall and Rossman 1999).

Cultural anthropology and organisation studies have used participant observation (typical of the ethnographic method) for many decades, but it remains very rare in auditing research (Glaser and Strauss 1967; Van Maanen 1979; Bryman 2012; Mennicken 2008; Pentland 1993; Power 1996; Radcliffe 1999). Malsch et al. (2013) argue that ethnographies can lay more credible claim to the study of professional practices, partly because the direct observation of members makes it possible to *'study taken-for-granted aspects of [...] [work] on which organizational members could not report, and to exploit the revealing tensions between what organizational members say and do'* (Ahrens and Mollona 2007, 312).

5.3 Field Research Process

Three months prior to the data collection fieldwork, I contacted two internal and one external government audit organisations regarding my research and the potential for gaining access to the organisations. I explained the purpose of my research and how the data would be collected. In view of the sensitivity of the research topic, I explained that I would emphasise the anonymity and confidentiality of the participants and also the audit organisations. I also explained the likely advantageous results of this study for the audit organisation. Of the three audit organisations I approached, one agreed to grant me full access, with the other two granting only the possibility to conduct interviews and focus group discussions. After gaining access to the one audit organisation, I undertook further communication in order to acquire relevant internal documents as soon as possible. The documents that I requested included any type of reports from internal and external parties that were relevant to the research objectives.

After an initial request to observe a total of eight audit teams, I was actually able to observe five. This is mainly due to the hectic period of audit assignments where most of the teams were carrying out financial statements audit at the same time. I made the necessary arrangements with the heads of those units where the auditors worked regarding the schedule for my data collection. Prior to conducting the observations, the unit heads introduced me to the teams, whereupon I was able to explain the purpose of my research and how I would collect the data. Observations were conducted by travelling together with the auditors during their part of the engagement periods. I

was able to observe and make notes regarding their full activities and also analyse their working papers. I attempted to be a passive observer in order that I could observe without disturbing them.

5.4 Case Study and Methods

This research utilised a case study-based approach. A case study itself is not a complete research method but rather is an approach to the study of a singular entity focusing on a particular unit of analysis (the case) that may involve several methods of data collection and analysis such as interviews, observation, document analysis and even surveys (Marshall and Rossman 1999). A case study refers to a strategy of inquiry in which the researcher carries out an in-depth exploration of an activity, programme, organisation, event or one or more individuals in a particular context (Creswell 2009; Stake 1995). According to Yin (2009), the selection of a case study could be based on the type of research question (mainly how and why questions) and the extent to which the focus is on contemporary as opposed to historical events. This study aims to answer the questions of 'how' and 'why' in terms of the phenomenon of RAQB in the government audit sector. Its main objectives are to investigate the phenomenon of RAQB through the lens of paradox theory and how the parties involved respond to such behaviours. In addition, Yin (2009) argues that unlike the study of history that deals with the 'dead' past, a case study is concerned with actual contemporary events or behaviours within a real-life context, where the researcher has little control over the events. A major strength of the case study approach is the opportunity to use many different sources of data and different methods (triangulation). All of the methods used aim to corroborate the same facts regarding the phenomenon in question (Yin 2009). The multiple methods used and how they are operationalised during the fieldwork are explained in the following sections.

5.4.1 Observations

Observation and interview are the main methods of data collection used in this study. Observation can vary from being highly structured, detailed notation of behaviour that is guided by the use of checklists, to a holistic description of events and behaviour (Marshall and Rossman 1999). This research utilised observation and used a systematic observation schedule or protocol to ensure that each participant's specified behaviour or control systems applied would be recorded effectively and accurately, but that there was also flexibility in the plan so that the schedule could be adjusted to fit circumstances and any interesting opportunities. The observation method adapted the work of Malsch et al. (2013) who investigated the micro-strategies used by auditors and auditees in terms of how they exert power over each other in the field. They observed a total of 44 auditors within seven audit teams from a Big Four firm, over the course of several months. Observations were recorded over 50 days (455 hours, with a daily average of 9.1 hours) over the course of the 88-day period in which the audit engagements were completed.

In this research, data were collected through the observation of 30 auditors across five audit teams who were carrying out audit fieldwork at the clients' sites (refer to Table 5.1). The main criterion for the selection of the audit teams was the type of engagement that represents the common and regular audit conducted by the NAB organisation, i.e. financial statement audit.

Table 5.1 Audit Team Observation

Audit Organisation	Audit Team	Duration	Observation Phases		
			Interim*	Substantive#	Total
NAB	Audit Team 1	In days	0	8	8
		In hours	0	55	55
	Audit Team 2	In days	6	0	6
		In hours	39	0	39
	Audit Team 3	In days	0	2	2
		In hours	0	14	14
	Audit Team 4	In days	0	5	5
		In hours	0	42	42
	Audit Team 5	In days	0	5	5
		In hours	0	39	39
	TOTAL	In days	6	20	26
		In hours	39	150	189

* Interim = The interim audit phase is carried out prior to the year-end of the audited financial statements and is used for planning purposes as well as an initial evaluation and testing of internal control and compliance with Law and Regulations (NAB 2015, 84).
# Substantive = The final audit phase is conducted after the year-end of the audited financial statements and consists of various procedures performed by auditors to gain reasonable assurance of whether the financial statements are free of material misstatement and have been prepared in accordance with generally accepted accounting principles (NAB 2015, 84).

This research used observational field notes (Creswell 2009), recorded data consisting of descriptive notes (profile of participants or team, a description of the physical setting and accounts of particular events or activities), reflective notes (the researcher's personal thoughts such as impressions, feelings, ideas and prejudices) and demographic information (time, place and date where the observation was conducted). Actual examples of observational field notes can be seen in Table 5.3. A more detailed summary of the observational field notes relating to the empirical findings in Chapter 6 are provided in Appendix 1. This research adopted semi-structured rather than unstructured observation. This meant that clear general research questions were determined prior to the start of the observation, and the specific times, location, behaviour and processes to be addressed were established. During this stage, general questions had been addressed and non-specific predetermined categories set up to understand the broad areas and patterns that needed to be observed. This was carried out following the analysis of relevant literature and documentary analysis conducted prior to entering the field. Based on this, I developed specific extended research questions and observational checklists. These checklists helped me focus on the specific behaviours or problems that had been patterned, although there would also be room for improvisation

(Creswell 2009; Marshall and Rossman 1999). The checklist I used included points such as the types of RAQBs that could be identified, the tensions that may emerge, the actual control or review process undertaken and the auditors' interactions.

I travelled with the auditors throughout their engagements and shared their normal, formal and informal activities and conversations held with the auditees or within the audit teams (in auditor rooms, restaurants, vehicles, etc.). I also had full access to their working papers and other team documents related to the audit engagement. I was able to freely make notes in my observational field notes and was able to watch out for any sign of fatigue, boredom, difficulty, worry, upset and other emotions. I sought to earn the trust of the auditors by emphasising that I would preserve the anonymity and confidentiality of the informants at all times and in all circumstances. I tried to get along with the auditors and observed them from a place that would not be too obtrusive. Most of the auditors worked and interacted with the auditee in the rooms provided for them. When accompanying the auditors during, for example, their conducting of physical assets examinations, I distanced myself as a passive observer and did not directly take notes while observing in order not to give the impression I was monitoring them.

The period of observation might be insufficient to produce an in-depth comprehension of the entire audit process. However, in contrast to ethnographers who need to learn respondents' language and background from the early stages of observation, accounting researchers are familiar with 'many elements of that which [...] [they] seek to understand when they visit an organizational site' and are often able to make sense of what they observe 'fairly quickly' (Ahrens and Chapman 2006, 828; Malsch et al. 2013). This duration may also be considered sufficient because it is impossible to observe everything and I had already determined my 'essential aims and partitioned off the setting by observing the group/informants during specific times, in certain location, and during the course of particular events and/or routines' (Berg 2001, 153). In addition, observation is not the only method used but it has been supported extensively by other methods including interviews and document reviews.

Observation aims mainly to address the research objectives of how the government auditors behave in relation to maintaining good audit quality in a non-artificial daily setting, what kind of actions might be classified as RAQBs and whether there are any potential factors that may be associated with RAQBs and investigation of the existing control systems that may affect auditors' behaviour. However, observation might not be sufficient to reveal the entirety of the bigger picture of huge amounts of fast-moving and complex behaviour (Marshall and Rossman 1999). In the case of my research, this issue is addressed using interviews and analysis of documents to corroborate the findings from the observation. The conduct of the interviews is explained in the following subsection.

5.4.2 Interviews

Yin (2009) argues that one of the most extensively used and important methods in a case study is interview, because most case studies, like this study, are about human affairs or behavioural events and well-informed interviewees can provide important insights into such affairs or events. Heron (1981) points out that understanding human behaviour means to understand the human language because the meaning of being human is the ability of individuals to symbolise their experience through their language and '... *it is difficult to see how there can be any more fundamental mode of inquiry for human beings into the human condition*' (Heron 1981, 26). Kahn and Cannell (1957, 149) describe an interview as *'a conversation with purpose'*. It is the method used most extensively by qualitative researchers (Marshall and Rossman 1999; Bryman 2012). There are several types of interview such as structured, standardised, semi-structured, unstructured, oral history and life history interviews (Bryman 2012).

This research employs a semi-structured interview. According to Bryman (2012), semi-structured interview refers to a context in which the interviewer has a list of predetermined questions to be covered on specific topics in the form of an interview schedule, but that the questions may not follow on exactly in the way the schedule indicates. The interviewer has the freedom to ask further, different questions in response to the interviewee's significant replies. An unstructured interview may prove to be too loose because it lacks a topic guide, while a standardised interview lacks the flexibility needed to capture human behaviour. This study utilises the semi-structured interview because its offers a clear focus to address specific issues and is based on a clear theoretical appreciation of the topic. This study is also a case study with two other methods so that some structure is beneficial to ensure the interview material is comparable with other data collected via observation and document analysis (Bryman 2012; Lee and Lings 2008).

Table 5.2 Interview with Auditors

Audit Team		Manager/ Auditor in Charge	Supervisor	Team Leader	Team Member	Total
Audit Team 1	Position	2	1	1	4	9
	Interviewees	0	1	1	3	5
Audit Team 2	Position	2	1	1	4	8
	Interviewees	1	1	1	1	4
Audit Team 3	Position	2	1	1	4	6
	Interviewees	0	1	0	1	2
Audit Team 4	Position	2	1	1	3	7
	Interviewees	1	1	1	3	3
Audit Team 5	Position	2	1	1	6	10
	Interviewees	0	0	1	5	6
Others	Interviewees	2	1	1	4	8
Total Interviewees		4	5	5	17	31

Table 5.3 Interview with Non-Auditors

	Respondents	Number of Interviewees
Auditees	Auditee from Audit Tim 1	1
	Auditee from Audit Tim 2	1
	Other Auditees	4
	Total	6
Other NAB Divisions	Internal Audit Division Manager	3
	Training Centre Division Manager	1
	Human Resource Division Manager	1
	Research and Development Division Manager	1
	Finance Division Manager	2
	Total	8
Other Stakeholders	Other Internal Government Auditors	2
	Private Sector Audit Profession	1
	Member of Parliament	1
	Common Citizen	1
	Total	5
	TOTAL	19

Semi-structured interviews were conducted with 50 respondents (refer to Tables 5.2 and 5.3). As shown in Table 5.2, of a total of 31 auditors, 23 worked for the audit teams observed. The auditors were selected to represent each hierarchical role in the audit engagement: audit manager, supervisor, team leader and team member. Team member refers to an auditor who performs the audit procedures and tasks allocated to them by the team leader. Team leader refers to the auditor who is responsible for organising, directing and monitoring audit fieldwork and for ensuring the audit output is accurate, comprehensive and timely. The supervisor deals with the monitoring and evaluation of the audit, ensuring the audit takes place in accordance with the audit programme. The audit manager, also known as the auditor in charge, acts as a manager with responsibility for quality control across the whole audit process and its compliance with the auditing standards (NAB 2015).

The interviews were carried out before, during or at the end of the observation process, and mostly before or after working hours. The interviews with the observed auditors were used to elaborate findings from the observations and to answer those research questions that could not be addressed through the observations. Interviews with those auditors not involved in the audit assignments were carried out based on the theoretical sampling perspective (Lee and Lings 2008; Strauss and Corbin 1998). This meant that my decision to have additional auditors as respondents would be based on the theoretical framework. The collection of data was an iterative process, meaning additional interviewees were required until I believed a point of data saturation had been reached, referring to a situation where the concept has been reached or defined and it is not possible to acquire further new information through repeated cases (Lee and Lings 2008; Strauss and Corbin 1998).

In addition, as described in Table 5.3, nineteen interviewees were conducted with non-auditors. The selection of these respondents was also based on theoretical sampling (Lee and Lings 2008; Strauss and Corbin 1998) and snowball sampling (Bryman 2012) perspectives. Some of the non-auditor interviewees, such as the auditees, had been included in the initial programme. Others, however, such as the interview with a training centre manager, were selected following the recommendation of a previous interviewee in order to obtain further relevant information regarding a topic being explored.

An interview protocol or interview guide was developed for this research. According to Creswell (1998, 124), an interview protocol refers to *'a form about four or five pages in length, with approximately five open-ended questions and ample space between the questions to write responses to the interview's comments'*. It contains a heading (date, place, interviewer, interviewee), an instruction to be followed, for or five questions, probes for the questions, spaces between the questions in which to record responses and a final thank you (Creswell 2009). The demographic sheet includes the interviewee's gender, age, work experience and current position. The interviews were digitally recorded.

All the interviews were delivered in Indonesian. Translations were checked by colleagues of the researcher with a good level of proficiency in English and auditing to ensure the translation retained the original intended meanings. Two pilot interviews were conducted to ensure the questions were appropriate to the research objectives and to assess the estimated interview length.

In contrast to other methods, interviews provide the opportunity for immediate follow-up and clarification, with the ability to rapidly acquire large amounts of data. However, the researcher's presence may bias the responses given by the interviewee and the method does not enable the gathering of information in a natural field setting (Creswell 2009). Therefore, to compensate for these drawbacks, interview is not the only method utilised in this study.

5.4.3 Review of Documents

In this research, the sources of documents to be reviewed mainly related to the work of the audit team, audit organisations and other organisational reports and media. According to Bryman (2012), there are two types of organisation documents; public domain and non-public domain documents. Public domain documents gathered in this study include auditing standards, the annual reports of the audit organisations and press releases. The non-public domain documents include working papers produced by the auditors, audit manuals, organisation newsletters, organisation charts, codes of conducts, internal control system processes and procedures, audit team reports and reports from the organisations' internal audits regarding audit quality.

The NAB is also subject to a five-yearly review by other international government audit organisations. The reports from these independent bodies were used as one of the sources to

examine the quality of the audit processes and the credibility and performance of outputs from the audit process. Reports from media such as newspapers also contributed to the study. The review of documents aims to identify issues faced by the organisations, particularly in relation to the existing audit quality, control systems and reduced audit quality practices. It is also used to gain deeper understanding of the organisation and its audit processes.

Marshall and Rossman (1999) argue that the combination of review of documents and other primary research methods is typical of in-depth qualitative inquiry. The review of documents is an unobtrusive and non-reactive method which can provide a rich portrayal of the value and beliefs of participants and is a very useful method for understanding the group investigated. However, it is sometimes difficult to illustrate the logic of interpretation used to infer meaning from documents. Thus, this method was triangulated with the other methods used.

5.5 Analysis

The data from all methods were analysed using a qualitative thematic analysis framework developed by the National Centre for Social Research in the UK (Ritchie et al. 2003). Braun and Clarke (2006, 79) point out that *'thematic analysis is a method for identifying, analysing and reporting patterns (themes) within data'*. A thematic analysis framework is a process of classifying and organising data based on key themes, concepts and emergent categories (Ritchie et al. 2003). Using Microsoft Word and Excel software, recurring themes were identified. These were subsequently indexed by identifying links between categories and then grouping them thematically. The process of data analysis can be explained as follows.

The first phase is familiarisation with the data and the identification of initial themes or concepts. It includes the process of transcription (for the interviews) and a re-examination of the diversity of participant characteristics and the profile of the sample achieved. The process of transcription is the best means for the researcher to begin familiarising him/herself with the data and is a key phase in qualitative data analysis (Riessman 1993; Bird 2005). The transcription and analysis phases were carried out immediately following each interview. The spoken texts were transformed into written texts that retained their original nature, i.e. as verbatim accounts of all verbal and non-verbal (e.g. coughs) utterances (Braun and Clarke 2006). The data from observations that were documented in observational field notes and also from the review of documents were re-examined and reread prior to being filtered to the particular focus of interest. Following completion of the familiarisation stage, I performed repeated reading and identification of the data, searching for meaning and recurring patterns or ideas to form initial themes or concepts.

The second phase consisted of the construction of a conceptual framework or index. After recurring themes had been noted, the next process was to construct a conceptual framework or

index by identifying links between categories and then grouping them thematically. The categories and themes were sorted according to different levels of generality so that the index had a hierarchy of main themes and subthemes. The result of the index of thematic analysis is described in Table 5.4 below:

Table 5.4 A Conceptual Framework or Index of Thematic Analysis

1 Reduced Audit Quality Behaviour	
1.2	Premature or False Sign-Off
1.3	Superficial Audit Supervision
1.4	Reduction of Items Tested in a Sample
2 Audit Control	
2.1	Review Process
	2.1.1 Review Process in Place
	2.1.2 Limited Supervisory Time
	2.1.3 Large Span of Control
2.2	Budget Constraint
2.3	Audit Methodology, Approach and Procedures
	2.3.1 Structured or Unstructured Procedures
	2.3.2 Computerised Working Papers
	2.3.4 Dynamic Changes
2.4	Audit Performance Evaluation
	2.4.1 No Effective Performance Evaluation
	2.4.2 Informal Auditor Evaluation
2.5	Sanction and Penalty Systems
	2.5.1 No Strict Penalty Systems
	2.5.2 Peer or Social Sanction
3 The Completion of Audit Process	
3.1	Auditors' Competence, Expertise and Experience
3.2	Limited Resources
	3.2.1 Limited Number of Auditors
	3.2.2 Limited Time or Period of Audit
3.3	Audit Team Engagement
	3.3.1 Auditors' Hierarchy in an Engagement
	3.3.2 Audit Team Plurality
3.4	Teamwork
3.4	External Factors
4 NAB Policies on Audit Conduct	
4.1	Standardised Audit Procedures
4.2	Auditor Rotation
4.3	Promotion Mechanism
4.4	Maintaining Auditors' Competence

Following construction of the conceptual framework or index, the next phase was to label or tag the data to it. This process, sometimes called indexing, was carried out by relating the themes and subthemes to a particular section of the data. For textual data, this involved reading in detail each phrase, sentence and paragraph to identify which part(s) of the index were applicable. Table 5.5 below describes the output of labelling the data from the interview.

Table 5.5 Labelling Data from the Interviews

Informants Profile	Date of Interview	Interview Transcription	Index
....	....	Interviewer: '......................' Interviewee: '.. ....' '.. ....'	1.3 4.5

Data collected from the observations are presented in the observational field notes. Table 5.6 presents an example of a summary of actual observation results. The first column contains information about the audit team engagement observed, including the date, time, duration and place of the observation, and also the number of auditors involved. The second and third columns relate to the profile of the team and the auditors observed and also a description of the physical setting of the place of the observation. The fourth column contains an account of the events or activities being observed. The fifth column presents my reflective observational notes including personal thoughts such as my impressions, feelings, ideas and prejudices about the actual events and activities. These are used to help me summarise and interpret the findings and may be used to emphasise points that need to be corroborated, supported or explained in subsequent interviews or the review of documents. The final column contains a reference code relating to previously conducted and discussed thematic analysis. I labelled the themes and subthemes to link them to a relevant particular section of the data in the observational field notes.

Table 5.6. Example of a Summary of an Observational Field Note and its Labelling Process

Observation Information	Descriptive Notes			Reflective Notes	Index
	Profile of auditors or team	A description of the physical setting	Account of particular events or activities		
Team 1 Day 2 of Observation of Team 1. Date: 16 January 2014 Time: 08.07 – 16.43 Duration: 8 hours 36 minutes Place: The auditee's office Number of auditors: Three team members	The team consists of one manager, one supervisor, one team leader and four team members. The first team member is quite a senior auditor with eight years' experience but was just moved to the unit one day before the engagement. The two other team members have been auditors for four and six years. The last team member would only join in the middle of the engagement as he is still engaged in the other team engagement.	The auditors work in a dedicated auditors' room. There are a lot of documents placed in the room to be verified by the auditors. Two auditors plan to do stock checks and also test the existence of some assets located in three several places. The first storage room is in the auditee's premises on a different floor. The other stocks are located in the other buildings about 30 minutes' drive away.	08.07 I arrive in the auditors' room. There is one auditor in the room and the other two auditors arrive at 08.11 and 08.47. The team leader does not come in because he is attending a 3-day workshop on Central Government Financial Statements Audit. .... 09.04 I go with two auditors to do stock checks of medical supplies in one of the storage rooms located on the ground floor of the building (the auditors' room is on the fourth floor). They have come and done some examination twice a few days before and found some significant differences between the stock cards and the real balances in the store room. When arriving there, they do not find the person in charge of the stock and according to other employee he is still on leave. The office has tried to contact him but he cannot be reached and nobody else is able to explain the auditors' findings. 09.35 The auditors then return to their room to discuss the issue. I observed the discussion and one auditor argued that they needed to propose a revised audit procedure and to find alternative procedures to verify the asset. However, the other auditor insists that they have a very tight schedule and have some other stocks to verify in other places. There is no audit team leader available for three days and they then decide not to report the differences. According to my later review of the auditors' working papers (see the review of documents note), the procedure has been reported as satisfactory without reporting the differences.	The team leader is away from the team for 3 days attending a workshop. It seems that the team members were not guided very well, especially an inexperienced team member who has to make some important decisions. The auditors engage in premature sign-off. One of the reasons relates to the uncooperative auditee.	1.4

I took notes in chronological order based on the time that activities or events occurred. As mentioned previously, I had already determined the purpose of the observation in order to address

the general research questions and had also created predetermined observational checklists to use to guide me to the specific activities and behaviour that would be the main focus of my attention. However, the checklist did not prevent me from including events I considered would be useful and enrich my research data. I made a note of such activities as they occurred. With regard to time spent travelling with the auditors, I was not able to take notes during these times. I thus tried to record the time and a few key words of the events on my phone and then recorded the facts as soon as possible thereafter. Following the observation, I immediately transferred my handwritten observational notes to my final observational field notes form on my computer. When directly observing the auditors in the room, I very often recorded observations directly to the computer rather than on paper.

Data collected from the review of documents are presented in review of document notes. The empirical data were extracted or summarised from the sources of the documents, such as working papers, audit manuals, audit reports, etc. I had access to audit working papers but was not allowed to copy or photograph them. The review of document note consists of five columns – name of the document, date of review, the original or summary contents, review analysis and index of reference. An example of the summary of actual review of documents and its reference to the relevant thematic code is given in Table 5.7.

Table 5.7. Example of a Summary of Review of Documents and its Labelling Process

Name of Document	Date of Review	Contents	Review Analysis	Index
Auditor's working paper Team 1	15 March 2014	Some audit procedures have been performed and presented in the working papers including procedures relating to stock supplies test (current assets), equipment (fixed assets), capital expenditure and buildings under construction (fixed asset). The working papers include the individual auditor audit programme (PKP) consisting of individual auditor's audit steps and procedures that need to be performed, HP3 (the summary of the results of the execution of the procedures agreed and signed by team leader, supervisor and audit manager), cover sheet, supporting schedule, lead schedule and the supporting relevant auditees' records or documents collected by the auditors.	The review of the working papers that are related to the stock testing conducted by two auditors (see the observational field notes Team 1 on 16 January 2014) revealed that the HP3 prepared by the auditors has been agreed and signed by the team leader and supervisor. The HP3 shows that the supplies stock examination had been conducted and there had been no differences between the stock cards and the real balances in the storing room.	1.3

The next step was to sort, summarise and synthesise the data. Ritchie et al. (2003, 229) suggest that this final phase *'not only serves to reduce the amount of material to a more manageable level but also begins the process of distilling the essence of the evidence for later representation. It also ensures that the analyst inspects every word of the original material to consider its meaning and relevance to the subject under enquiry'*. This process was initially conducted by creating thematic charts. The data were sorted or ordered in a way so that materials with similar content were located together. Each main theme and its subthemes were plotted on a separate thematic chart or matrix. The last phase was summarising or synthesising the key points of each piece of data and then putting it into the thematic chart/matrix. This process required extreme care in order to ensure the data were synthesised without losing any of its content, context and the language in which it was expressed. Table 5.8 below shows an example of one of the results of a thematic chart/matrix in this research.

Table 5.8. A Thematic Chart/Matrix

1 RAQB	1.2 Premature Sign-Off	2.3.1 Structured or Unstructured Procedures	4.2 Auditor's Rotation	4.1.... and so on...	Notes/ Comments
Observation of audit team 1 and interview with two auditors involved.	Two auditors did not perform required further examination of the construction of a building.	They said the procedures were not detailed enough so that they were struggling to do the examination appropriately. *'for an experienced auditor, he can do the audit properly even though he is given too general procedures, but for the new auditor, he will get confused of what to do, how to analyse the data, what documents do really matters, who I need to interview'* (Auditor 23, Team Member, Interview).	The two auditors had just been moved from other units and were immediately assigned to the audit engagement.	....	Observation revealed two auditors performed PSO and based on further interview they were inexperienced auditors who struggled to performed unstructured audit procedures. They had also just been moved into new units that had different audit types and environments.

Braun and Clarke (2006) argue that one of the advantages of thematic analysis is its flexibility and the fact that it is relatively straightforward. However, thematic analysis may result in a weak or unconvincing analysis. There would be potential overlap, inconsistent and incoherent themes. There might also be a mismatch between the research objectives and the form of thematic analysis used. In order to address these issues, triangulation of the data and method were employed. All of the methods employed aim to corroborate the same fact or phenomenon (Yin 2009).

I used Microsoft Word to document the observations, interviews and review of documents. All

files related to this research were saved with secure passwords on my personal computer. The files were also regularly backed up and stored on external storage devices.

5.6 Data Validation Strategies

This research employs respondent validation to increase the internal validity of the overall analysis. Respondent validation or member validation adds credibility (internal validity in quantitative research) and refers to *'a process whereby a researcher provides the people on whom he or she has conducted research with an account of his or her findings'* (Bryman 2012, 391). It is intended to seek corroboration and confirmation and to ensure the findings are congruent with the views of those on whom the research was conducted. Two main forms of respondent validation were used. In the first I provided each respondent with an account of what he or she said in the interview or what had been observed during the observational study. The second involved seeking feedback from several respondents in order to gather comments on the draft of findings regarding a given topic. For example, following the interviews I sent a summary of my conclusions to the respondents or other relevant persons to get feedback and confirmation. This was done particularly for the topic explaining the process of the audit and the issues that I believed required further clarification.

The triangulation used in this study serves to ensure the credibility of data (Bryman 2012). Bryman (2012, 717) defines triangulation as *'the use of more than one method or source of data in the study of a social phenomenon so that findings may be cross-checked'*. The use of three methods ensured that a conclusion drawn using one method was supported by other methods. For example, I conducted further exploration of certain issues that arose in the observation during the conduct of interviews. In other cases, I cross-checked findings from the examination of working papers with the responses given during interviews.

5.7 Ethical Consideration

The main concern in relation to ethical issues is the potential for the topic to be sensitive and confidential. This study examines acts of misbehaviour with potential consequences that may threaten, for example, participants' continued employment. The findings derived from the project would probably be linked to the performance of the organisation involved, meaning they might hesitate to become involved due to the potential for it to damage their reputation. In order to address this problem, I placed a high level of importance on participants' anonymity and confidentiality. All the participants' identifiable information was coded and pseudonyms were used in reference to specific participants. All anonymous data were stored on secure computers and would be destroyed after a period of five years. I also explained to participants their right to withdraw from the study at any time without the need to give a reason.

In addition, in order to encourage the audit organisation to participate, I emphasised that they might benefit from the findings of the research to apply a better control system to mitigate their auditors' RAQBs. This research also complies with Aston Business School (ABS) ethical guidelines. Prior to the data collection being carried out, an ethics application was approved by the ABS Ethics Committee.

5.8 Conclusion

It can be argued that the data collection process was one of the most important phases of this research. After negotiating access with three Indonesian government audit organisations, I was able to gather data from one external audit organisation. This chapter outlines my research design, strategy and methods. It also presents how I analysed the data. To maintain data validity and reliability, I employed respondent validation and data triangulation. This research also complies with the necessary ethical considerations. The following four chapters detail all of the empirical findings that emerged from the data collected through the methods previously explained.

Chapter 6 Reduced Audit Quality Behaviour

6.1 Introduction

This chapter discusses the types of reduced audit quality behaviour (RAQB) identified through observations, interviews and review of documents. The empirical data show that there are three dominant types of RAQB identified in this research: prematurely or falsely signing off on an audit procedure; conducting superficial audit supervision; and reducing the number of required items to be tested in a sample. This chapter comprises five main sections, including this introduction. The second section describes the first act of RAQB, premature or false sign-off (PFSO), which is also noted in the prior literature as a common type of RAQB. The third section discusses superficial audit supervision as an irregular audit practice committed by audit supervisors and leading to a failure of audit control. The fourth section talks about RAQB in relation to reducing the number of items tested in a sample, in which auditors fail to test all of the items in a predetermined sample. This action may have a serious impact on the audit conclusion derived from the use of statistical samples. Finally, the last discussion concludes the chapter.

6.2 Premature or False Sign-Off (PFSO)

As noted in Chapter 2, premature sign-off was first recognised in the seminal work of Rhode (1978) in reference to the act of prematurely or falsely signing off a required audit step, which is not covered by other steps, without completing the work or noting the omission of the procedure(s) (Rhode 1978; Alderman and Deitrick 1982; Coram et al. 2008). Previous studies have suggested that auditors working at all levels may have consistently and significantly committed this type of act (Rhode 1978; Alderman and Deitrick 1982; Coram et al. 2008; Margheim and Pany 1986; Willett and Page 1996; Herrbach 2001).

Willett and Page (1996) point out that although there may be different approaches to each audit type or testing, audit organisations conduct their audits in similar ways. An audit examination thus involves junior staff (audit team members) conducting inspections of the audited entities' records and being monitored by more senior staff (audit team leaders and supervisors). The partner (the manager, or head of the audit organisation in the case of government audit) exercises overall control and signs the audit report based on the auditors' work.

The five audit teams observed in this study work in the way described above. According to the Audit Manual (NAB 2015), the audit team works to an audit programme that includes general instructions and audit steps. The general instructions provide auditors with guidance about the type,

purpose, scope and target of the audit. The audit steps include a set of procedures that must be performed by the auditors. During the conducting of a financial statement audit, the aim is to have reasonable assurance about the fairness of the presentation of the audited entity's financial statements (NAB 2007, Preliminary, Par 14). The team leader assigns particular audit procedures for each account to each audit team member. Based on the procedures assigned to them, team members then prepare their own individual audit programmes. Audit team members need to accomplish all the assigned procedures in the programme and sign off to the team leader. The team leader's role is to monitor, check and review all team members' work, before signing it and passing it on the supervisors for further review. All the work should be documented in the working papers.

However, in the field, auditors have the opportunity to falsely or prematurely sign off on procedures. This research defines PFSO as any act of the premature or false sign-off of an insufficiently executed audit procedure, namely (1) not fully completing all or some of the steps in an audit procedure yet reporting the outcome to be satisfactory when it was not (Willett and Page 1996); (2) taking shortcuts in the execution of audit procedures, for example, by ticking that cash has been received by debtors merely after reviewing electronic log records rather than conducting a written audit confirmation, as required in the steps (Willett and Page 1996); (3) not conducting further examination for suspicious items (McNair 1987b; Coram et al. 2008; Willett and Page 1996; Deis and Giroux 1992); and (4) conducting superficial review of a client's documents/records (McNair 1987b; Kelley and Margheim 1990; Otley and Pierce 1996a; Herrbach 2001; Coram et al. 2003).

During the course of this study, I found evidence of auditors taking shortcuts when performing certain audit procedures. During the observation of one audit team, an auditor who was responsible for testing management's assertion of the existence of an asset (medical equipment) from capital expenditure spending did not perform the test properly. The procedure says the auditor needs to *'conduct a physical examination of the existence of the asset resulting from the spending of capital expenditure'* (Procedure B.3, Capital Expenditure Testing). However, the auditor did not go and conduct an actual examination at the site of the asset. He instead took a shortcut using the purchase order documents as his only assurance and signed off as if he had physically seen the asset at the specified place. An informal conversation during the observation revealed that he was sure the asset was there so felt he did not need to actually go and see it. Further observation and review of the auditor's working papers showed that the supervisor agreed and signed the procedure without checking in detail what the auditor in question had done or put in the working paper. More detailed information related to this observation is given in Appendix 1.

Furthermore, it was also revealed that a number of auditors in several different teams did not carry out further examination for suspicious items and did not complete various procedures, but signed off them in any case and reported the outcome as satisfactory. I travelled with two auditors from one team to examine the construction of a building that had not been completed in line with

the agreed contracted terms. It was suspected that the procurement process had not been appropriately carried out. Two auditors were assigned to check the building. They had the documents relating to the building and the audit procedures to be executed. The procedures required them to look for any potential irregularities and fraud such as overpricing and any potential contract violations. At the site, however, I discovered that the auditors had failed to perform the rigorous examination as outlined in the procedures. Two auditors visited the construction site accompanied by two persons in charge. They merely had a brief chat and took some photos of the building without even looking at the documents they had brought that needed to be matched against the physical evidence in the field. I enquired as to why the process had been so quick, to which they replied that they would return at a later time to conduct a further examination. However, they did not revisit the site before the end of the engagement, choosing instead to prematurely sign off on the procedure. Following conversations held with one of the auditors during the examination, it seemed they did not have the requisite knowledge to conduct such an examination. The two auditors in charge of the account admitted they had just been moved from other units before immediately being assigned to the audit engagement in question. The team leader was unable to be with the team at the time the building was examined as he was otherwise engaged on a personal matter for a period of two days. The auditor with whom I held the conversation stated that the procedures were insufficiently detailed and that he had struggled to perform the examination appropriately. More extensive detail related to this observation is contained within Appendix 1.

During my observation in another team, I encountered one auditor who failed to conduct a further thorough examination of suspicious items of social donation expenditure. The auditor stopped at a certain point and prematurely signed off on the procedure. Based on analysis of previous audit reports and also media reports (Hairani 2014), this account was well known as one of the most vulnerable and risky accounts that was frequently misused by its management. The auditor in question had been collecting some of the required documents and as part of one of the audit procedures had to verify whether donations had been received by the correct beneficiaries. She did not seek any of the important confirmations required during the rest of the engagement, instead signing off as if the tested account was fine. A later interview with her suggested that she was, in fact, not fully convinced and did suspect potential irregularities, but argued that due to the fact she had limited time and had also found significant problems in other accounts, she made the decision to focus more on those. At the time she was examining more accounts than usual as one of the auditors in her team was very new and being accorded fewer tasks. She had also taken on the workload of another team member that missed his first week with the team. Full details of this observation are presented in Appendix 1.

A similar case was found in another team. One junior team member who was conducting her second audit assignment explained that she was responsible for testing some tax revenue accounts.

She suspected some rare irregular issues regarding cash on hand balances in the possession of some tax collectors. However, although she stated that the amounts involved were quite significant, she nevertheless made the decision to not carry out further detailed examination, stating that as the additional examination was not a requirement set out in the initial procedures, she had not prepared for conducting an investigation of the systems. She argued that since it would have taken a considerable of time, she would instead concentrate more on those inventories that, based on the results of a prior audit, would likely attract more attention from the team leader and supervisor. This observation is recorded in greater detail in Appendix 1.

An interview with an auditor from another team revealed that he had performed PFSO in his last assignment. After checking the existence of an asset, he admitted he suspected a case of overpricing for the asset that would require further examination, despite the fact that the initial procedure only required him to test the existence of the asset. He said he was aware that auditors are required to extend audit procedures if they encounter suspicious items that have the potential to undermine their assurance. However, he stopped and signed off. He said:

> When examining the cupboards procurement, I was required to check the existence of them, and checked whether the specifications match the proposed documents. They matched, so I said that's okay, although I was pretty sure there seemed to be something wrong with them. (Auditor 11, Team Member, Interview)

Another auditor recounted his experience of similar circumstances. He noted:

> Sometimes we don't seek and obtain further important audit confirmations from relevant parties and we don't cover them with any alternative procedures. We sometimes don't do that. (Auditor 19, Team Leader, Interview)

These two auditor accounts demonstrate how some auditors have stopped at the point at which they suspected irregularities, without either extending their efforts or seeking alternative procedures. The auditors claimed they were reluctant to revise procedures due to the time this would have entailed in addition to the need to report the changes to the team leader and supervisor who may often not have communicated very well with them (see Chapter 9). In addition, due to the ineffective control systems in terms of the lack of sanctions for any auditor found to have engaged in RAQB (refer to Chapter 7), some auditors may prefer to remaining working within their comfort zone (See Chapter 9). This approach is not in line with the State Finance Auditing Standards that require auditors to extend audit procedures in the event they detect indications of fraud, irregularity and abuse that may materially affect the presentation of financial statements (NAB 2007, Statements No. 2, Par 19b).

In addition, the data show that some auditors also engaged in a superficial review of the auditee's supporting documents for inherently fraudulent or risky accounts. For example, according

to the review of audit reports produced by the audit organisations, employees' travel expenditure was one of the items frequently misused by employees, as indicated by the number of false or fictitious travel documents found. However, the auditors did not carry out any rigorous examination, as stated by one auditor below:

> In general, documents of employees' travel expenditure are huge and risky but some auditors are ignorant to check them thoroughly, just have a very quick look as if they examined them closely but in fact they did not, and then signed off. If the auditors are not convinced of some items, they do not try to gain additional evidence such as a confirmation to the travel agents. They do not take a further detailed examination. (Auditor 2, Supervisor, Interview)

The above remarks indicate how some auditors did not exercise their best due professional care when examining the audited entity's records. Additionally, in the event that they did discover indications of irregularity, some auditors would not seek to undertake the further detailed examinations as required by the Standards (NAB 2007, Statements No. 2, Par 19b). The State Finance Auditing Standards state that auditors are required to exercise their due professional care when performing audit procedures (NAB 2007, Statements No. 1, Par 29) and to exercise their professional scepticism when reviewing audit evidence (NAB 2007, Statements No. 1, Par 30). The absence of due professional care and professional scepticism may influence the reliability and competence of audit evidence (NAB 2007, Statements No. 2, Par 3c).

Both junior and senior team members may fail to exercise due professional care. More experienced auditors may elect to examine only documents perceived as posing a potential problem based on their prior experience and leave others without looking at them, even if the procedures require them to do so. This selective examination of auditee's recordings and documentation may reflect a failure to collect audit evidence professionally because the auditors may choose which evidence to examine based on their past subjective judgement instead of following the results of each account's risk assessment conducted during the preliminary testing, as laid out in the audit programme and procedures. One auditor noted:

> I was responsible for examining four accounts. Based on my experience in prior different audit entities, I could conclude that I only I needed to examine two accounts in detail instead of all four as stated in the audit procedures. I assumed that there might be no problems in the other two. At best, I would only have a quick look at and mostly I would say okay (and then sign off). (Auditor 20, Team Member, Interview)

The view of the auditor given above may suggest that auditors perform this type of practice repeatedly, from engagement to engagement, in different audited entities. This may result in the drawing of incorrect audit conclusions because the auditor has concentrated on the wrong or irrelevant documents or evidence. For example, one team leader noted that ignoring risk assessment calculations and conducting a thorough examination of only certain documents whilst leaving the

others, based on their prior experience, may lead auditors to focus on the wrong area. If they were to do this consistently over time, there might be certain areas or documents that would be examined as part of every engagement, whilst others may never be touched. A team leader explained that:

> *I notice that there has been a significant improvement in government capital expenditure management. There seem to be some issues on other accounts such as supplies expenditure that some auditors tend to ignore.* (Auditor 10, Team Leader, Interview)

I travelled with a group of auditors to observe them conducting stock checks. It was found that the stocks were not managed very well and that there were significant differences between the amounts indicated on stock cards and the real balances in the store. However, the auditors were apparently unable to verify the discrepancies. They had visited twice and still not seen the person in charge to obtain an explanation and did not have the time to wait any longer because, according to one of the auditors, they still had stocks in other places that needed to be checked. During the informal conversations, one auditor said that very often the cooperation of the auditee may determine the success of the audit. They neither sought to verify the discrepancies prior to the end of the engagement nor did they seek to carry out any other alternative procedures in place of those initially conducted. An auditor in the team admitted that the team had several options for dealing with this: proposing an adjustment of the audit procedures to the supervisors to obtain approval for alternative procedures to be carried out, omitting the procedures in question or conducting a superficial review and signing off by reporting that there were no differences or that the differences found were not material. In this case, the auditor chose the second option of falsely signing off on the audit procedure. A more detailed summary of this observation is given in Appendix 1.

Some auditors, however, may not choose to sign off on incomplete audit procedures when faced with this type of difficulty. They may instead elect to make an adjustment to the audit programme. The audit programme may be adjusted when an auditor encounters problems that may render an audit procedure unachievable. However, any changes made require the agreement of the team leader, supervisor and audit manager. They also engender a number of consequences such as changes to the audit schedule and/or focus and may even demand more effort be made to find alternative procedures. A supervisor from a representative office explained how the audit programme is constructed and how auditors are able to adjust procedures if they have difficulty executing them in the field.

> *There are some levels of audit programme, for general audit programme that is for all teams in the representative office, it is made by TP3 (special team consisting of seniors auditors to make general audit programme and procedures) that will be used for all teams with the same type of assignments and then each team adjusts them based on the entity's preliminary risk examination such as the entity's characteristics and environment risk and also internal control evaluation results. The audit programme is then agreed by the supervisor and manager. If*

we can't execute the audit procedures, we have to revise and adjust the audit programme with the agreement of the team leader, supervisor and manager. It can change actually. (Auditor 9, Supervisor, Interview)

The above explanation is in line with the Audit Manual (NAB 2015) stating that in circumstances when it may not be possible to follow the audit steps, the team leader can propose changes to the audit manager through a supervisor. All changes made, along with the reasons for these changes, should be documented in the working papers.

To conclude, the empirical evidence shows that some auditors actively engaged in premature sign-off. This practice may undermine the quality of the audit report because the audit conclusion drawn may not be based on real facts obtained in the field. The next subsection explains another type of inappropriate auditor practice, that of superficial audit supervision, which may be performed by those auditors in a team holding supervisory roles.

6.3 Superficial Audit Supervision

Audit supervision or audit review is considered important as it is probably the best single control measure available to ensure that auditors behave as required in the field. One of the reasons why PFSO may be scarcely detectable is the absence of adequate and effective supervision. Alderman and Deitrick (1982) found that premature sign-off is a likely consequence of inadequate supervision and that to reduce the practice, an effective review must consider possible deficiencies due to omission as well as commission. Similarly, Otley and Pierce (1996a) suggest that the perceived effectiveness of audit review procedures was found to be significantly associated with lower levels of premature sign-off. In addition, Malone and Roberts (1996) found an inverse relationship between auditors' perceived strength of their firm's quality control and review procedures and occurrences of RAQB.

The study by Otley and Pierce (1996a) cites inadequate supervision as one of the factors driving RAQB. Most auditors surveyed by Alderman and Deitrick (1982) agreed that the adequacy of the overall audit is the responsibility of the field supervisor and that the satisfactory execution of a specific audit procedure is the primary responsibility of the supervisor. Herrbach (2001) pointed out that inadequate supervision of a team member is an irregular audit practice that reflects mismanagement.

In the observed audit organisation, a full-time field supervisor is not allocated with the team. For example, in a 30-day engagement, a supervisor is normally given five to seven days to supervise the team in the field. During this 30-day period, he or she is also responsible for the supervision of one or two other teams. The supervisor may visit the team on any given day(s) during the engagement period, and will very often do so in the middle or at the end of the fieldwork. Although

the supervisor does not come to the field on a daily basis, he or she remains responsible for the whole audit process. Teams and supervisors can communicate with each other via telephone and/or email.

There is a subsection in the observed audit programme stating that the audit team members should produce a weekly progress report that is then reviewed by the team leader and submitted to the supervisor and audit manager. This may be done through email. The supervisors need to produce a feedback report and return this to the team within a maximum of two days of receiving the report (Audit Programme of Team Two, Page 4, Review of Documents). The results from the review of documents show that the report includes the progress of execution of each procedure (also incorporating the percentage of completion), in addition to highlighting any issues that may have emerged. A supervisor provided a further explanation on this matter:

> There is a hierarchical control in the form of a weekly progress report that must be done by the team members, and submitted to the team leader, supervisor and audit manager. Sometimes the team leader also reports non-technical matters such as undesired team member's behaviour. We can give advice and we can even change the auditors if possible, but usually it is difficult so we will have a discussion to find any solution regarding the issues. (Auditor 1, Supervisor, Interview)

The above remarks indicate that the weekly progress report may not only be used for technical audit matters, but also in relation to other issues such as inappropriate auditor behaviour and difficulties in collecting audit evidence. The supervisor and audit manager may need to quickly find solutions in order to ensure that all of the audit processes are progressing well. However, it is very common for auditors in the field not to disclose any real potential problematic issues. Some auditors do not prepare their reports in a timely manner and do not report the actual progress of their work. One observation captured an auditor who had forgotten to prepare her report until reminded to do so by a friend. The report should have been finished that afternoon. She was unsure of the state of her progress right up to the deadline and her friend suggested that she only needed to report the good things to avoid the team leader and supervisors potentially asking her a lot of questions and giving her additional work to do. This may indicate that the auditor in question did not prepare the report very well on a regular basis. It could also be concluded that the auditors failed to see the importance of the report as a monitoring tool. In further interviews, some auditors said that the weekly reports resembled working papers. They stated that they did not put their earnest efforts into completing the reports because they would need to do the same thing again with the working papers. They argued that the working papers were more important. In contrast, some supervisors argued that the report is an effective means of monitoring, particularly when they are not in the field with the auditors, provided the reports give an authentic portrayal of the real conditions. One supervisor said:

If the weekly progress report is correctly done and the teams provide supervisors with real, good and informative contents, I think the review process will be performed effectively. (Auditor 9, Supervisor, Interview)

However, in practice, some team leaders and supervisors rely exclusively on these reports when conducting their supervisory roles. A discussion with a team leader during an observation showed that during her last audit engagement she had placed great trust in the weekly reports without rigorously checking the supporting documentation in the working papers. As a result, after returning to the office, she found that some audit of the findings were not supported by sufficient relevant evidence. Another supervisor talked about a similar experience. He recalled that on one occasion during a prior engagement he had relied too heavily on weekly progress reports without corroborating the claims with the working papers. He explained how he had discovered differences between the two documents reported which had necessitated him working extra time at the end of the engagement. He said that *'what was reported in the weekly report was different from what actually happened'* (Auditor 14, Supervisor, Observation). In a similar way, another team leader recalled that rather than checking all of the completed procedures and their supporting evidence as documented in the working papers, she had instead conducted an audit review mainly in the form of oral discussion with the team members. She added that during the discussion, one team member provided very convincing explanations but she had later discovered that what the team member had explained was not well represented within her written work and that the working papers were not supported by convincing evidence.

Observations of the five audit teams showed that although supervisors had several means of monitoring process, some supervisors rarely engaged in any in-depth communication with the team at times when they themselves were not in the field. Some supervisors did not proactively monitor the team's work on a daily basis but rather waited for the weekly reports that were very often not submitted in a timely manner. Teams tended to contact the supervisors if they had a problem to which they considered the supervisor might have a solution, or only if they needed to find quick solutions, for example, in the event that the team were unable to easily collect an auditee's records and documents.

During the 30 days' engagement, I am able to directly control the team at the field only for about one week and I handle other teams at the same time. We still communicate with the team (when not in the field), but it is not effective. It depends on the team. Sometimes some teams are reluctant to report to me any problems they have. Particularly for the team whose members I did not know before. However, I always ask them to make weekly reports and ask them to report to me any matters they have through email, telephone or text message anytime. (Auditor 19, Supervisor, Interview)

The experience described above shows how, while the supervisor was away, she monitored the team using telephone or email. However, she realised that this might be different from face-to-face

communication. If the team are not sufficiently open with her, they may not disclose all of the reportable conditions they face. They may also not report those facts from the field of which the supervisor is required to be made aware.

A unit in a representative office of one of the engagement teams was observed used their initiative in using the *WhatsApp* messaging application to communicate with members of several engagement teams that were carrying out the same type of audits. They were thus able to report their progress and also raise any problems encountered. A supervisor noted that this method could be used to monitor the team and might also function as a sort of informal helpdesk. More senior auditors were very open to giving advice on certain problems despite coming from a different team. However, according to one auditor, some were reluctant to use the tool and only a few had become actively involved in discussions. The majority merely observed the discussions from the sidelines. She recalled that *'there are only a few auditors actively involved in discussions, some look too shy... including me, I just don't want to look stupid by asking silly questions'* (Auditor 12, Team Member, Interview).

When visiting their teams, most of the field supervisors observed did not perform their role appropriately. An observation of one team revealed a supervisor taking a shortcut and focusing directly on finding significant issues that were encountered by the team rather than monitoring the team's work, checking all of the completed procedures and reviewing whether sufficient evidence had been collected in the working papers. The supervisor largely relied on general discussions with the team without carrying out a careful review of their written reports and the documented evidence attached in the working papers. A similar set of activities was observed being conducted by the supervisor of another team. During two days of observation, she did not appear to carry out a thorough check of the work of all team members. She had the weekly progress reports of each member and focused on asking questions regarding various significant problems arising in the reports. On only a few occasions did she ask to view supporting documentation relating to certain issues and then proceed to check it. There did not seem to be much interaction between the supervisor and the team members during the course of the two days. Most of the time, she appeared to engage in discussion with the members only when they asked her questions. Further detail relating to this observation can be found in Appendix 1.

Another case similar to that described above was also found. In this instance, a supervisor working for another team did not make effective use of his limited time. He quite often had discussions with the team regarding matters unrelated to the audit. He would sit and wait for their reports or for team members to ask questions and was not proactive in checking their working papers, documents, collected evidence and the audit procedures completed by the auditors. Most of the time he was just chatting with the team outside the context of the audit matters. He sometimes

asked how the audit was progressing but did so only in general terms. Further details are included in Appendix 1.

Interviews with other auditors also support this supervisor's misbehaviour, as noted in the remarks from three auditors given below:

> *The supervisors came and usually directly asked about the problems we were encountering.... they tended to ignore our working papers. But sometimes they had a quick look at the working papers for only troubled or suspicious items we had told them about.* (Auditor 18, Team Member, Interview)

> *Some supervisors just asked about the problems we had and what the audit findings were. They rarely checked what procedures we had done.... the review process, in fact, was not real.* (Auditor 20, Team Member, Interview)

> *They did not check our working papers.... principally some supervisors just asked the main audit findings, directly. They very seldom asked the audit procedures or whether we had difficulties in performing them. At best they asked whether the data were easy to get or not....* (Auditor 23, Male, Team Member, Interview)

The three quotations above reveal there is a prevalent practice of superficial audit supervision. Some supervisors conducted superficial monitoring and analysis by not looking at auditors' work thoroughly, choosing instead to focus only on what appeared to be problematic items. They rarely checked all of the completed procedures and the supporting evidence presented in auditors' working papers.

During observations, some auditors expressed their frustration at this condition. They argued that good supervision was really needed to ensure the team were on the track, well controlled and were not missing any significant matters. They felt that the absence of this may have prevented them from producing quality work. Two auditors said:

> *The supervisor did not carry out control function properly. When we sought for advice sometimes they just told us to do what we thought we should do.* (Auditor 33, Team Member, Interview)

> *Some supervisors just visited us for a short time, just asked significant matters.... did not give us technical guidance or advice.* (Auditor 4, Team Member, Interview)

The two auditors' statements given above indicate that there appears to be a tendency for supervisors to take on only a minor role while in the field. Some auditors may feel they need to be really independent and rely on themselves, with only a minor contribution from their supervisors. Some supervisors allowed auditors to do what they considered best, whilst others did not provide technical advice even when the auditors were in need of it.

One auditor recalled his experiences of superficial supervisory practice on a number of occasions during the assignments, although he reported this was not always the case and that some

supervisors were in fact very good at performing their roles. In addition, one new auditor who was carrying out her second audit engagement as a team member had also come across an underperforming supervisor during these early years as an auditor. They recalled:

> *The supervisor came to the site and supervised us several days. We discussed mostly something not related to audit matters.* (Auditor 4, Team Member, Interview)

> *When having a review, so far I have never seen the supervisors really checked my working papers thoroughly. I heard some of them do that, but this is my second assignment and until now I haven't had supervisors do that...maybe later...* (Auditor 17, Team Member, Interview)

Some auditors regard this type of supervisor as a burden on the team rather than a helpful presence. The team try to avoid this kind of supervisor because he or she may act as a distraction for their work. One manager noted:

> *I had an experience when I was a team leader, when this type of supervisor visited us, we invited him to do physical examination of lower risk asset in certain places so he travelled a lot and might not be able to trouble the team because sometimes the supervisor is much more concerned with issues outside the audit matters...* (Auditor 14, Male, Manager, Interview)

The above remark by an audit manager reflects how the team appeared unhappy with this type of behaviour by supervisors. They may feel that instead of helping the team, the supervisor may actually be acting as a hindrance to their work. Faced with this type of supervisor, the team may make efforts to keep the supervisor busy so that he or she may not be able to disturb them with irrelevant matters, such as being asked questions not related to the immediate audit context.

Further review of a teams' completed working papers reveal the inclusion of a supervisor's signature or initials to indicate that the required supervision had been carried out. However, one auditor admitted that the signatures or initials should not have been there because, in reality, the supervisors had not closely checked the auditors' work that was documented in the working papers. She added that the actual level of supervision provided in respect of her team was very minor. Another auditor supported this statement and recalled 'we can find supervisors who sign the working papers without reviewing them...' (Auditor 10, Female, Team Leader, Interview). One auditor also added:

> *The review process sometimes does not function as well as it is supposed to. Although there are supervisors' initials in the working papers' review sheet, (but in fact) what the supervisors do is just asking orally what significant matters that they need to know.* (Auditor 23, Team Member, Interview)

Further analysis of the working papers of two audit teams from the last stages of their respective engagements indicated that some of the working papers had been completed. The

completed working papers had been signed off, with the team leader adding their initials to the sheets. However, there were no initials or signatures added by the field supervisors to indicate they had been reviewed, even though a review had been conducted in the field. An observation and review of documents from another audit team that had almost completed its interim audit fieldwork revealed that not all of the working papers had been prepared and that although some had, the supervisors did not sign them despite having visited the audit team. The team member stated that quite often supervisors do not sign working papers in the field and instead wait until the team returns to the office during the reporting period, when the field audit has been completed. An audit manager found this kind of practice when evaluating a field supervisor's work after he had just completed his supervisory work. According to the manager, when asked, the supervisor was not able to show the progress of his team's work. She continued that *'there are no supervisor's signatures on the working papers indicating whether the working papers or the reports have been reviewed by him or not...'* (Auditor 13, Audit Manager, Interview).

Some supervisors delay thoroughly reviewing audit team members' working papers until all of them have been prepared, which usually occurs at the end of an engagement. One team member noted that:

> Some of the supervisors don't do continuous supervisory process throughout the engagement. They wait until the end of engagement where the working papers have been prepared. In the field, the process is not working properly. They come just visit and sometimes never give technical guidance when needed. (Auditor 4, Team Member, Interview)

After carrying out the fieldwork, the audit teams have several days during which the audit report is prepared. During the reporting period there is a peer review process. The peer review is conducted by holding discussions between the team and several peer review members appointed from senior auditors outside the team. These peer reviews are used to note any issues and find solutions that may not be tackled at the team level. The peer reviews and discussions focus on a few significant matters and aim to ensure conformity with, for example, recommended accounting treatments. Feedback, suggestions and decisions that have been made must be followed up in the final audit reports signed by the audit managers or the head of the audit organisation. Some auditors stated that this peer review process is good practice because it can maintain the audit quality and promote consistency in the solving of certain audit issues. According to some auditors, in these final stages, supervisors may continue with the supervisory process and then sign all unfinished sections of the working papers. However, one audit team leader argued that this late carrying out of the supervision process at the office following completion of the fieldwork is bad practice. It is difficult to collect any additional evidence that may be required once the team members are already back at the office.

It could be concluded from this research that audit supervisors periodically engage in RAQB. The most common type of such practice deals with superficial reviews of the work of those auditors under his or her supervision. Although some supervisors sign auditors' working papers, some never conduct rigorous reviews. The next discussion will highlight the last specific type of RAQB.

6.4 Reduction of Tested Items in a Sample

Although many people believe that the auditor examines every single transaction in the audited company, in practice this would clearly be unreasonable. In reality, auditors examine samples of transactions in order to draw conclusions about the population (Gray and Manson 2011; Porter 1993). The sample is designed to statistically represent the larger population. According to Power (1992), an early form of auditing practice seemed to allow for the possibility of examining all of an auditee's transactions. However, due to commercial pressures in the 1930s, a statistical rationale was employed in audit methodology so that audit opinion was formed based on samples of transactions that were deemed representative of the whole population (Lee, 2002; Power 1992). A failure by auditors to test the entirety of the professionally determined samples has the potential to undermine the quality of the audit and give rise to misleading results. Therefore, negligence in testing all determined samples is categorised as one type of RAQB.

As noted earlier, the audit scandals involving Enron, WorldCom, Parmalat and others in the early 2000s led to the establishment of the Public Company Accounting Oversight Board (PCAOB) by the U.S. Congress with the passage of Sarbanes-Oxley Act of 2002 (SOX). The SOX requires the auditors of U.S. public companies to be subject to external and independent oversight for the first time in history after the profession had previously been self-regulated. This form of self-regulation included peer reviews conducted under the auspices of the American Institute of Certified Public Accountants (Church and Shefchik 2012). Church and Shefchik (2012) conducted a study investigating the PCAOB's inspection reports of eight large accounting firms issued between 2005 and 2010 in relation to the inspection years of 2004 to 2009. One of the main common severe audit deficiencies found was inappropriate testing of all of the items in a sample, which is believed to have serious implications for audit quality. In addition, Willett and Page (1996) found that almost two-thirds of the auditors surveyed were tempted to not test all of the items in a reported sample, with almost half believing that their colleagues had acted in this way.

This research found evidence that some of the auditors also reduced the number of items they tested in a determined sample. The first example found relates to an examination of fuel expenses by a team in a local government entity. A significant number of the entity's vehicles were allocated directly to senior managers or used by the office as part of the company's daily operations. A fuel allowance was allocated for every vehicle, with users required to either spend vouchers provided by the office or else provide receipts issued by one of the five designated petrol stations. One audit

team member said that based on the review of documents, the team suspected some significant fictitious recording to have occurred. Thus, an audit procedure required them to make audit confirmations to verify a selected sample of transactions from the five petrol stations. However, during the observation the team visited only one petrol station and according to one auditor verified less than 25 per cent of the selected transactions in the sample. She did understand that the transactions were quite significant, some were suspicious and the system was insecure and risky. However, she said that she had spent more time than she had expected on the task and as a result decided to reduce the number of tested items. Full details of this observation can be found in Appendix 1.

Another auditor who was responsible for testing salary and employee allowance expenditure admitted that she picked up approximately half of the total items in a determined sampling. She said that even though the account was less risky than others, the amounts were very large and she did need to examine the representative number of records. She claimed that she had spent much longer on the task than originally expected but did not report this issue in the working papers and signed it off as if she had tested the entire sample.

I travelled with an auditor in a different team to verify year-end stock supplies. The audit procedure required the auditor to conduct a physical observation of items that had been determined by applying a statistical method to a sample selection. The items were not all held in one place but were instead spread across multiple different sites. He noted that he did not fully understand the business process of the stock systems and that he had discovered some stocks that looked very unfamiliar and sophisticated that took him longer than expected to complete. Of the eight places he needed to visit, tests were conducted in only four that, according to him, accounted for only 40 per cent of the items selected for testing. He stopped at this level and stated that it might be sufficient for him to draw an audit conclusion regarding the supplies. See Appendix 1 for a full outline of this observation.

A conversation with three auditors that had returned from an assignment to examine the procurement of assets in several places away from the base city revealed that they did not complete testing of all the procurements. Out of six planned locations, they visited only four, testing the biggest and most suspicious ones and leaving the remainder. Later confirmation with the audit team suggested they did not fully follow the predetermined sample. They said that they spent more time than expected in the field. The team leader then decided to leave some of the samples and go with the biggest items that looked the most suspicious according to their professional judgement, media reports and the previous year's audit reports. Later analysis of the working papers revealed that they failed to report this reduction. This observation is outlined in more detail in Appendix 1.

According to an interview with one team member, when reducing the number of items in a sample, the practice of testing only the highest quantity of the selected items might be a common practice. He said that:

> In the sample pick up, if it (audit programme) says the amount of percentage to be tested, we sometimes do not test all of them. We pick up, for example, just the highest amounts. But I think the selection like that that is not following the predetermined statistical calculation will not represent the population. (Auditor 20, Team Member, Interview)

The above statement shows that the auditor may rely on his/her judgement when engaging in sample size reduction by commonly selecting the highest-quantity transactions in the belief they may represent the most significant portion of the population. However, they actually realise that to do so may not be statistically justified as representing the entire population and that the practice may yield misleading results.

In addition, continually doing this over time, from engagement to engagement, may create the wrong impression for the auditee. The auditee may feel that the auditors test only the highest amounts and leave the smaller ones, meaning they may be more likely to seek to contain any fraud within those smaller transactions. One auditor pointed out:

> For example, based on our preliminary statistical sample result, we have to test some items, but then we don't test all the items. Only some of them that we consider significant based on our judgement. Usually, we test items worth billions (Rupiah) and leave the items amounting less than millions (Rupiah). If this consistently happens, the auditee might feel that the transactions worth 100 thousands (Rupiah) would be okay (If they want to misuse it), because auditors never test them. (Auditor 17, Team Member, Interview)

The team member's statement above represents a negative consequence if the auditors maintain the practice of testing samples and selectively ignoring the results of a statistically determined sample. In doing so, auditors will usually pick up and test the highest transactions. Consequently, the auditee may have noticed the work patterns of auditors and may take the opportunity to commit fraud within small transactions that do not appear to be of concern to the auditors.

Furthermore, some auditors also mentioned that sample reduction may lead them to produce inconsistent, inaccurate and unreliable audit reports. For example, during an observation, one auditor explained that when conducting a special purpose audit after a financial audit had already been carried out by another engagement team, he found some irregularities that could have been detected by the previous engagement team. An evaluation of the previous team's working papers led him to suspect a reduction in the size of the sample tested. He stated that the auditee had asked why the previous auditors had not discovered the problems when they had examined the same records and documents.

According to a review of prominent media reports and other documents, there have been cases involving auditors' reports attracting the attention of the public. Members of the public and some auditees have accused auditors of being neglectful in the exercise of due professional care that has led to inaccurate reports. For example, in the case of the audit report of a local government (Carina 2015a), the auditee suspected the auditors were not checking actual physical assets when conducting the audit because they found differences between the audit reports and the actual conditions (Carina 2015b). Auditors have also been urged to publicly disclose the audit procedures conducted (Aziza 2015). There was another case where significant fraud and breach of procurement regulations in a government ministry that had not been detected as part of a recent audit was discovered by the Indonesian Corruption Eradication Commission (detiknews 2012; poskotanews 2012). Some media reports show that in some litigation cases, the court chose to upheld the auditees' claim of auditor negligence (Tribunnews 2010).

> *The auditees trust the reliability of our reports although sometimes I doubt because there have been some cases in several audits that the auditees question and sue our reports. The cases may make other auditees more critical. We have to account for our work, methodology and also our working papers.* (Auditor 3, Team Leader, Interview)

The view from the team leader quoted above shows that he did not appear to have confidence in his own reports and expressed concern that knowledge of this activity among client organisations would be damaging. There have been lawsuits brought against auditors and stakeholders have become more critical and aware of auditors' work. One audit manager added that *'if you ask me whether I have doubts or not, the answer is yes, sometimes I actually really doubt'* (Auditor 13, Manager, Interview). However, she stated that along with thoroughly reviewing auditors' work, she usually asked for direct oral confirmation from auditors to ensure they had not lied about whether they had really tested all of the auditee's records they were required to.

A previous quote from a team leader also highlights the importance attached to the accountability of audit work. Another supervisor argued that it is quite difficult to detect whether or not the auditor has reduced the number of items tested in a sample because auditors are not required to keep the tested documents in their working papers. The only output of the sample test is reflected in the completed procedures sheets.

> *Only the auditor and God know whether he really has tested all the items in the sample or not. We really don't know if they left the items because, for example, he couldn't get the documents or because of other reasons.* (Auditor 1, Supervisor, Interview)

To conclude, this research was able to identify the practice of reducing the number of items tested in a sample. Some auditors ignored their sample and picked up items based on their own judgemental decisions, which may be subjective and unreliable. Others realised that this practice had the potential to reduce their audit quality.

6.5 Conclusion

The empirical data show that the auditors engaged in three types of RAQB. The first relates to PFSO. Three dominant types of PFSO are identified: (1) failure to fully complete some or all of the steps in an audit procedure but to nevertheless report the outcome as satisfactory; (2) carrying out a superficial review of the auditee's documents; and (3) failure to conduct a further examination for suspicious items. PFSO may be performed by auditors at all levels. The second type of RAQB refers to superficial audit supervision. Some supervisors did not conduct a thorough review of the audit procedures performed by the audit team members presented in their working papers. The last RAQB is associated with a reduction in the size of a sample for testing. Some auditors were actively engaged in performing a reduction of the number of items tested from within a predetermined sample. Some auditors realised that their actions may lead to inconsistent, inaccurate and misleading audit results. However, a question may have been raised about the factors or motives leading to RAQB. The following chapters will discuss the empirical evidence relating to some organisational tensions that may contribute to the above three specific RAQBs.

Chapter 7 Paradox of Audit Control

7.1 Introduction

The previous chapter identified the three main types of prevalent RAQBs. This and the following two chapters extend the discussion by focusing on the extent to which largely unavoidable underlying paradoxical tensions may lead to the creation of these undesirable outcomes. This chapter explores two of these identified paradoxical situations in relation to audit control: (1) the tension between audit control and efficiency and (2) the tension between standardised and flexible audit procedures. For the first situation, empirical evidence is used to demonstrate how the audit organisation has experienced control deficiency due to a lack of resources to support its control measures. On the one hand, the NAB needs to improve audit control by adding more resources, but on the other hand, the increasing cost seems hard to justify because the NAB is tasked with the promotion of efficiency. The latter situation relates to the tension between standardised and unstructured audit programmes. The empirical findings reveal that standardised audit procedures may enable an individual auditor's work to be controlled and certainly overseen, both easily and consistently. However, such processes may promote rigidity. In contrast, a less structured approach may foster flexibility but at the same time promote inconsistent outcomes. This chapter first explains the audit control system in place and its deficiencies. It then proceeds to discuss each type of paradox in turn, including the underlying tensions and responses to them.

7.2 Audit Control in Place

According to the audit organisation's control and quality assurance system (NAB 2009) and peer review reports produced by an audit organisation from another country (NIK 2014), in order to ensure the quality of their audits, the NAB has implemented audit controls or reviews in several ways (see Figure 7.1). In terms of timing, there are two controls. The first control refers to 'hot' or *ex ante* review, i.e. controls that take place during the completion of a fieldwork audit and before the date of the auditors' report. This control is conducted in a hierarchical order in the engagement team by the team leader, supervisor and audit manager. The second control is termed 'cold' or *ex post* review and is conducted either following completion of the audit process or after the date of the auditors' report. *'There are hot and cold reviews. The hot review is done in the field and cold review at the office after the team finish the fieldwork'* (Auditor 14, Supervisor, Interview). The cold review control is a peer review performed by another government audit organisation from another country every five years. A peer review assesses the auditors' work throughout their working papers and audit reports. The internal control unit is also involved in this type of review. According to the organisation's internal audit charter (NAB 2012) and peer review reports (NIK 2014), the internal

control unit has three main functions: internal audit, quality assurance and integrity control. The audit internal control unit carries out regular reviews of selected audit teams' working papers to ensure the auditors work had been conducted in accordance with auditing standards and manuals.

Figure 7.1 Control and Review Applied in the Audit Process
Sources: (NAB 2009, 2014b; NIK 2014)
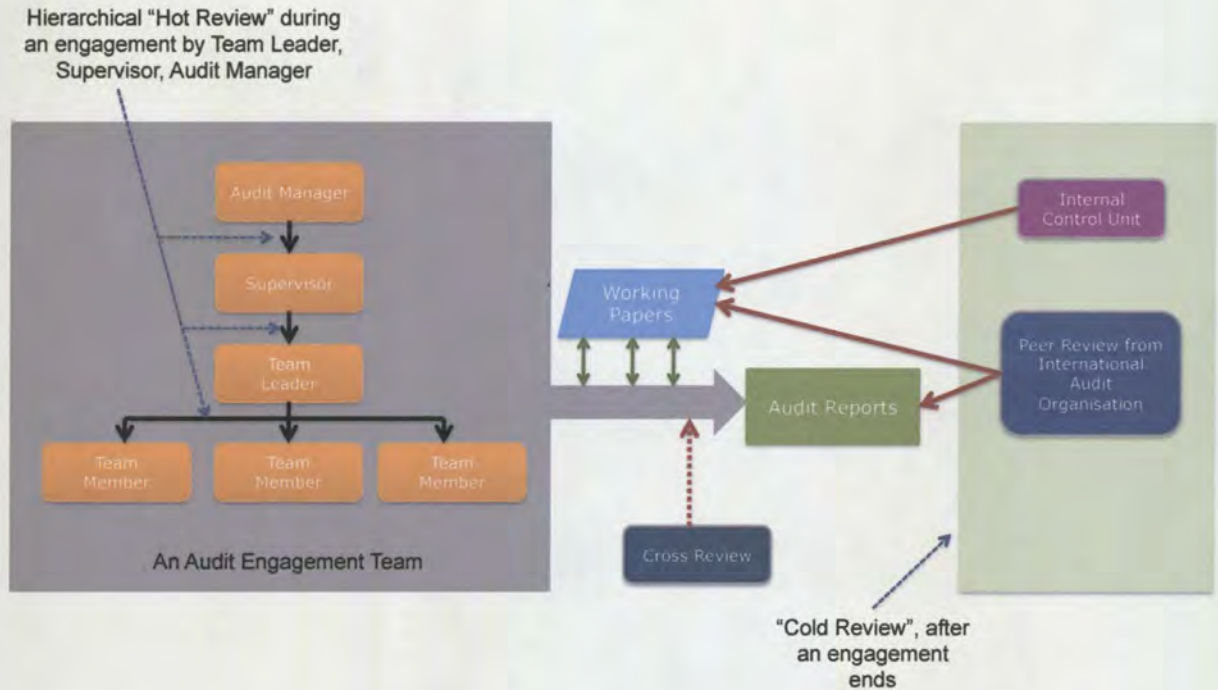
There is a further review called a 'cross-review' that is conducted by a review team consisting of other qualified senior auditors with sufficient experience who are not part of the engagement team. This review is carried out after the team have returned to the office from the fieldwork engagement. It aims to help the audit team finalise their audit reports and is mainly concerned with the quality of audit reports such as the accuracy of the proposed adjustment of journal entries, audit findings, audit opinion and also to promote the consistency and cohesiveness of audit reports. Some auditors argue that the most important control is the hot review conducted during the time of the engagement because *'the cold control doesn't have an impact on our current work quality because they can't see what is really going on at the field'* (Auditor 4, Team Member, Interview). The cold review is mainly used as an evaluation tool and may not change audit reports that have already been published. A team leader explained:

> The control is the hierarchical review. It is the main control. There is a control outside the team done by the internal control unit. The internal control unit carries out evaluations (for example) why we give certain audit opinion to an auditee. So we have controls. We have quality control including cross review control. (Auditor 10, Team Leader, Interview)

Most auditors suggest that control is essential in an audit engagement team. Control may prevent some auditors from engaging in improper behaviour because *'control may detect someone*

who does wrongdoing during an engagement' (Auditor 14, Supervisor, Interview). Controls can have the effect of keeping an individual auditor, who may have various motivations and interests, in line with the standards and intended goals. One team member noted:

> *Control is really needed.... You know, sometimes we need someone to monitor our work. For example, we cannot be brave enough to violate traffic rules if there is a policeman in front of us. Control will make us always be on the right track. Perhaps we can keep ourselves on the track without control but it depends on the individual.... Some auditors tend to misbehave when there is no control.* (Auditor 21, Team Member, Interview)

Control in the form of *'effective supervising has a vital role in maintaining audit quality, so if there are some problems in the field, they can be solved by the supervisory process'* (Auditor 36, Team Leader, Interview). Control may also be a good means to ensure the auditors do not make mistakes or miss important steps when working in demanding situations. One auditor commented on this:

> *Maybe we are satisfied with what we have done but other people may see that we have missed something that we did not realise. That's the importance of control and review. And we tend to have a lot of work to do, sometimes we are very exhausted, so we are very likely to make mistakes.* (Auditor 10, Team Leader, Interview)

The above discussion illustrates the audit control applied in the observed audit organisation. A majority of auditors point out that audit control, as a supervisory mechanism, plays a very important role in the completion of an audit. However, as described in the following subsections, empirical evidence reveals the possible presence of control-related tensions that have the potential to create a paradoxical situation. The first deals with the tension between the necessity to increase the cost of audit control (such as by increasing the number of supervisors, adding supervisory time, reducing the scope or span of a supervisor's control and applying punishment and reward mechanisms) in order to strengthen the control, versus the need to manage the overall audit cost in the most efficient way with the limited resources available. The second tension is concerned with the need for a more standardised audit procedure so that the audit can easily be controlled, versus the contrasting need for flexibility to promote auditor creativity.

7.3 Paradox of Audit Control

A system of hot review carried out through the audit supervisory oversight system may be one of the best mechanisms for achieving quality control (Gittell 2004). Some auditors argue that an effective supervisory system may contribute to audit quality. However, this study found some practices in the observed organisation that may lead to ineffective supervisory audit control systems due to a number of individual and organisational factors. The empirical evidence shows that such ineffective control may be caused by a lack of resources such as insufficient numbers of supervisors and a shortage of supervisory time. Increasing the levels of these resources would entail significant

cost and budget increases on the part of the audit organisation that may not be easy to pass on to the government. This may create an audit control paradox emanating from this tension between the need for both control and efficiency.

Furthermore, empirical findings also reveal that another tension may emerge from control-related problems. In order to aid the audit organisation in its control of audit quality, a more structured, programmable audit procedure, such as the use of checklists, may be applied in an attempt to promote consistency (Armstrong et al. 1975; McDaniel 1990). However, in contrast, this approach may have the effect of making the audit more routine and mechanical and permit less flexibility (Turley and Cooper 1991). Thus, some auditors suggest a more flexible audit programme, although this approach may lead to its own undesirable outcome, that of promoting inconsistent results. These two polarities can lead to the tension of standardised audit procedures. The following two subsections discuss these two underlying tensions between control and efficiency and between structured and flexible audit procedures. This is then followed by the negative reaction carried out by the auditors through the types of RAQB and also a discussion of the NAB's responses to the tensions.

7.3.1 Tensions Between Control and Efficiency

> *The review process is not good.... The main reason is the lack of control although we already have the control system and the supporting tools.* (Auditor 11, Team Member, Interview)

This study has been able to identify a number of control problems, the first of which refers to the failure of hot review during the engagement. *'The hot review seems not to be appropriately done'* (Auditor 14, Supervisor, Interview). There are two parties responsible for supervisory controls, the supervisor and the audit manager. Evidence from the research suggests that those acting as supervisors frequently do not perform well in these functions. This study found that some supervisors actively engaged in RAQB (see Chapter 6). Such misconduct behaviour may not be recognised by supervisors' superiors, that is, the audit managers, because, in practice, audit managers may not actively oversee them in the field. The audit manager in a team (also referred to as the auditor in charge) is responsible for more general audit matters to ensure the audit process is conducted in accordance with the auditing standards (NAB 2015) rather than the substantial detailed technical contents of each auditor's behaviour and day-to-day work (refer to Chapter 9 for the detailed roles of each auditor).

However, because audit managers usually sign the audit reports (if mandated by the Chairman of the NAB), one auditor argued that the whole supervisory team, including the audit manager, should be required to be familiar with and monitor all aspects of the audit, including the auditors'

performance and behaviour, on a daily basis. Thus, these two layers of control structure are designed to ensure all auditors perform their roles appropriately. Two auditors noted:

> *Normally, there is a day-to-day control. Every step must be known by the team member and it is then up to the team leader, supervisor and audit manager. Everyone must know the history behind the audit report. But in practice, sometimes they don't...* (Auditor 10, Team Leader, Interview)

> *The audit manager is very often only involved in the audit report. That's it. He doesn't visit us at the site. Only the supervisor reviews our work at the site.* (Auditor 10, Team Leader, Interview)

As a result, the audit manager who is responsible for and who signs off the audit report based on the working papers prepared by the auditors may find it difficult to verify the auditors' work (see Subsection 7.3 for further discussion). One supervisor noted:

> *We just realise (the problems) when the team are already back at the office. It seems that they have done all procedures... But we sometimes find something fallacious when the team are already at the reporting phase at the office.* (Auditor 1, Supervisor, Interview)

As a consequence, the lack of an audit manager's involvement in the supervisory process may reduce the likelihood of the audit conclusion being supported by both sufficient and correct evidence and of this going unnoticed by the signer. Some point out that an adequate supervisory mechanism, including the effective participation of the audit manager, may help to ensure the quality of an audit report, but also that any perceived reduced quality may be the result of ineffective control and not necessarily be the fault of an individual auditor responsible for performing the audit steps (NAB 2015). Two team leaders said:

> *We can't say it is the fault of the auditor (team member) alone because we have a hierarchical control. The team member is responsible for executing the audit steps, making audit findings... there are a supervisor and audit manager. If there are some problems with the audit, there is something wrong with the control.* (Auditor 12, Team Leader, Interview)

> *The control system can help the audit... However, because it is not good, the supervisors sometimes do not check our working papers. The audit manager only involves in the final audit reports without knowing what is going on during the fieldwork. They actually sign our working papers but they just sign without reviewing them. Even some sign the working papers after all the audit processes finish, after the issuance of the audit report.* (Auditor 10, Team Leader, Interview)

In addition to the deficiency of the supervisory mechanism, very often the supervisors who are in charge of the supervisory control system '*... pretend to close their eyes because they entirely depend on the team leader to do the control of the audit*' (Auditor 18, Team Member, Interview). A team leader said:

The supervisor may rely the supervisory roles heavily on the team leader if they feel that the team leader has good quality. We can easily find this type of supervisor. There is why sometimes (at the field) we feel okay but then (at the office after the audit completion) we found we have missed something important that then troubles the team. (Auditor 12, Team Leader, Interview)

As discussed in Chapter 6, there is also a tendency for supervisors to overly rely on the weekly progress report prepared by the team. Instead of thoroughly monitoring and reviewing the daily work of the team, they instead wait and take action only if they find issues reported in the weekly progress report. One supervisor explained:

Team leader and supervisor must be able to control and monitor all the team's work... not only rely on the weekly progress reports without seeing, for example, some real problems faced by auditors in the field (that are not reported). (Auditor 2, Supervisor, Interview)

The second control problem is concerned with a large supervisory span or scope of control. The degree of supervisory span of control may influence the effectiveness of the control (Gittell 2004). Some literature suggests that a reduced supervisory span of control may encourage coaching and feedback to take place and improve not only shared knowledge and goals but also the quality and efficiency of performance (Gittell 2004). Small control spans allow supervisors to observe behaviours and outputs and provide useful feedback in complex and interdependent work processes (Blau 1972). The issue of supervisors' large span of control seen in this study is associated with a large number of auditors that an audit supervisor must oversee in the limited time allocated. As noted previously, a supervisor only engages in direct supervision of the team in the field for about five to seven days out of a thirty-day engagement. A supervisor may be simultaneously responsible for the supervision of at least three audit teams comprising more than twelve auditors. In addition to this, supervisors and managers may also be employed as an office manager dealing with the management of day-to-day office administrative activities that further increases the supervisor's span of control because they have to perform distinct job roles at the same time (for a further explanation of this issue, refer to Chapter 9). The different natures of these two roles may make it difficult to prioritise where effort should be focused. One audit supervisor explained:

At the moment, I have seven days (for each audit engagement team) to supervise and monitor them from the planning to reporting process. I have to really manage my time very well... Secondly, I have other tasks outside audit matters that I need to handle as well... I need to spend much time on those matters too. (Auditor 9, Supervisor, Interview)

Another supervisor expressed the same view:

Some problems (in the review process) happen because the audit supervisors need to do some jobs unrelated to the audit engagement matters... and we are normally given only seven days (for each audit team). (Auditor 14, Supervisor, Interview)

An audit manager further explained that this situation occurred mainly due to the lack of supervisors. In her unit, there was no reasonable ratio between the number of audited entities and the number of available supervisors. She said:

> From the quantity perspective, in our unit we have 25 audited entities. We lack supervisors.... With only five audit supervisors for 25 audit engagements (at the same time), each supervisor has only seven days (with the team during fieldwork). (Auditor 13, Audit Manager, Interview)

The two issues described above may reveal a paradoxical condition between cost and control within the NAB. The audit organisation faces the problem of finding the most effective means of control using the limited resources available. As previously noted, since the major audit scandals in the early 2000s, questions have been raised concerning the effectiveness of audit control practices in audit firms (Asthana et al. 2009). Audit firms in the private sector face the challenge of cost control. Competitive pressures dictate that audit firms must operate effectively and efficiently. They have to control their audit costs and the increasing cost of control systems cannot simply be passed on to clients (Arens and Loebbecke 1988; McDaniel 1990; Nehme 2013; AICPA 1986). Turley and Cooper (1991, 35) suggest that 'auditing is a no growth market' and this puts further pressure on audit costs. The notion of efficiency becomes the most fundamental criterion when determining audit strategy, and efficiency may be associated with cost reduction. In other words, it is important that an audit firm creates an effective system using the most efficient resources available. This may create a paradoxical condition between cost and control (Eisenhardt and Westcott 1988).

Similar to their private counterparts, public sector auditors also face the issue of having to control their costs. Public sector audit spending in Indonesia comes from the national budget (refer to Chapter 2). Audit costs must be controlled and the increasing cost of control systems cannot easily be passed on to the government because the audit organisation cannot independently determine its own budget and any increase in budget allocations are subject to approval from Parliament, taking into consideration the sufficiency of the national budget (GOI 2003). The government audit budget should be spent efficiently and effectively (GOI 2003, 2004b), with the type and amounts of audit costs having been standardised by a regulation issued by the Ministry of Finance and any changes made being subject to Parliamentary approval (GOI 2003, 2004b, 2006a) (see Chapter 3 for a further explanation). In this study, for example, in order to move towards a smaller supervisory span of control through the appointment of only one supervisor for one audit team or the appointment of a dedicated supervisor who remains with the team every day throughout the entire engagement period, there would need to be significant additional numbers of auditors and thus a corresponding increase in audit budget and cost. In reality, however, the audit organisation faces a shortage of auditors which, at the upper level, may lead to a majority of audit managers and supervisors taking on the dual responsibilities of both audit and office manager. Data from 2014 reveal that the NAB has around 3,963 auditors (NIK 2014), but according to a manager from its human resources division,

they still have a shortfall of 1,400 auditors when considered against the number of audited entities they are dealing with. However, as a government entity, securing these additional employees requires a proposal to be submitted to the Indonesian National Human Resources Agency that must also be approved by the President and take into account national budget availability. The manager added that there might be a very long process to addressing the personnel shortfall and that despite there having been significant intakes of new auditors over recent years, a proportion of these individuals have merely replaced other auditors who have retired.

To sum up, a paradoxical situation in relation to audit control emerges when there is a tension between the hierarchical audit controls and cost efficiency. The empirical findings show that the audit organisation has been struggling to implement effective control because they lack the necessary resources. On the one hand, an effective control system can only be achieved through the addition of extra resources, but on the other hand, the increasing cost associated with this cannot easily be added to the budget approved by the government. The controlling authority wants lower costs (efficiency) but this conflicts with attempts to ensure increased effectiveness.

7.3.2 Tensions of Structured Audit Procedures: Consistency versus Flexibility

Our audit procedures tend to be too general. So if two different auditors perform the same procedures, the interpretations and the results might be different. (Auditor 23, Team Member, Interview)

I prefer more detailed (procedures). If they are too general, they can be interpreted differently by the auditors. So maybe one auditor said the examined account is okay but the other may say it isn't. If it is more in-depth, it tends to be clear which one could be said okay or not. (Auditor 17, Team Member, Interview)

In the course of this study, a number of auditors supported the application of more standardised, structured and elaborate audit programmes, as illustrated by the two auditor statements above. Some auditors believe that having less detailed audit procedures may foster inconsistency between audits as it would encourage the use of an auditor's discretion, creativity and professional judgement. An increased reliance on judgement may render the audit more subjective and may demand more skilled and, eventually, costly auditors (Turley and Cooper 1991). For example, an unelaborate detailed procedure of a supplies expenditure test contains only a statement that the auditor is required to ensure transactions really have been made and are complete, without including any specific measures to be taken such as conducting an audit confirmation with significant suppliers and what kind of documents they need to verify. One auditor recalled that her team had a serious problem using unstructured procedures when conducting an audit involving many sub-teams. When compiling the results from each sub-team, they discovered significant variations in terms of how the auditors had performed the same procedures. This led to a different conclusion for the same matter.

In recent years, the audit organisation has recruited many young and inexperienced auditors freshly graduated from university (NIK 2014). One supervisor noticed the negative consequences of new auditors using unstructured audit procedures. She stated that without strict monitoring, inexperienced auditors may execute the procedures inappropriately. They may become confused with detailed parts of the steps, which may give rise to inconsistent results. She explained that it would be possible to arrest a significant amount of the low-quality work being submitted by new auditors through the adoption of more in-depth standardised procedures.

> (...) for example, I found a procedure says that the auditor has to get bank statements and to do mathematical examinations without explaining in more detail what kind of mathematical examinations are. For senior auditors, I believe they understand and know what to do but for new auditors, it is hard... they must be strictly supervised and guided. (Auditor 8, Supervisor, Interview)

Two team leaders and a team member added:

> If the procedures are detailed, the auditors, particularly new auditors or who have just been moved don't need to ask many questions. They can do the audit just by following the structured procedures. (Auditor 3, Team Leader, Interview)

> If the audit procedures are detailed, clear and firm, even though if they don't have good skills, they still can do the good audit. (Auditor 23, Team Member, Interview)

> Audit procedures seem to be too unstructured. It depends on the auditor... I mean... whether he understands what the procedures want or not. If he doesn't, he couldn't find some important audit findings. (Auditor 5, Team Leader, Interview)

Auditees seem also to have noticed this inconsistent treatment arising from the above conditions. They feel that auditors show a degree of inconsistency in terms of the conclusions drawn for exactly the same matters or transactions. One auditee who had dealt with many different auditors over a long period stated:

> Frankly speaking, sometimes I feel confused by the auditors. They suggest different solutions (for the same issues). In my experience, every two years I had different auditors audited my organisation. They had different understandings about exactly the same issue. For example, I had a discussion with an auditor regarding asset management. He told me I had to do this... but (for exactly the same matter, in contrast,) the last auditor said it is wrong (that I should not do that). I mean...they must have the same understanding (about the same issues) before conducting the audit at our organisation. (Auditee 3, Interview)

A team leader affirmed:

> If the auditors don't have the same understanding about the same issue, the auditees could complain. It just happened. I audited the travel expenditure of one entity. In our audit team's opinion, the (accounting) treatment was incorrect and not in line with the regulation. However, the auditee said that according to their counterpart, the other auditors from our office who audited them said that the treatment was okay. This contradictive perspective among us troubles us. (Auditor 3, Team Leader, Interview)

On the other hand, some auditors support unstructured and unelaborated procedures because they feel that auditors need to be given more opportunity to exercise their professional judgement. An audit requires a dedicated room in which auditors can work creatively since audit involves a rather complex and dynamic, as opposed to static, environment that requires the exercise of an auditor's professional judgement. This becomes particularly important in the analysis of risk, the conducting of analytical review, materiality decisions and for the level of sufficiency, relevance and reliability of audit evidence (Turley and Cooper 1991). Some auditors noted that having to follow too many programmable steps may leave them exhausted due to the requirement to undertake perceived unnecessary and overly extensive work. They argue that some issues have a greater need for the exercise of professional consideration as opposed to predetermined procedures that may not be an appropriate fit for every set of circumstances. Such a predetermined approach may lead to difficulties in tailoring procedures to the specific needs of individual auditees because it may include elements that are not appropriate for the individual audit in question. It may also require higher levels of testing (Turley and Cooper 1991). *'If they are too detailed and standardised if the actual environment in the field is not the same, it will be hard (for very detailed procedures)'* (Auditor 29, Audit Manager, Interview). One supervisor made a further comment on this:

> *Sometimes some procedures make us exhausted because they are too long and detailed. For example, some of our procedural sample tests are very structured that sometimes are not applicable in a specific condition. For example, sometimes (in certain conditions) what we need is just the rule of 25 and (then based on auditor's professional judgement) the auditor can extend the number of sample size to 40, just that simple...* (Auditor 14, Supervisor, Interview)

In addition, more structured procedures may make the audit more mechanical (Turley and Cooper 1991), thereby increasing the likelihood of the audit being too heavily focused on only certain aspects. Some auditors argue this may prevent auditors from thinking outside the box and exercising their creativity because they are bound by standardised routine work. One team leader explained how she had noticed their audits increasing in length due to what she considered too much emphasis being placed on certain areas, although she did acknowledge this trend seemed to have been changing. If an audit is too routine, it may fail to include a proper audit risk assessment so that the audit may have incorrect focus, as noted by a team leader:

> *I notice that there has been a significant improvement in government capital expenditure management... and also the travel expenditure (because auditors have always been focusing on those matters). So that now there has to be some significant problems on supplies expenditure that we haven't touched... I believe that this expenditure now has the highest risk account but until now we never put emphasise on this...* (Auditor 10, Team Leader, Interview)

Another team leader supported this view:

> *We usually (by default) don't have a procedure to verify food and drinks expenditure. However, in my last audit I tried to test it and found significant fictitious transactions... Then I was thinking that this is a high risky account but (for a long time) we don't care about it...* (Auditor 3, Team Leader, Interview)

In conclusion, the tension between structured and unstructured audit procedures has two groups of supporters. Advocates of the standardised approach claim their approach produces more consistent audit results. In contrast, defenders of a more unstructured approach argue that they need to allow for the exercise of more professional judgement in a complex and dynamic audit environment. The following subsections will explore the negative responses to the tensions.

7.3.3 Responses to Paradox: RAQB

Empirical evidence shows that some supervisors regularly engage in superficial review (see Chapter 6). Tensions between cost and control may result in a larger supervisory span of control and limited direct supervisory time which may then lead to a negative response from some supervisors. Some supervisors feel overloaded in terms of the amount of work they have to complete, which may thus become a justification for engaging in RAQB. One auditor explained:

> *One supervisor has two to three (different teams at the same time) and he needs to visit (the teams) in different places so he maybe has only three or four effective days with the auditors... (So it could lead him to) ask general questions only without thoroughly looking at an auditor's working papers.* (Auditor 37, Team Member, Interview)

Another auditor added, '*it might not be their intentional actions but it tends to be due to supervisor's heavy workload*' (Auditor 12, Team Member, Interview). '*Supervisors have limited time and need to supervise several teams at the same time*' (Auditor 19, Team Leader, Interview).

With regard to a manager's dual responsibilities, one manager said that this condition may make it difficult for them to concentrate and manage their time well. She explained:

> *It is difficult with these dual responsibilities as someone responsible for both managing audit and for managing administrative matters. Sometimes my administrative stuff takes up very much of my time, so I can't fully control the team... especially when they do an audit far away....* (Auditor 29, Audit Manager, Interview)

Shortages of auditors were also discovered at all levels. Some auditors admitted that due to the organisation's lack of auditors, they had to conduct too many engagements in one year, with insufficient rest between engagements. Two auditors articulated their thoughts:

> *There is a short period between one engagement and another engagement. Once I performed another engagement just two days after the last engagement ended and I was doing the reporting process while performing a new engagement.* (Auditor 10, Team Leader, Interview)

I think the auditors need to refresh... As I said they are too exhausted. (Auditor 29, Audit Manager, Interview)

According to a review of audit engagement documents, a local government financial statement audit normally consists of five auditors; one audit manager, one supervisor, one team leader and two team members. An audit carried out in a ministry is likely to involve a larger team and may reach 20 auditors split into a number of sub-teams, with each sub-team having its own sub-team leader (Engagement Letters of Audit Team 1-7 and Annual Audit Plan, Review of Documents). However, an auditor points out that this represents the '...*minimum numbers of auditors (required) in a team*' (Auditor 11, Team Member, Interview). They '...*should have more human resources (in an audit team engagement)*' (Auditor 7, Audit Manager, Interview). The vast majority of auditors felt their workloads were greater than normal. The perceived insufficient number of auditors in an audit engagement team may lead them to '...*have large audit scopes with limited human resources available*' (Auditor 10, Team Leader, Interview). Each auditor is required to cover a great deal of work. The '...*limited human resources with bunch of work*' (Auditor 5, Team Member, Interview) may result in '...*the auditors working overtime. Even at a certain point they have only a few hours of sleeping time a day*' (Auditor 14, Male, Supervisor).

Some auditors argue that this working condition has led them to engage in RAQB, as illustrated in the three auditor statements below:

We are working under time pressure and deadlines. We are responsible for huge amounts of work with limited time. That's why we may take shortcuts, we sometimes skip some steps and do not check thoroughly some documents. (Auditor 2, Supervisor, Interview)

An auditor would be responsible for too many examined accounts with many audit procedures to be completed... because of the limited time we skipped some steps and didn't perform detailed examination. (Auditor 10, Team Leader, Interview)

I am sure the auditors actually want to perform detailed examination properly but they face the work pressure.... Just if each auditor has lesser audited account coverage. (Auditor 17, Team Member, Interview)

The above statements illustrate the increased likelihood of RAQB, particularly of superficial audit supervision and premature sign-off due to the paradoxical hierarchical audit tensions. Supervisors express their desperation due to insufficient supervisory time and their dual responsibilities. Auditors feel pressure as a result of their heavy workloads, exacerbated by a shortage of auditors and which may eventually lead them to perform premature sign-off.

With regard to the tension between structured and unstructured audit procedures, some auditors argue that less structured audit procedures may result in the occurrence of RAQB, particularly involving junior or new auditors. One junior auditor said that a lack of procedural structure may mean the audit lacks guidance, which in turn may lead to confusion and desperation.

This may encourage an auditor to falsely or prematurely sign off on certain procedures. In contrast, this may be less problematic for a more experienced auditor as he or she may be able to rely upon and exercise his or her prior knowledge and experience. One team member and two team leaders explained:

> ... for an experienced auditor, he can do the audit properly even though he is given too general procedures, but for the new auditor, he will get confused about what to do, how to analyse the data, what documents really matter, who I need to interview. Without detailed procedures, the result will vary. Maybe some auditors feel they do a significant thing but the others may say they do not need to do that... (Auditor 23, Team Member, Interview)

> The procedures are too broad... every auditor may have a different interpretation. For example, in a contract analysis procedure, it doesn't say which contract and what to do. Sometimes some auditors just check the existence of the asset (of the procurement contract) without doing further examination when needed. (Auditor 3, Team Leader, Interview)

> Sometimes some team leaders say that the procedures just ask us to do this, so we just do this, no need to go further. (Auditor 5, Team Leader, Interview)

On the other hand, a standardisation or formalisation of procedures in order to help the monitoring system may have the effect of making the audit too rigid, too structured and more formal and routine. These structured programmable procedures tend to involve many standardised forms, templates and checklists. Some auditors believe they may end up losing time as a result of having to prepare all of these, in addition to viewing others as not important. Thus, in order to save time, instead of preparing everything, auditors may tend to go straight to what they think is the more substantial work, omitting any perceived unnecessary steps. They may thus take shortcuts: 'That is the bad thing about using a lot of templates' (Auditor 13, Audit Manager, Interview). This sentiment is corroborated by three other team members:

> Some forms in the working papers have detailed procedures, but they are not easy to complete. We need a longer time to complete all of them. So sometimes we ignore some of them, we take shortcuts. (Auditor 18, Team Member, Interview)

> Some detailed procedures have a lot of forms that need to be completed and need to be put in our working papers. However, in reality, we couldn't finish all of them because preparing these takes our time. Then we need to choose whether preparing all those forms (although he thinks some of them are not important) but we may lose time for more important matters or leave them to save time and go straight to more substantive work. (Auditor 18, Team Member, Interview)

> In my opinion, it should not be too complicated. For example, we can find a lot of forms, tables and templates that need to be prepared. Sometimes I feel they are not too important. Our audit procedures need to be improved continuously. (Auditor 12, Team Member, Interview)

To conclude, this study has identified auditors' negative reactions to both contradictory elements. The supporters of standardised procedures claim that unelaborate steps may lead them to perform premature sign-off by not performing further examinations of some items due to a perceived lack of guidance. In contrast, some auditors advocating unstructured procedures may take shortcuts due to the existence of steps they may perceive as unnecessary. The following subsection will explore auditors' responses to RAQB.

7.3.4 Auditors' Responses to RAQB: Social Peer Sanction and Informal Performance Evaluation

Some auditors argue that the audit organisation may apply relevant control mechanisms in the form of a system of sanctions or punishments in order to address auditor misbehaviour arising from a lack of effective hierarchical control. Although control systems may increase the number of cases of employee misbehaviour being detected, they may not have the effect of curbing misconduct unless an appropriate penalty or punishment system is applied (Leatherwood and Spector 1991). Some studies suggest that penalties given by the audit organisation for engaging in RAQB are inversely related to the occurrence of RAQB (Malone and Roberts 1996; McNair 1987b).

According to the interviews and a review of documents, in practice, during the hot review, there are no formal sanctions handed out by supervisors or audit managers to an auditor identified as failing to exercise due professional care or whose behaviour is not in line with the expected standards. *'There is no sanction or penalty from an immediate superior if someone doesn't execute all the audit procedures properly'* (Auditor 11, Team Member, Interview). Any formal sanction or warning given to the perpetrator typically arises only out of the cold review process conducted by the organisation's internal auditors after the engagement has been completed. According to peer review reports (NIK 2014), the internal audit unit has issued various levels of warning to individual auditors whose negligent behaviour has been proved. Due to limited budget and personnel, however, they may not be able to review all auditors' work. They are typically only able to conduct an investigation into alleged auditor misconduct after a case has been reported to them.

Some auditors argue that the absence of formal sanctions is due to the inability of the audit organisation to detect such behaviour because of the difficulty associated with creating the most appropriate performance assessment. It is very often only an auditor's colleagues within the same team who are fully aware of any occurrence of misconduct. *'We sometimes just know it without being able to do anything... at least, we know the auditors who consistently conduct the misbehaviours'* (Auditor 23, Team Member, Interview). It is believed that auditors' performance may not be easy to evaluate because of the complexity of an auditor's work, the involvement of their professional judgement and their physical remoteness from day-to-day control (Miller et al. 2006; Libby and Luft 1993). There is also the added dimension of auditors very often relying on the favourable audit environment they encounter in the field in the form of, for example, the degree of

an auditee's cooperation (Malsch et al. 2013). According to one audit manager, the only effective direct performance evaluation to currently be applied is assessment conducted by the internal control unit. However, due to limited budget and personnel, these are only carried out very selectively and normally consist of *ex post* evaluation of a team that has audited high-risk entities. They do this by accessing the teams' working papers and mainly using check marks to verify whether the auditors have carried out all the steps required by the guidance/audit manual (see Figure 7.1). For example, when evaluating an audit materiality threshold used by the auditors in a financial statement audit, they check whether the team have complied with the materiality guidance. However, when it comes to auditors' qualitative professional judgement, such as sufficiency of the evidence used to draw audit conclusions, according to one internal auditor, assessment may not be an easy task. One auditor made a comment on the lack of a good assessment and penalty system:

> We don't have a good system to know which one is a good or bad auditor. So there are no clear punishment and reward mechanisms that could be applied. (Auditor 23, Team Member, Interview)

In addition to poor performance assessment, some auditors also argue that undetectable RAQB may often be caused by ineffective control systems. Behaviour may very often not be detected through a supervisory and monitoring process. *'The review is only to know how far we did the procedures, so it is then difficult to find auditors' wrongdoing (with this kind of review)'* (Auditor 18, Team Member, Interview).

As discussed above, even though supervisors may not be able to monitor all auditors' behaviour at all stages throughout the entire duration of the engagement due to their limited supervisory time with the team, some argue they are still able to detect RAQB by thoroughly checking auditors' working papers because the papers represent what auditors actually do. Three auditors explained:

> We may detect from their working papers. We can ask how you support this audit conclusion in your working papers... When I asked an auditor whether he performed all the steps he admitted he did A then went straight to D, skipped B and C, but he still could produce audit reports. So if the supervision is not good you can't detect it. (Auditor 1, Supervisor, Interview)

> Until now there is no punishment because it is quite hard to be detected. But I think it is not difficult. Just check their working papers.... Just if the review is good, the supervisor monitors us on a daily basis until the end of the engagement.. they can trace the auditor report with the supporting evidence in the working papers. (Auditor 23, Team Member, Interview)

> Until now, as far as I know, there is no sanction because it is hardly detected. If there is a good review of the auditor's working paper in the field, I think it can be detected. (Auditor 10, Team Leader, Interview)

At the NAB, however, if RAQB is detected during a hot review, there is no likelihood of the identified auditors being given a formal sanction. This absence of any formal punishment mechanism

seems to indicate an apparent tolerance on the part of the organisation by letting it continue over time. *'Some supervisors seem to tolerate auditors who do not complete the procedures thoroughly without giving them any strong warnings, at best they just give them oral notice'* (Auditor 11, Team Member, Interview). This may lead to the persistent incidence of such behaviour because *'the auditor feels okay if he doesn't do their job properly'* (Auditor 11, Team Member, Interview). *'So if the auditor does it once and it is not detected, the auditor will do it later, again and again, until now as far as I know there is no punishment imposed'* (Auditor 10, Team Leader, Interview). One audit manager added:

> *They did not look at procedures thoroughly... took shortcuts... they said it is their tradition... so I said to them, do you want to justify the wrong habit?...* (Auditor 29, Audit Manager, Interview)

Instead of the non-existence of formal punishment, some auditors argue that immediate superiors or other colleagues need to speak to those auditors who are suspected of regularly performing such behaviour in order to remind them of their wrongdoing. One audit manager explained:

> *It may be because nobody tells him how bad he is. Now it depends on how his superiors or his colleagues tell him... If nobody tells him he's wrong or bad, he doesn't know he is really bad. The team leader also needs to actively communicate with him... coach him.* (Auditor 29, Audit Manager, Interview)

Furthermore, an employee who is regarded as an under-performing auditor or who has persistently engaged in RAQB may still be included in the engagement because of a wider shortage of auditors. *'There is no formal punishment... and they will be still included in an audit team engagement whatsoever...'* (Auditor 11, Team Member, Interview). This has the effect of making the auditors feel immune to sanctions and thus does nothing to prevent them from persistently engaging in RAQB since they may feel their behaviours will be either forgiven or otherwise overlooked by the organisation. One supervisor commented on this:

> *In an engagement, one auditor took days off in the middle of the engagement, more than the time allowed. We then (supervisors and managers) agreed to give an informal sanction to him. He was not allowed to conduct any engagement in the next 6 months. But again it was not a written sanction, just an informal agreement between supervisors and his superiors. However, we had a lot of entities that needed to be audited and we lack auditors and he has good technical audit skills actually. We had no choice but to include him again in audit engagements. It is silly, and fortunately there was no written formal sanction issued so we did not need to revoke any letter.* (Auditor 8, Supervisor, Interview)

Furthermore, this study has found that the absence of a system of penalties created a response from the auditors. They tend to create their own informal mechanisms in the form of social or peer review punishment for any auditors seen as persistently engaging in misconduct behaviour. One auditor explained:

> *No sanction... maybe that's why it may become endemic.... But there is an informal social sanction from other colleagues... they will keep an eye on the auditors if they are in the same team. But as far as I know there is no direct formal punishment. (Auditor 23, Team Member, Interview)*

Another auditor provided an additional statement:

> *There is a social sanction. Usually the rest of the team members will have an objection to such a person being included in their team. I have once rejected the person who was plotted as my team member who is well known for his misconduct. But my objection was not granted. There was then no good atmosphere in the team because he knew he had been rejected in the team. (Auditor 10, Team Leader, Interview)*

The statement above reflects that if the other auditors in a team discover that a persistently misbehaving auditor is to be appointed to their team, there may be an objection even though very often this may not be explicitly expressed. According to the above auditor, when once working as a team leader she expressed such an objection to the audit manager, although eventually it was not upheld. Another auditor argued that this informal form of peer punishment is more severe. They may take notice of who persistently engages in RAQB, with reports of his or her behaviour spreading to other colleagues via word of mouth. Three auditors said that:

> *The auditor will receive a social punishment from their colleagues. The social punishment is more severe. So for example, he very often doesn't do his job properly, although it is difficult for this to be detected by our organisation, but friends from the same team may actually know what he is doing and it will spread to other friends. (Auditor 1, Supervisor, Interview)*

> *If someone (who regularly engages in RAQB) escapes from being detected doing misconduct during an engagement... eventually at certain point in another engagement his actions may be noticed because when working in a team, not only the team leader and supervisor who monitor him but also his colleagues, his team member friends and also the auditee. So the likelihood to be detected is quite high. From some cases in my previous unit, there were one or two auditors like that (who regularly perform RAQB) and usually we didn't assign them in a high risky audited entity. We also tried to put them in a team whose members they do not know so that they may be hesitant to do that in front of someone who they have just known. However, I think it is hard to eliminate this kind of misbehaviour completely. (Auditor 14, Supervisor, Interview)*

> *Informal sanction, some kind of a black list. This auditor needs to be watched all the time. (Auditor 11, Team Member, Interview)*

As noted above, the lack of any formal punishment might be associated with the inability of the audit organisation to detect RAQB due to their poor methods of performance assessment. This may therefore lead to another identified response in the form of informal performance assessment carried out by superiors. Although the organisation has struggled to develop an effective method of evaluating the performance of individual auditors, informal or unofficial assessments of each auditor have been conducted by their superiors. In practice, supervisors and audit managers informally know which auditors are good and which are not. This information is shared via word of mouth. One

supervisor recalled that in her unit, managers and supervisors mapped the profile of each auditor including their competences, previous performance and also records of misconduct based on the personal impressions they formed when supervising the auditors. When I asked whether this knowledge could be subjective, she stated her belief that this form of informal assessment is quite reliable and had been used when determining the composition of a team to carry out an engagement. However, this practice may have its shortcomings as some argue that it may be unreliable and could be very subjective, in effect no more than a like-or-dislike assessment. It also cannot be used as the basis for an individual auditor's development and training. Five auditors commented on this:

> *We have mapped informally the auditors' grade from what we know as their supervisor... Our own versions, not in a formal way, so that when we form a team we can consider their strengths and weaknesses. To be honest, the level of skills and capabilities among them vary. Some are very good, some are not. So that we can make a balanced team from the reports.* (Auditor 13, Audit Manager, Interview)

> *If it is said subjective, there is sometimes small differences between being objective or subjective. But I very often ask some people about others' performance when they are in the same team.. not only from one person... then I asked their supervisor... and I closely monitor some of them. So far, there is a positive correlation... There is now also performance evaluation from subordinate to superior. I very often ask the team member how good their team leader is. Only they actually know because they work together every day for many hours. If the team leader is not good, they sometimes ask me not to be led by him again in the next engagement.* (Auditor 29, Audit Manager, Interview)

> *We mapped the skills of each auditor from day-to-day monitoring during engagement, from supervision process. It might be subjective but the results usually reveal their true capabilities because they are not only collected from one person. It could be justified. It could be subjective but it is actually the assessment from many engagements, not only one. But the auditors are never informed of the assessment. However, they should have known and someone needs to tell them so they can improve themselves. For example, one auditor in my unit was rarely involved in an engagement but nobody told him what mistakes he had made, why he gets his grade.* (Auditor 19, Team Leader, Interview)

> *We give the auditors grades A, B, C, D. This grade is made informally by management and sometimes used to move auditors between units and for the formation of audit engagement team. Grade A consists of the best auditors and the grade C is the least expected but somehow we still ask them to conduct audits because we lack auditors. However, in the team some grade A will back up the work of grade C.* (Auditor 8, Supervisor, Interview)

> *Their superiors are also involved in the formation of the team. Secretly they are observing us without our knowledge. Informally some team leaders are given grade A or grade B. The team members are given grade C and D. So D is the worst one.* (Auditor 10, Team Leader, Interview)

In summary, there may have been some responses to control tensions. Some auditors engage in RAQB as an adverse response. Auditors may also adjust their practice due to the absence of

perceived essential control-related tensions such as punishment systems by carrying out unofficial actions such as peer social sanctions and informal auditor assessments. However, this study has also found some official responses from the organisation to the tensions, and these are outlined in the next subsection.

7.3.5 Organisational Responses

It is apparent that there is support from practising auditors for both structured and unstructured audit programmes. In recent years, the audit organisation has been applying both approaches for some types of audits and for certain examined accounts. For example, one auditor said that his office had just developed a standardised audit programme for the audit of local government financial statements. They call this approach 'P2 Siap LKPD' or 'ready audit programme for local government financial statements'. They argue that this audit programme involves more detailed standardised audit steps or procedures. However, the approach had a mixed reaction from auditors. Two auditors who supported the approach gave the following comments:

> Personally I like these structured standardised procedures. We do the same repeated government financial statement audits every year. So we know clearly what kind of auditee's records we need, so the procedures can mention the detailed documents and what we are required to do. So if it is standardised, everyone can do the audit easily. (Auditor 4, Team Member, Interview)

> This structured model helps the auditors much. The unstructured one makes us confused how to execute some procedures. The detailed model has explanations how to do this, what next to do if this or that... (Auditor 23, Team Member, Interview)

On the other hand, one auditor who was against the approach expressed the following view:

> In recent years we have had P2 Siap LKPD, it has more rigid procedures... some auditors have difficulties follow them because there are too many columns, forms that need to be done... (Auditor 2, Supervisor, Interview)

In addition, another auditor outlined the negative effect of having too structured an audit:

> The impact is clear, the audit findings now could only touch very basic and only common issues, like a template from engagement to engagement although I know the auditors can do more than that. It is different from when we used different procedures, we could produce better quality findings. (Auditor 8, Supervisor, Interview)

Another interesting response was identified from the point of view of one of the audit managers/ auditors in charge, that is, the highest level in the hierarchy of an engagement team (refer to Chapter 2). He supported a more unstructured audit approach, arguing that such an approach needs to be implemented and accusing those auditors who oppose it for neglecting to improve their skills and competence and thus not being able to exercise their full potential. He said:

If the auditors said it is too general, it is their fault... For example, if the procedure just says: get the one particular document, then the auditor needs to use their own analysis how to deal with it. If he is skilful and diligent, he knows what to do. Maybe it is not the procedure's fault but the auditors themselves reluctant to improve themselves, to develop their knowledge. (Auditor 29, Audit Manager, Interview)

The two types of responses above show the existing contradictory practices of how an audit approach may be implemented. Opposing responses tend to be spread among the auditors espousing either one stance or the other. Contrariwise, the top level tends to berate auditors for not acknowledging the paradoxical situations and exhorts auditors to improve themselves and their professional and judgement skills.

7.4 Conclusion

It has been argued that in order to improve its ineffective control systems, the NAB needs to improve its control through the addition of more supporting resources. However, this might not be easy to achieve because the NAB needs to operate efficiently with its limited budget. This leads to an audit control paradox, i.e. tensions between control and efficiency. This study has also identified the paradox of standardised audit procedures resulting from the tension between the need for structured, elaborate audit procedures promoting consistency versus the contrasting need for unstructured procedures that promote flexibility. These paradoxical conditions have brought about the incidence of RAQB and other responses such as the implementation of unofficial peer sanctions and peer performance evaluation. The organisation has also made its own response through the adoption of a more structured approach. However, the tensions remain as the new approach has brought mixed reactions from the auditors. The next chapter will explore other paradoxical conditions in relation to dynamic audit knowledge.

Chapter 8 Paradox of Dynamic Audit Knowledge

8.1 Introduction

This chapter discusses the paradox of dynamic audit knowledge that may result from tensions arising from the need to keep up with and adapt to dynamic changes impacting the audit environment. The first contradictory tension relates to the demand to adapt organisational routines to these environmental changes. Too much change, however, may threaten stability. Some senior auditors have a tendency to display defensive attitudes and behaviour linked to attempts to maintain consistency with dated practices. The other tension deals with the learning tensions experienced by junior auditors. On the one hand, they require coaching and mentoring from seniors in order to improve their audit experience and expertise, but on the other hand, are not always well supported by those seniors, who may themselves be lacking in current knowledge and skills. Some juniors may be pushed to become team leaders prematurely, which may eventually lead to more resistance from seniors.

This chapter firstly explains the need for auditors' continuous lifelong learning in order to maintain their expertise. Second, it considers the paradox of dynamic audit knowledge as a result of various tensions, including the tension between new and old and also learning tensions. Third, it explores the potentially reduced quality of audit practices as a result of those tensions. Finally, this chapter explains some of the responses taken in respect of these paradoxes.

8.2 Auditors' Knowledge and Capabilities: Continuous Lifelong Learning

> *Auditor's capabilities will determine the intended audit quality that auditor wants to achieve.* (Auditor 8, Supervisor, Interview)

> *(...) not only how to complete the audit procedures but also how to use their critical and analytical thinking, to know whether there is a problem or not.* (Auditor 18, Team Member, Interview)

The empirical evidence reveals that most auditors believe that one of the most important factors associated with audit quality is an auditor's knowledge, skills, capabilities and competence. In general, informants mentioned three dominant areas of expertise that should be acquired and maintained by auditors, namely, technical audit skills, including critical thinking, an appropriate relevant educational background (for example, an accounting degree for financial statement auditors) and continuous training and development of their knowledge of the audit environment, including standards, laws and regulations.

Figure 8.1 Auditor Roles and Positions
Sources: (Adapted from GOI 2010a; NAB 2015)
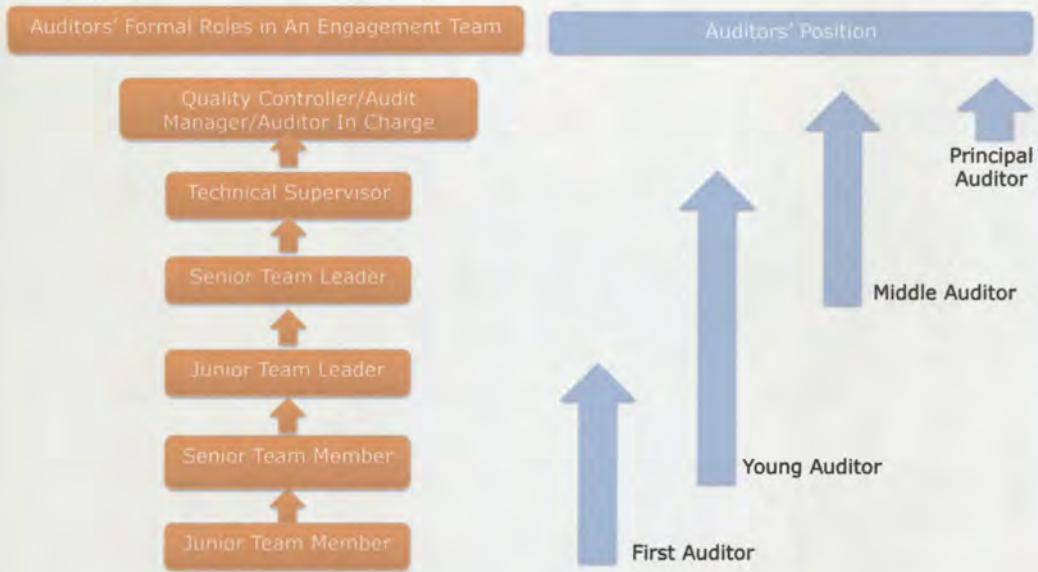
In order to achieve and maintain these standards, auditors must commit to engage in continuous development of their knowledge and skills throughout their working lives, as they have been accepted as auditors by the National Audit Office (NAB). Figure 8.1 above illustrates six layers of formal hierarchical auditor roles during an audit engagement (NAB 2015; GOI 2010a; NAB 2011d), namely (1) junior team member, (2) senior team member, (3) junior team leader, (4) senior team leader, (5) technical supervisor and (6) quality controller/audit manager/auditor in charge. Prior to being accepted as an auditor at the NAB, a potential employee must carry out initial training and pass a role-certification test in order for him or her to be placed in the most appropriate first role and position. Each role level has its required role training followed by an exam to gain certification. Having held a certain role for a minimum of three years, in order to move to a higher role, the auditor must then engage in the relevant role-certification training courses and pass the relevant tests. These six different levels of auditor roles are categorised into four auditor group positions (first, young, middle and principal auditor), created mainly in relation to career and salary progression in accordance with the Indonesian public civil employee system. In order to move to a higher group position, the auditor must gain predetermined quantities of credit points. These credit points may be acquired through four main areas (GOI 2010a). The first consists of activities relating to their educational qualifications and training. For example, an auditor will earn one credit point if he or she passes 30 to 80 hours of accounting- or auditing-related training. The second element involves the conducting of an audit. An auditor needs to carry out several audit engagements to reach a certain required level of credit points. The third element deals with the development of professional competence as an auditor in the form of, for example, in-house training, technical update discussion and the gaining of a professional audit-related qualification such as the CISA

(Certified Information Systems Auditor). The final element comprises activities to support the role, such as being an active member of a certified professional auditor body. As illustrated in Figure 8, the first auditor group consists of three different auditors: junior team member, senior team member and junior team leader. In order to be promoted to the young auditor or middle auditor group, the auditor must, as a minimum, hold a senior team member or senior team leader certification, respectively. The principal auditor position comprises only quality controller/audit manager roles.

In summary, in line with the views of the auditors, their capabilities may be one of the most crucial determinants of audit quality. The NAB has sought to design a development scheme for auditor qualifications to ensure all are equipped with the requisite up-to-date skills, knowledge and competence required to execute good-quality audit practices. In reality, however, tensions may arise as part of auditors' development in these areas that lead to paradoxical conditions. The following subsections explain the paradox of dynamic audit knowledge resulting from these processes and the conflicting tensions between recent as opposed to more dated audit practices.

8.3 Paradox of Dynamic Audit Knowledge

> There is no doubt that the contemporary audit environment is progressively demanding and complex, and often calls for a substantial dose of expert knowledge in various domains (...) This, however, can be supported by the skilled recruitment, training, and audits management (...) It is also important not to lose the organisation auditors' current ability to combine various narrow fields of knowledge. (The NIK 2014, 39, Review of Documents)

The above quotation is from an NAB peer review report conducted by the Poland Audit Office (NIK). It suggests that government auditing may involve complex issues including recruitment, training and also management of the audit. An audit is conducted in a dynamic environment characterised by an evolving combination of a number of different fields of knowledge. Thus, auditors need to develop and then maintain their skills and capabilities over the course of their professional working lives in order to keep abreast of these changes.

In addition, as noted in Chapter 3, audit methodology, techniques and also standards develop over time to accommodate the development and application of emerging technology (Turley and Cooper 1991), the changing nature of financial statements (Johnson et al. 2002; Schilder 2013) and the development of new audit approaches in response to audit failures (Burns and Fogarty 2010). Auditing regulatory requirements have evolved for both auditors and auditee organisations in respect of the way in which auditors deliver quality. Consequently, professional auditors are likely to face pressure to adapt to the dynamic knowledge of auditing practice.

This research study has revealed evidence of the tensions faced by those auditors who were observed. The first pressure is associated with the tension between old and new, i.e. the tension between the need to adapt changing knowledge and practices into routines versus the coexisting need to maintain established and settled practices for the purpose of stability. The second pressure relates to the learning tensions experienced by mostly junior auditors as a result of the lack of skilled seniors from whom they can learn. The following discussions explore these tensions, the RAQB resulting from such tensions and how the auditors and the NAB have responded to them.

8.3.1 The Tension Between New and Old

The empirical data reveal a tension between the need to adjust to the latest audit practices versus the need to also continue maintaining perceived established and accepted routines. This tension mostly occurs among more senior auditors. The evidence suggests that the seniors have experienced learning tensions (Beech et al. 2004; Clegg et al. 2002; Jarzabkowski et al. 2013) as they struggle to adapt to new developments in practices, frames of reference and procedures. A senior audit manager argued that some senior auditors tend to maintain the same routine from engagement to engagement for the purpose of consistency. However, in recent years, as previously mentioned, as a result of numerous audit scandals, the public have demanded that public audit organisations improve the quality of their audit practice (Johnson et al. 2002; Schilder 2013). A similar situation has also been seen in Indonesia. As discussed in Chapter 6, government audit in Indonesia has recently come under close public scrutiny in relation to the reliability and perceived low quality of auditors' reports (Savitri 2015; Tribunnews 2010; detiknews 2012; poskotanews 2012). As a consequence, in order to strengthen the NAB, parliament has accorded greater power, budget and expanded audit roles to the NAB (see Chapter 4 regarding the research context). Various laws and regulations have been passed in relation to the attempt to strengthen the NAB's position and roles (GOI 2006b, 2004a, 2003). These have inevitably led to changing practices. In accordance with these demands, the NAB has attempted to improve its audit quality by strengthening its practices, including the issuance of better audit manuals, technical and operational procedures and audit quality assurance (NAB 2015, 2009). *'We now have had more comprehensive audit manuals and also technical and operational procedures'* (Auditor 10, Team Leader, Interview).

According to some auditors, the new practices include expanded roles for seniors, particularly audit supervisors, and responsibilities for ensuring that audits conducted under their supervision are carried out in accordance with the standards and manual (NAB 2009, 2015). The role includes supervisory control over management of the quality of working papers. The office has introduced more detailed and comprehensive working papers that require records of all audit processes to be kept and the linking of audit evidence to audit reports or findings. Supervisors must ensure that all audit processes are traced and documented in the working papers and other required checklist forms on a regular basis. Some auditors remarked that the introduction of this new practice has

affected the way in which supervisors or senior-level auditors conduct their audits. Yet, some seniors may continue to follow older practices of, for example, waiting to review and sign auditor working papers until the auditors are in the process of preparing the audit reports, as explained by a senior audit manager below:

> *Some senior supervisors still try to maintain their old audit practice where the supervisor used to be less important (than the team leader) and usually they did the review until the team had come back at the office. They did not sign the auditors' working papers at the auditee's site. They did not keep the record of the trace the process of working paper until the final reports and leave the responsibility to the team leader like it used to be. I did not know why they still like to apply our old system.* (Auditor 13, Manager, Interview)

Other auditors support the view expressed by the audit manager above. For example, one senior team member admitted he is reluctant to follow the new practice because he is more comfortable with the old system. He went on to suggest that the new systems may lead to extra work because of the need to prepare more forms and the need to take more time in preparing more detailed audit records. He noted:

> *If we want to follow the new working papers formats, maybe we couldn't manage our time very well and we may not be able to finish our work on time. So we prefer what we used to do, focusing more on executing the audit procedures and the audit findings instead of preparing documentation of our audit work more perfectly.* (Auditor 18, Team Member, Interview)

Similarly, although some auditors realise that the new procedure may improve their audit quality, others voiced their disagreement and suggested that the old systems may still be applicable. One team leader pointed out:

> *Yes, I know the new system with the links can make the audit more traceable. Although, from my personal point of view, the new system is not that complicated, but I think it adds auditor's jobs. It bothers us.* (Auditor 30, Team Leader, Interview)

Some auditors argue that certain seniors tend to be reluctant to follow the new system of working papers because it relies heavily on the application of computer systems instead of traditional paper-based audit documentation records. Some auditors argue that more senior auditors tend to fail to keep up with the changing environment, especially in relation to IT matters. A senior supervisor explained:

> *The first is the seniors' computer literacy. They always trust only the hard copy of audit evidence. When doing a fieldwork, they rarely use their laptop, always depending their work on physical or paper-based evidence. I mean the era has been changing now and examining and depending largely on hardcopy evidence might be an old-fashioned thing.* (Auditor 13, Supervisor, Interview)

The quotation above also describes the older senior auditors' approach to conducting the audit. Some auditors suggest that certain seniors' continued reliance on the older practice of using paper-

based audit evidence as opposed to digital or electronic forms might not be a good fit with current audit practice. According to some auditors, the office has provided them with the latest audit IT tools and services, including technical guidance. However, some auditors stated that other senior auditors appear to fail to keep up with these changes. They tend to maintain the status quo and not learn because '*they appear to lack the intention to improve their capabilities following the latest audit developments*' (Auditor 11, Team Member, Interview). A team leader suggests that:

> *The problems sometimes come from our internal matters. Although the office has developed new better audit tools and strategy, I notice some old seniors still try to apply their rather conventional techniques that seem to be less applicable now.* (Auditor 3, Team Leader, Interview)

The above remark suggests that some seniors may try to maintain their traditional practices because they have been accepted and applied for a long time, and that to replace them would require them to learn new things that may take them away from their established routines and practices. Some argue that they may prefer to keep the old system as they may be afraid of not being able to achieve the new standards set by their office. One auditor said that '*I notice that apparently the senior auditors don't want to leave their comfort zone*' (Auditor 10, Team Leader, Interview).

Furthermore, there have also been significant changes to auditing- and accounting-related standards and regulations. The standards and regulations have been developed and improved to reflect and accommodate the continuing evolution of financial reporting and changing audit environments (Schilder 2013). For example, auditors explained that certain new regulations require auditors to complete their work more quickly, effectively and efficiently. As explained previously (refer to Chapter 6), according to regulation pertaining to the audit of government financial statements, auditors are mandated to complete an audit and issue a report to parliament within 60 days. Some auditors argue that '*it may be a big constraint and affect the quality of our work because we do not have enough resources to do the audit that quick*' (Auditor 8, Supervisor, Interview). However, this requirement must be met and the audit organisation is required to adapt its practices in order to achieve this demand. Pressure is placed on auditors as a result of the need for the audit organisation to adjust to the changes. Some auditors argue that this pressure has affected seniors the most, as this is the group with the greatest tendency to not keep pace with fast-changing regulations. For example, a senior audit manager explained that one senior supervisor working under her appeared to have failed to follow changes to accounting standards that he should have been aware of. She noted:

> *Senior auditors may ignore to update themselves, to read a lot. When I asked some of them whether they have read the current changing of accounting standard No. 24, they said no. How can they do a good audit if they haven't read it? They, as a supervisor, need to update themselves, to learn and to learn.* (Auditor 29, Audit Manager, Interview)

With regard to this situation, some auditors believe that these seniors may become a burden on the team, thereby preventing the audit organisation from operating smoothly and producing good-quality audits. However, because of their senior status, there may be a reluctance among juniors to challenge these seniors, meaning they accept the condition. If there is a senior acting as a team member who sticks to the status quo, junior auditors may display a tendency to take over the senior's work, which may eventually slow down the progress of the audit. Work might also not be distributed properly. *'If there is a senior in the team that can't follow the work of the rest of us, the rest will suffer from the effect'* (Auditor 20, Team Member, Interview). Yet, some may prefer to have a new, fresh auditor in their team rather than a senior who tries very hard to maintain their outdated approach. One team member noted:

> *I prefer to have fresh auditors in my team because they will listen. However, for the old senior auditors, particularly those who don't have good IT skills, not only IT but even basic computer skills, they may trouble the rest of the team. We need to take over their work. They may reduce our audit quality. (*Auditor 12, Team Member, Interview)

To a greater extent, some auditees admit they would prefer to be audited by new auditors than other auditors who are resistant or reluctant to change. One auditee suggested that she '... *liked to have a discussion with the young auditors instead of the seniors because they understand what I am talking about* (Auditee 2). Furthermore, she emphasised that she was aware of senior auditors who fail to keep up to date with their knowledge of the auditee's changing environment. For example, in line with rapid development of the Indonesian government's accounting systems (Priyono 2012), the area of government asset management, with which she dealt, had also become more complex, with rapid and significant changes in relation to the law and regulations taking place over recent years (GOI 2014, 2008, 2006c). In an audit, she found a senior who was inclined to fail to follow the rapidly changing structure and process. She went on to say:

> *The auditor asked me about this supplies matters. As an auditor, he should have already known what my job description is, what output I make. I had been asked something outside my roles. He didn't look as if he understood the mechanisms and procedures of the account he was examining. I helped him explain the process, why this can be this, what this report is for, etc. I know how hard it is to be an auditor because they need to pass several tests. I think they don't read a lot. They seem to have little understanding of required knowledge, even some basic things.* (Auditee 2)

Another interviewee reinforced this sentiment. A team leader believed that *'it is very dangerous if we do not catch up on and update the changing systems'* (Auditor 3, Team Leader, Interview) because a comprehensive understanding of this is an essential prerequisite for producing a quality audit. He continued that some seniors appear to have limited knowledge of auditees' changing business processes because they may neglect to make the effort to learn new things from many sources in order to improve their knowledge.

> *Auditors need to learn a lot. Sometimes some senior auditors are less motivated to improve themselves. The auditee may be smarter than us. Sometimes I found new things from the auditee and auditee told me some new regulations that I didn't know. So updating auditee's business process and its related regulations are very important. Sometimes they don't update these.* (Auditor 3, Team Leader, Interview)

All of these conditions can place significant pressure on the audit organisation as some of the defensive positions adopted by seniors may generate instability. For example, according to some auditors, due to the lack of competent seniors arising from their failure to maintain their continuing professional development, the NAB may appoint auditors from lower positions to perform a higher role in an audit engagement, even though they do not hold formal certification for that role. Junior auditors may thus lead teams whose members are more senior than themselves. *'Some of the junior team members (ATY) can learn very fast. Some of them have already been a team leader and they are a very good team leader'* (Auditor 9, Supervisor, Interview). An audit manager explained that newly promoted team leaders are selected from among excellent junior team members who have consistently performed very well in terms of their audits:

> *Some junior team members are assigned as a team leader in an engagement. However, luckily most of them are really qualified to be a team leader although administratively they have not held a formal qualification of the higher role.* (Auditor 13, Manager, Interview)

However, *'some junior team member (ATY) auditors who are appointed to be a team leader said that they are nervous or not brave enough to be a team leader leading many seniors'* (Auditor 19, Team Leader, Interview), and *'some of the auditors are very competent but they don't want to be a team leader'* (Auditor 10, Team Leader, Interview). This might be due to a seniority issue. Some junior team leaders may feel uncomfortable leading other auditors who are much more senior than themselves. They may be reluctant to monitor them and to correct them if the seniors do something wrong or make mistakes. One team leader commented:

> *Some incapable seniors may not be able to follow the rhythm of the audit. However, some of them are never really told about what need to do. So they might not know they are making mistakes.* (Auditor 10, Team Leader, Interview)

However, some junior team members may try taking a softer approach with a senior team member when they lead a team. They may guide the seniors indirectly by, for example, creating detailed written instructions, steps and customised forms for the seniors to complete instead of giving them face-to-face oral instructions. One team leader explained:

> *I once had a senior member in the team that I led. He couldn't do a good audit but he talked a lot and always argued. So I just created some detailed written instructions including the forms for him what to do.* (Auditor 10, Team Leader, Interview)

Another team leader applied a similar approach. He suggested that:

We prepared all the forms to be completed by him. So it meant that I guided him indirectly in advance using that forms. He had his own responsibilities and if we let him do what he wanted to do and if he would have done something wrong after a few days that I couldn't control, it would affect the rest of us. It could get us hard feelings without being able to argue with him. (Auditor 3, Team Leader, Interview)

Furthermore, because of competent juniors' objections in terms of leading the seniors and also due to the issue of certain seniors' incompetence, some audit managers have prioritised juniors. As a consequence, some seniors might conduct audits on a less frequent basis than their junior colleagues. According to one team leader, some seniors may only conduct one or two assignments per year compared to juniors who normally work on an average of four to five assignments per year. He said:

Some seniors may also now regularly be abandoned, like one of my colleagues in my unit. It is very rare for him to be involved in audit assignments more than twice in one year. (Auditor 10, Team Leader, Interview)

Not being included in an audit assignment means that the seniors may not earn sufficient credit to move to a higher position. According to one senior audit team leader who also holds supervisory certification, there is dissatisfaction among seniors in response to this growing tendency. Some seniors feel they are being abandoned by not being regularly included in a team, meaning they find it very difficult to move up to a higher level. This may affect their salary because higher positions have higher salaries. One senior auditor stated that she had remained in the same position for a relatively long time as a result of this condition. *'I protest the office because I feel I am not being treated fairly and it is not only me, some of my colleagues experience the same thing'* (Auditor 19, Team Leader, Interview). Others in the same situation have left the office to find better opportunities at another office. A manager from the human resources unit confirmed the resignation of a number of seniors, although the number was not overly significant relative to the total number of auditors. One senior who intended to quit expressed her concern about this matter:

Now, we can see some senior auditors tender their resignations to get another job. NAB may not be able to reject their intentions. Some seniors may feel that it is very difficult to move up to one higher level. Some seniors feel desperate. Some of my friends from one of the NAB's representative offices have resigned because of this. (Auditor 19, Team Leader, Interview)

Another auditor expressed the same view, making the following comment:

What I know is that some of my senior colleagues are not satisfied with the office. Some feel that it is very hard for them to move up to a higher hierarchy of auditor position level. One of my friends has been six years in the same roles. This may influence their performance and their sense of belonging to the office. They may feel that they may not be needed anymore because they are not being treated fairly by the organisation. (Auditor 4, Team Member, Interview)

It is clear that auditors at all levels need to engage in a process of continuous learning throughout the duration of their tenure. This does, however, require a sustained, lifelong effort on their part, and some seniors fail to do so because they are not liable to leave their life of ease. They may thus attempt to maintain old practices. The next discussion looks into the main causes of ineffective or incompetent seniors and how these may create pressure on juniors in terms of them having access to good mentoring and coaching from seniors.

8.3.2 The Learning Tensions

Including me, sometimes I feel I don't have enough latest knowledge that is supposed to be gained. So regular technical updates are really needed by the auditors. (Auditor 19, Team Leader, Interview)

The above quotation from a senior team leader represents the view of some seniors regarding their current capabilities and audit knowledge. The empirical data suggest a number of problems that may give rise to ineffective or incompetent seniors. The first problem is the shortage of auditors leading to ineffective promotion systems. As previously noted, the audit organisation has a relative abundance of junior auditors while also having a relative lack of team leaders and supervisors (refer to Chapter 7). According to a manager from the human resources division, the last four years have seen a loosening of the criteria for auditor promotion. Former members of audit staff now working in administrative or office management functions may be returned to senior auditor positions without being subjected to the proper assessment, with some auditors feeling this scheme is unfair. One auditor said that, *'sometimes the team leader is more capable than the supervisor because I think some supervisors are appointed because of seniority rather than their capabilities'* (Auditor 12, Team Member, Interview). An audit manager provided an example of how one supervisor working under her had struggled to conduct an audit after returning to the role. The audit environment that he had been used to had since changed. She advised him to learn and read extensively before being ready to supervise a team. She explained:

One of the supervisors from my last engagement had just come back to be an auditor and had been a long time doing an administrative job. So she had forgotten about most audit things. I couldn't push her. I said read a lot again slowly, you had some experiences in the past. (Auditor 7, Manager, Interview)

Furthermore, due to a shortage of auditors qualified to act as team leaders or supervisors, more senior audit members may be pushed to perform in a higher role. As noted in the previous subsection, some may be successful in carrying out these more senior roles. On the other hand, however, some auditors suggest that these so-called premature team leaders may not be able to handle the responsibility due to a lack of sufficient experience working in that role. A senior supervisor expressed his view of this matter:

> *In some units, the auditors were prematurely promoted to a higher level. The auditor who has not had enough experience has been pushed to do a higher role. I mean maybe he is not ready to be a team leader. (Auditor 14, Supervisor, Interview)*

Another auditor emphasised the crucial contribution of experience to the success of the audit, as given below:

> *One of the most important factors is the auditor's audit experience, how long and how many times they have been conducting audits. The more they conduct the audits, the more they know how to deal with this and that. (Auditor 17, Team Member, Interview)*

Another problem of ineffective seniors is related to the system of regular rotation from one unit to another different unit, which may create knowledge pressures on the auditors. According to a manager from the human resources division, auditors are moved to different units after working in their current position for a maximum of five years in order to maintain their independence from the auditee and also to provide them with new experiences in new and different environments. Due to the absence of specialised divisions based on certain types of audit, there is a chance that auditors may be placed or moved into a new position that does not mirror his or her academic background or current capabilities. *'For example, one auditor who has a degree in forestry had his first placement in the unit dealing with the forestry matters and based on appropriate regulation but after five years he needs to be moved into another unit (without considering his current expertise)'* (A manager from the Human Resources Division, Interview). This rotation may have negative consequences. Auditors may very often not grasp contemporary developments in the new environment. For example, an audit manager told of how one of her supervisors had just moved from another unit with a very different set of audit requirements and environment, and that this auditor had consequently desperately struggled to carry out an audit. In the new unit, he had been immediately assigned to conduct an audit without having had time to build his knowledge of the new environment. She said:

> *The supervisor had no good knowledge of the new auditee's environment. He had been 15 years dealing with local government audits and then moved to the unit dealing with state-owned enterprises. It is a very different environment. We need to adapt very fast. I had a similar problem once. I learnt, but we couldn't learn so fast. (Auditor 29, Audit Manager, Interview)*

Some auditors argue that although they may have worked at the same office for a long time, they nonetheless also need to have the relevant training before moving to new places, in order to learn the distinct knowledge and expertise required. They argue that immediate assignment may force them to attempt to learn at the same time as conducting an audit, which may have an impact on the pace of the audit and may eventually lead them to engage in reduced audit quality practices (see Subsection 8.3.5). One auditor shared their experience of this matter:

> *I used to be in a representative office dealing with mainly local government audits and now I am dealing with central government budget audit, particularly in the Customs*

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Division. So far I haven't done any training about the customs matters, so I have been learning by doing. I keep in close in touch with seniors to learn their experience. Although both local and financial statement audit quite similar but for another audit in my new unit such as performance and special purpose audit needs more specialised skills and I haven't had such training. (Auditor 20, Team Member, Interview)

The issue outlined above may result in underprepared auditors. Some auditors claim they are not confident of their ability and do not fully comprehend all of the required audit procedures when they start the fieldwork. One auditor said they are *'executing and trying to understand (the audit procedures) at the same time during the field work'* (Auditor 43, Team Member, Interview). As a consequence, they may be devoting time to learning while in the field at the same time as facing a limited amount of time to conduct and sign off on procedures. One auditor recalled:

> *Thus, in the field they learn and take the time to understand the audit procedures and the new audit environment. On the other hand, they are facing a tight schedule.* (Auditor 8, Supervisor, Interview)

Likewise, another team leader noted that he once had a senior team member who had very recently moved to his unit. He had provided him with some references and materials in relation to the audit matters that he needed to learn, in addition to helping him discuss his new environment. However, the auditor did not appear ready to work on his first audit assignment in this new unit. The auditor suggested that he needed to work on one or two audits in order to gain sufficient new knowledge and expertise. He explained:

> *When starting doing an audit the auditor needed to be ready. However, in fact, he still didn't have some important knowledge. I asked him to read this, learn that. We had a discussion about his new environment. In the first week he still learnt and tried to understand what he should have known.* (Auditor 3, Team Leader, Interview)

An audit manager shared a similar experience of struggling to orient herself to a new environment:

> *I took quite a long time to learn and understand the new audit and environment. That is why I urge the new auditor who is moved to a new unit to learn very hard.* (Auditor 29, Audit Manager, Interview)

In addition, during my observations, I found auditors who, having rapidly been assigned to conduct an audit in a new unit, were struggling to adapt to their new environments. During an interaction with an auditee in the field, for example, one auditor frequently appeared confused and, according to the auditee, at times asked questions that were either out of context or not relevant. For example, she asked for documents that the auditee was not dealing with and the auditee repeatedly had to explain his job description and role. When I asked the auditor about this, she said, *'this is what is happening if an auditor is not capable of auditing an entity she does not know'* (Observational conversations with a team member of audit team 2). She continued that she had just

been moved to a new division a few days prior to the engagement and did not have a comprehensive understanding of either the type of audit or the auditee's environment.

Some auditors believe that ineffectual supervisors and team leaders or senior team members may have a negative impact, especially on more junior members. One spoke of the absence of an effective transfer of knowledge from seniors to juniors through coaching and mentoring during an audit engagement. Some auditors suggest that it is this type of knowledge transfer that plays a key role in the development of new auditors' skills and capabilities, rather than formal means such as training. An auditor noted that *we have some training, but apparently some do not improve our capabilities significantly* (Auditor 10, Team Leader, Interview). They argue that learning from seniors from engagement to engagement may considerably increase their experiences and capabilities. One team member stated that they were able to ask and discuss many things with different seniors in different engagements. Every capable senior has his or her own audit knowledge and techniques from which junior members can learn. He explained:

> *We can learn different things from different teams. Everybody has their own experience. We can learn a lot of things from the most experienced ones.* (Auditor 20, Team Member, Interview)

During an audit assignment, when encountering difficulties, some juniors may look to more experienced auditors to help them solve problems. One auditor stated, *'in my last engagement I felt very desperate because I didn't know which direction I need to go so I contacted the seniors to ask for advice'* (Auditor 30, Team Leader, Interview). In the same way, another team member explained that she depends largely on the help of senior team leaders when confused about what to do. She has learnt the required skills from her certification training and has also read a lot. In the field, however, she would very often become confused when faced with a practical matter, and, when faced with this type of situation, may ask a senior colleague for help. She said:

> *I am a new auditor, still need to learn a lot. I can read but sometimes I don't know whether what I do is correct or not, I still get confused, so I need the team leader a lot. The team leader is very important. I ask him a lot of things.* (Auditor 17, Team Member, Interview)

Similarly, another team member argued that very often the senior shares valuable advice and techniques that they may not necessarily have been exposed to as part of their formal training. The seniors share their knowledge of how to execute procedures effectively. This sharing of knowledge may help juniors to conduct a better audit in their subsequent engagements. He explained:

> *The supervisors should have gained a lot of audit experience so they can share with us. For example, one procedure says some steps need to be performed; they can add some explanations that we can also do this step B in addition of step A. So sharing knowledge is really important in the conduct of an audit.* (Auditor 21, Team Member, Interview)

However, due to the fact that there may still be incompetent seniors, as noted above, this peer mentoring process may not function as effectively as expected. Some new auditors may not receive sufficient coaching from more experienced auditors, while others may develop their best experience of audit practice through their own learning from many engagements. This process of independent learning may take longer and an absence of qualified seniors may mean they do not learn in the correct way. For example, one supervisor pointed out that during her time as the supervisor of an audit team, she discovered the likely reason for an auditor not having performed a procedure correctly to be inadequate coaching from seniors. She suspected that he had not learnt the appropriate techniques from qualified seniors during his previous engagements and that nobody had corrected him. She expressed her view as follows:

> Maybe there is not enough coaching from seniors to juniors. When I was a team member, my team leader did not coach me very well. I needed to learn and read myself. When I was supervising a team, one junior auditor examined a road construction. It seemed that he didn't examine it in a normal way applying the best practice that is commonly used by good auditors. I assumed that he didn't have good coaching from his seniors from previous engagements. (Auditor 8, Supervisor, Interview)

Moreover, one auditor stated she would be lucky to have a good team leader or supervisor in her team who was able to act as a mentor and from whom she could learn a lot and extend her knowledge. She explained:

> Not all team leaders would be good and competent enough to be our teacher in the field. I am sorry to say this, especially our older generation auditors. (Auditor 33, Team Member, Interview)

She continued:

> Sometimes, sorry to say this, in the field I ask the team leader what the best way to deal with the documents. He said just look at and analyse them. As a new auditor I sometimes get confused how to examine them. I have just known these kinds of documents and they all looked fine for me. I need coaching. After entry briefing with the auditee we were all silent, busy with our own work, if I got confused I ask my friend (rather than the team leader). We are lucky if we can get a good team leader that can coach us very well, if we can't it is our bad luck. (Auditor 33, Team Member, Interview)

Similar to the above-stated view, another auditor argued that as a new auditor it is normal to become confused and that guidance from seniors is really needed. He explained:

> For the new auditor like me, in my first engagement I may get confused about what to do, what the right treatments (of the examined account), what the effects if they do this or that. Those are what we don't really get instantly as a new auditor. (Auditor 17, Team Member, Interview)

Furthermore, an auditor suggested that coaching and mentoring should not only take place during fieldwork. The continuous sharing of knowledge also needed to take place when auditors

were in the office and not engaged in any audit activities. This may include regular discussions with seniors on certain topics. Seniors may also be appointed as a mentor for several juniors. She noted:

> We need mentoring. It is important. So when I go back to the office we have someone to ask and discuss. One mentor can handle two or more mentees. (Auditor 17, Team Member, Interview)

In summary, it is believed that seniors play an important part in many different areas of knowledge transfer as a result of their wider audit experience. Some auditors argue that learning from more experienced colleagues may contribute greatly to their skills. However, the audit environment is changing and some seniors fail to keep up with the required changes. As a result, more junior auditors may experience learning tensions.

8.3.3 Response to Tensions: RAQB

The empirical evidence suggests that auditors associate a failure to keep up with new knowledge, skills, capabilities and competence with the incidence of reduced audit quality outcomes. As noted in previous subsections, the problem of maintaining auditors' capabilities and knowledge may involve the complex arrangement and balance of different demands, including a shortage of auditors, ineffective promotion systems resulting in the premature promotion of junior members to team leader and supervisory positions, the regular rotation of auditors and a lack of sufficient coaching and mentoring between seniors and juniors. These factors give rise to tensions that may eventually expose deficiencies in expertise. Some auditors believe that an auditor is likely to perform PFSO if he or she is lacking in the requisite knowledge and capabilities. For example, one auditor suggested that if an auditor has been able to collect all of the required auditee documents, but does not have sufficient knowledge of, for example, how to analyse the audit evidence appropriately, he or she may either intentionally or unintentionally sign off on the procedure falsely or prematurely. 'It could be due to the auditor's limited knowledge of the issues he examines' (Auditor 5, Team Member, Interview). An auditor noted that 'because of their lack of competence and knowledge they may not execute all the procedures although they may want to complete all of them' (Auditor 4, Team Member, Interview). Another team member said that 'it is maybe because the auditors don't have the required skills, so they give up (on completing the audit procedures properly)' (Auditor 20, Team Member, Interview).

A supervisor supported the view expressed above. She highlighted the importance of the distinct audit proficiency gained through learning or experience. It is very likely that an inexperienced auditor is unable to identify problems within the accounts he or she examines. She explained:

> Because of the auditor's limited knowledge that they must acquire, when they examine auditee's documents they won't find anything. The documents look okay for them even though actually they have some problems. (Auditor 8, Supervisor, Interview)

As previously discussed, this lack of technical proficiency may also be caused by an ineffective system of auditor rotation within non-specialised divisions at the NAB. For example, an auditor noted that one of her supervisors performed superficial audit supervision after having just been assigned to an audit engagement immediately after moving from a different unit. She noted:

> When a supervisor just arrived in our group, he was assigned immediately to supervise a team without knowing anything about our audit type and the environment. So he was learning while supervising and in certain points he looked very confused. He didn't do the supervision properly. When we asked him for some advice on some issues we didn't really understand, he just said that we just needed to continue to do what we had been doing and what we thought we needed to do, without checking our work. (Auditor 33, Team Member, Interview)

She continued to state that this issue needed to be handled by the organisation through better consideration of the current competence of auditors when seeking to move them:

> The human resource unit should have a policy to place auditors based on their relevant skills, especially for the position of supervisor. If the replacement is set to be every five years, the supervisor has to be moved to the unit that they used to be familiar with the audit environment. Otherwise, there will be some troubles for the team. (Auditor 33, Team Member, Interview)

It is not only supervisors, but also other auditors within the different hierarchy who are very likely to perform reduced audit quality practices when carrying out an audit with insufficient knowledge of the audited entity's environment. For example, one of the auditors reported that a colleague had been struggling to carry out an audit in a new environment *'because the auditees' business processes are very different to the ones he used to know'* (Auditor 3, Team Leader, Interview) and that this eventually led him to engage in reduced audit quality practice. Two other auditors also reported the following:

> For example, I and the three other team members currently have just moved to this unit and have immediate audit engagement. We still lack knowledge of the auditee's business process and this type of audit. Then we just do what we can do. (Auditor 4, Team Member, Interview)

> There may be reduced quality as there are some auditors (in my unit) come from other units who had very different audit environment. Maybe it is not because they lack quality, they just need more time to adapt. (Auditor 1, Supervisor, Interview)

In addition, as noted previously, some seniors may not be able to keep up with the latest developments in audit knowledge and expertise. Some supervisors are very senior employees and as a result of the audit organisation facing a shortage of senior-level auditors, are requested to return to the capacity of auditor from their managerial and administrative office positions, while others continue to hold the dual responsibilities. They do not have enough training to keep up with an environment that is different from the one they previously worked in. *'When they come back to be*

an auditor they may have forgotten their audit skills and there have been a lot of audit and auditee regulations that have been changing significantly' (Auditor 14, Supervisor, Interview). As a consequence, they do not perform their roles appropriately. They may maintain the status quo and adopt a defensive stance, as discussed in the previous subsection, that may result in them engaging in only superficial audit supervision. For example, a supervisor explains below that when he was a team member, he found a supervisor in his team who engaged in superficial audit supervision. He said it seemed that the supervisor in question, who had just returned to working as an auditor, attempted to avoid discussing technical audit matters with the team. He would very often do something unrelated to audit matters instead. The supervisor went on to explain that:

> *When he was visiting the team, the first questions asked was where the best restaurants in the area. He looked like a traveller rather than a supervisor.* (Auditor 14, Supervisor, Interview)

Another impact of ineffective or incompetent seniors may be the absence of a good role model to provide juniors with an example of how a proper audit should be conducted. Some seniors who persistently engage in bad audit practice may pass their bad habits and bad examples on to juniors. Some argue that juniors may copy bad practices that have very little chance of being detected and punished (see Chapter 7). *'Some fresh graduates in this organisation don't have other comparisons so if the seniors say this they would follow this as the correct thing to do'* (Auditor 33, Team Leader, Interview). For example, a supervisor below pointed out that a senior's bad practice of not paying too much attention to detailed procedures may be followed by junior auditors:

> *Some team leaders never coach the team members. There is no good role model. Some never teach the team members how to do a good audit. Some team leaders don't exercise their best due professional care when examining audit evidence. As a result, some juniors now tend not to care to do more detailed things when needed when executing some audit procedures.* (Auditor 8, Supervisor, Interview)

To conclude, some reduced audit quality practices may be seen as a consequence of the tension of dynamic audit knowledge. An auditor may perform reduced audit quality practice such as PFSO if he or she has insufficient knowledge of the account they are examining. The evidence also reveals that some supervisors may engage in superficial audit supervision as a defensive response to the paradoxical conditions.

8.3.4 Organisational Responses

As noted in Subsection 8.2, in order to be promoted, in addition to formal qualifications and other requirements, an auditor is required to earn predetermined amounts of promotion credits. One area through which credits can be earned is that of professional development, which includes an auditor's own activities in respect of updating their own professional knowledge. This is one of the methods used by the NAB to encourage auditors to improve and update themselves. *'We have*

been revising auditors' technical guidance to get promoted to a higher position by strengthening the professional development component in order to maintain their capabilities' (A manager from the Human Resources Division, Interview).

Furthermore, according to a human resource manager, in addition to the requirement to both amass credits and pass certification training and examinations, a further requirement has been applied in relation to auditor promotion in the form of annual performance assessment. Auditors who fail to perform well and who show no improvement in their performance over the ensuing two-year period may be demoted.

> We used to loosen the requirements and criteria of the auditor to be promoted, but currently we are very concerned about this. We have been developing a system that can identify auditors who cannot perform their roles properly. If they do not improve in two years, they will be demoted to a lower role. In order to be promoted to a more senior level, an auditor needs to wait at least three years and he must pass certification training and he also needs to pass annual performance assessment to know whether he qualifies for a higher position. (A manager from the Human Resources Division, Interview)

However, the auditors seem to regard such policies as a constraint on their career paths as they may not easily achieve the required credits whilst at the same time meeting the compulsory requirements for promotion to a higher position. Some may need in excess of five years to earn sufficient credits to advance one level. As mentioned previously, some seniors do not seem happy with this system because without moving to a higher position, their salaries will not increase. Some quit and find opportunities outside the NAB as a result of this dissatisfaction. One supervisor explained:

> This practice may cause the NAB's skilled auditors to quit. The real application of functional auditor system with the credit threshold has some disadvantages. It is not easy for the auditors to move up to higher positions because there are so many requirements. Some can't go up and stay too long at their current position. Some have been seven years. It is so difficult. Non-auditor employee will automatically go up to one higher level every four years. I am one of the victims. (Auditor 14, Supervisor, Interview)

With regard to the need for more practical training suited to current developments in audit, a manager from the training centre explained they had developed a training needs analysis in order to determine what auditors working in the field really needed, gaining knowledge through, for example, focus group discussions. In such a way, they may be able to provide more practical, tailored training and curricula based on the specific skills required in the role of auditor. He said:

> We have been developing training needs analysis for all units to know what training they really need. We have been developing curriculum tailored to auditors' need. We also include cases from current issues. (A manager from the Training Centre, Interview)

The NAB has also begun uploading teaching modules, audit manuals, guidance, guidelines and updates to laws and regulations on their official internal website. The manager stated, *'we regularly*

upload the update of law and regulations in our internal official site so the auditors can update their knowledge' (A manager from the Training Centre, Interview).

However, not all of these efforts have been enthusiastically received by the auditors. For example, some prefer the use of more informal channels, such as mailing lists or social media group applications, to improve their knowledge. A number of auditors attempt to use these channels to share the development of new audit practices and regulations with colleagues, and to discuss current issues. Some argue these practices may be very helpful during audit assignments, offering the ability to share problems, respond to each other and give advice and solutions to any problems that arise. Two auditors explained:

> *Eventually, it is not from the organisation effort. Some of us, in the bottom, take the initiative by creating our own group. We create a group in BBM (Blackberry Messenger) and WhatsApp application to share. When doing an assignment, without being known by the supervisor, we interact with each other, help each other.* (Auditor 23, Team Member, Interview)

> *We informally create an email group. So, for example, during the engagement, every problem can be raised in this group. So we can help each other when someone needs advice, guide or something to discuss together.* (Auditor 2, Supervisor, Interview)

In summary, the contradictory conditions resulting from the problem of maintaining auditors' capabilities has led to responses from both the NAB and its auditors. However, some auditors believe that their organisation does not seem to implement effective solutions in response to some of the problematic issues, especially in relation to the strict implementation of the requirement for auditors to earn credits to be eligible for promotion.

8.4 Conclusion

This chapter has aimed to draw attention to some of the contradictory problems regarding the complex and dynamic nature of audit knowledge that can result in paradoxical pressures within the organisational setting. Dynamic changes within the audit environment have led to the tension of adaptation, observed as being particularly strong among more senior auditors. The evidence presented earlier suggests there is resistance from auditors who appear to prefer maintenance of the status quo by retaining older and to a certain extent more entrenched audit practices. These ineffective seniors may pose a serious problem with regard to the transfer of knowledge. A number of auditors claimed the most effective way to acquire knowledge was to learn from more experienced auditors as opposed to engaging in formal training, a process which is at risk in these circumstances.

To conclude, this study also reveals some of the reduced audit quality practices that may result from the paradox of dynamic audit knowledge. Some auditors are seen to engage in reduced audit quality practices such as premature or false sign-off and superficial audit supervision as a result

of a lack of expertise or a degree of intransigence. In an effort to address these problems, the organisation has attempted to improve its current practices, such as strengthening its training and individual professional development schemes. However, some auditors do not perceive these to be sufficient measures. One auditor response identified involved the creation of their own ways to conduct their own development by, for example, holding regular discussions among themselves, either online or face to face, as a means of sharing and improving knowledge and proficiency. The next chapter will present the final paradoxical tension found within the NAB which relates to audit team engagement problems.

Chapter 9 Paradox of Audit Team

9.1 Introduction

This chapter aims to explore the third form of paradoxical tensions found in this study. The final paradox deals with tensions that were observed in the audit teams, which formed the central part of the field research process. The main contradicting tension discussed in this chapter concerns the pressure between plurality within the team versus team cohesion. In a more complex audit environment, the team may require different auditors with distinct expertise. However, this heterogeneity may also serve to reinforce the team's intrinsic problems and eventually undermine its cohesion. A number of organisational problems may also reinforce the tension.

This chapter proceeds first to recall the process of the formation of an audit engagement team, including the roles of each auditor involved. Second, it discusses the tension as mentioned in the above paragraph. Finally, it highlights the reduced audit practice arising as a result of this tension and some of the ways in which the NAB has responded to the paradox.

9.2 Audit Team Engagement

A financial statement audit comprises planning, conducting and reporting (NAB 2015). An audit engagement team is formed during the planning process (refer to Chapter 3 for further explanation). The composition of an audit team considers the need for the collective capabilities, skills and competence required in a team as a whole. This includes technical expertise such as expertise within specific areas of auditing and accounting and also relevant information technology (IAASB 2009b, ISA 220 par A10). Since there are no specialised audit divisions based on types of audit, the auditor conducting a financial statement audit is not necessarily an accountant. Although accountants in general dominate the engagement teams, other auditors may come from a variety of different fields of expertise.

In an audit team engagement, depending on the size of the entity being audited, the team is usually composed of two to four team members, typically one team leader, one supervisor and one audit manager. Following establishment of the audit team, each member is allocated his or her own individual programme. The audit team members perform their assigned audit procedures and document the collected audit evidence in the working papers. The audit team leader organises and directs the team members' work. The supervisor controls, monitors and evaluates the audit on a day-to-day basis and ensures the audit is conducted effectively and efficiently in accordance with the audit programme. The work of audit team members is first reviewed by the team leader and then reviewed, agreed and signed by the supervisor. The role of the audit manager (or auditor in

charge/quality controller) is mainly to ensure quality control and to check that the audit is conducted in line with the required auditing standards. He or she is also responsible for signing the audit opinion if mandated to do so by the chairman of the NAB.

The complexity of tasks and also the plurality of the auditors may give rise to numerous group problems with the potential to prevent the team from achieving its shared common goals (Smith and Berg 1987). Previous research has also examined group problems in an audit team such as the conflict and cohesion (Notgrass et al. 2013; Vera-Munoz et al. 2006; Bamber et al. 1998) routinely found within an organisational group (Carron et al. 1998; Gammage et al. 2001; Smith and Berg 1987). This study, on the other hand, explores how the complexity and plurality of the team's composition and tasks, in addition to the organisational problems as previously noted, can lead to a range of paradoxical tensions. The following discussions talk about the tensions that may eventually lead to the occurrence of reduced audit quality practices.

9.3 The Tension Between Team Plurality and Team Cohesion

As discussed previously, an audit engagement team consists of a collection of individuals with different backgrounds, capabilities and identities. In a financial statement audit, each auditor is normally responsible for several accounts that act as the sources of the examined financial statements. This means that, although they each have their own individual tasks, their work is also dependent on the other auditors within the team. Some auditors commented on the fact that every member has interrelated responsibilities and that each member needs to know and understand what is expected of them as a member of the team.

The NAB does not have auditors dedicated to specialised types of audit, meaning the auditors assigned to conduct a financial statement audit may come from various academic backgrounds and areas of expertise, such as accounting, computing, law or engineering. They are able to conduct a financial statement audit after having undergone relevant training, notably accounting and auditing skills, and also after passing their role certification tests (see Chapter 8). According to the study's observations and analysis of the team members' individual audit programmes, accounts are normally allocated based on auditors' previous background knowledge, expertise and proficiency. For example, although the assigned auditors have developed proficiency in accounting and auditing through training and tests, capital expenditure accounts may be assigned to auditors who have building or road construction knowledge or to an auditor who has graduated with a civil engineering major because it may involve, for instance, the examination of building construction and civil engineering contracts. Auditors with a background in law may be allocated work on issues involving legal contracts. An IT graduate was assigned to work on the evaluation of an entity's computer system during the test of controls. A team leader made a further comment on this matter:

It is not only the accountants involved. For example, we have friends from law to deal with legal matters and the engineering auditor when dealing with a more technical building construction examination... We can include IT auditors to examine auditee's computer systems. (Auditor 19, Team Leader, Interview)

A supervisor further explained:

When we do a financial statement audit, sometimes we need to assess a building structure or when we need to examine medical equipment or medicine purchases and supplies in a government hospital, it would be better to have someone who has a good understanding of those. I am myself an accounting graduate. We need some auditors from relevant educational background and expertise. (Auditor 1, Supervisor, Interview)

Thus, in order to be able to achieve the intended audit results, team members need to cooperate with each other to share and discuss their interrelated tasks. A team member said that *'the financial statements audit includes not only things related to accounting matters; we can share and discuss the different knowledge and tasks (with other team members)'* (Auditor 31, Team Member, Interview).

However, in practice, this plurality of expertise and backgrounds may lead to team problems such as lack of teamwork and coordination. In other words, on the one hand, heterogeneity may have benefits in a complex audit environment requiring different and distinct areas of expertise. On the other hand, it may also threaten team cohesion since the individuals making up this heterogeneous group may not act in ways that conform with the rest of the team, and each individual auditor may maintain his or her own identity. This may therefore give rise to tension between team plurality and team cohesion.

9.3.1 Variations in Auditors' Background and Expertise

The evidence revealed that this diversity of skills and backgrounds was the cause of various tensions. Some auditors argue that due to the nature of financial statements, a financial audit should only be carried out by a graduate with an accounting degree. Some oppose the NAB's decision to include non-accountants in a financial statement audit. Even though any non-accounting auditors will also have carried out intensive training in accounting and auditing, some argue that very often they may not have comprehensive knowledge of the accounts they are examining and of the mostly accounting-related matters involved. As a result, accounting auditors are required to spend extra time and effort sharing their own knowledge of accounting practices, which may eventually slow down the progress of the audit. A team leader explained, *'when doing a financial statement audit sometimes our team are struggling because the auditors may come from too many different backgrounds'* (Auditor 30, Team Leader, Interview).

During the observations, instead of auditors collaborating, it was found that some seemed to be separated by their expertise. They rarely shared knowledge to help each other. Accountant auditors preferred to engage in discussions with colleagues from the same background. Some would be reluctant to help others since they believed their perspectives to be too different. One auditor explained:

> In my division, there are some auditors who do not come from an accounting background. As an accountant, according to my knowledge, an audit is the reverse of the accounting process... but they do not have that kind of philosophy. They do not fully understand what the process and the documents are, just collect the documents and sometimes may not be able to review them in a more comprehensive way. (Auditor 30, Team Member, Interview)

Another auditor expressed a similar view:

> Sometimes the auditors have been forced to understand something outside their expertise. They may share knowledge and help each other but it may slow down the pace of the audit. (Auditor 31, Team Member, Interview)

9.3.2 Issues in Auditor Collaboration: Lack of Continuity

In addition, along with their different backgrounds and areas of expertise, some auditors argued that team cooperation is undermined by variations in individuals' characteristics, values and motivations. One auditor said that *'if we talk about individual perspectives, every person will be different, type X and Y person, one may be self-motivated while others may not'* (Auditor 32, Team Member, Interview). In an audit team, there are standards, manuals and codes of ethics providing guidelines outlining members' appropriate and inappropriate behaviour. There is the potential for problems to emerge if one team member fails to conform with the accepted behaviour. For example, due to an ineffective control system (refer to Chapter 7), some individuals may act according to their own personal interests at the expense of those of the team by, for example, putting in less effort or falsifying their own work results. An auditor expressed his view in this regard:

> I think individual differences and attitudes to responsibility matter in an audit. It is very likely that some auditors don't want to work hard and use their full potential to execute the audit procedures thoroughly. They do not put their best effort into it. (Auditor 4, Team Member, Interview)

Another auditor provided an example of the possibility that, in a team, he may encounter an auditor with whom he and others do not get along. This type of auditor tends to be rebellious or unaccepting of what others in the team have agreed. This may make the other auditors feel uncomfortable and eventually create conflict within the team. He said:

> There is an auditor who is well known for being rebellious and individualistic. Other team members usually reject his presence. The situation in the team is not favourable even before we start the assignment. (Auditor 10, Team Leader, Interview)

However, as mentioned in Chapter 8, due to the lack of auditors and ineffective auditor assessment, the auditor might still be included in audit teams despite his or her uncooperative behaviour being well known. Therefore, the same inherent team problems may continue to be present and occur frequently in every engagement. A team member noted:

> They should not have been included in any audit assignment, but because we have limited auditors, they are still involved in the audits. (Auditor 18, Team Member, Interview)

Furthermore, the NAB has faced a number of organisational difficulties that have reinforced the tensions mentioned above. The first organisational problem relates to an ineffective audit team selection process. Due to its limited number of auditors (refer to Chapter 7), the NAB may not be able to form an engagement team in a timely and proper manner. As a consequence, there is no reliable annual planning of auditor engagements. For example, auditors from some of the teams observed admitted they did not have a proper schedule of audits during the year. They argued that very often auditors were told they had been allocated to an assignment a mere few days prior to the start of the engagement. 'An auditor could be told to be included in a team just a couple of days before the engagement' (Auditor 10, Team Leader, Interview). Others revealed there had been times when they did not know where they were going until the last minute. Some even noted they had been replaced by someone else just prior to their departure to carry out the fieldwork audit at the auditee's office in another city. One team member said:

> Sometimes we have just known we were assigned in an engagement just one or two days before the fieldwork starts. Even just a few hours before the departure for the audit entity office, the team members could be changed. (Auditor 12, Team Member, Interview)

Another auditor outlined a similar experience:

> The audit team formation can change easily even before the engagement begins. I had an experience where, just a day before the engagement, I was swapped. (Auditor 8, Supervisor, Interview)

A conversation held with the team leader during the observation suggested that, ideally, composition of the audit team would remain the same throughout all phases of the financial statement audit assignment (including preliminary audit, interim tests or test of control, and substantive tests). However, she argued that there was no such continuity. During the audit planning, the organisation conducts a preliminary audit to prepare the audit programme, taking into account understanding of the auditee's business processes and the evaluation of audit risk assessments. For example, in one observed team, three auditors assigned to the preliminary audit were not included in the interim audit and substantive tests. Only two team members remained for the substantive testing. There was a new team leader appointed, one auditor missed the first ten

days and another auditor who had just moved to the division and had no experience of this type of audit was instructed to join the team one day prior to the start of the engagement.

9.3.3 Team Cohesion: Lack of Communication and Team Work

Auditors in the field reported they very often did not know each other prior to the first day of the audit fieldwork. Some auditors missed complete phases of one audit assignment, instead joining in the middle of the audit process. Some argued that in an engagement period with a tight schedule and limited time available, it is vital to retain the same team members in order that good teamwork can also be maintained. The argument was made that they might need time to get to know each other through regular interaction and that maintaining and sharing the team's common goals would not happen in just one day. One auditor suggested that *'if some members can't get along with others, the work quality will be reduced'* (Auditor 17, Team Member, Interview). In order *'to maintain our good teamwork, we need to know and help each other'* (Auditor 17, Team Member, Interview).

Moreover, the regular movement of auditors from one distinct unit to another may also serve to exacerbate this problem. For example, an auditor, having recently been moved to a new unit, may immediately be assigned to a type of audit with which he or she is not familiar from their time in previous units. He or she may not have sufficient time to adjust to the new environment and new people with different expertise. One auditor explained, *'Three of us in this team are not familiar with this audit (they have just been moved from other units). So we can't help each other'* (Auditor 4, Team Member, Interview).

The plurality of the audit team that is reinforced by the two organisational problems outlined above can lead to the creation of ineffective cooperation and communication between its members. Some auditors argue that poor teamwork and lack of synergy in the team might be associated with poor communication between its members. *'Although we have individual responsibilities and roles, actually we work as a team, so that communication and synergy are very crucial'* (Auditor 17, Team Member, Interview). *'If the team can work together, the result will be good'* (Auditor 12, Team Member, Interview). An audit manager pointed out that communication is one of the most important determinants of the success of the audit. He said that *'if the team is not communicative it would be very bad!'* (Auditor 29, Audit Manager, Interview). *'Good communication will significantly influence the results of the audit'* (Auditor 17, Team Member, Interview).

With regard to the importance of team cohesion, some auditors stated they prefer to avoid colleagues who are unlikely to be very cooperative despite the fact those auditors are technically very capable. An auditor argues that he may find an auditor who *'has a good academic background but cannot show good teamwork'* (Auditor 12, Team Member, Interview). Generally, the group may avoid such an auditor. *'The auditor who cannot cooperate with others may be rejected'* (Auditor 12, Team Member, Interview). Some auditors may consider such an auditor as a team problem that may

threaten the team's cohesion. *'The team do not want that kind of auditor to be in their team because the auditor tends to be team's troublemaker'* (Auditor 23, Team Member, Interview). Some believe that the presence of such an auditor in a team may cause others to feel uncomfortable and may eventually lead to conflict.

9.3.4 Team Cohesion: The Vital Role of the Team Leader

In relation to the cohesion of the team, some argue that a team leader plays the most crucial role in managing any deviance that may raise tensions and prevent the audit team from achieving its intended goal. The team leader needs to be able to ensure each member's behaviour conforms to the team's expected shared goals. He or she needs to keep all members on track, and if a conflict emerges, they need to resolve it as quickly as possible. As mentioned in Chapter 2, the authority system in an audit team works in a hierarchical order that flows from the highest level (the assignor of the audit) down to the lowest subordinates (team members). Unlike a supervisor, a team leader is present with team members in the field on every day of the engagement period.

When dealing with a heterogeneous group, some auditors argue it is the team leader's job to manage that diversity well in order to ensure team cohesion. Some auditors suggested there has to be a good climate and effective communication in the team and that these crucial elements are created by the team leader. The team leader should be able to find the most effective way to communicate with each member since each may need a different approach. For example, members who tend to be less open may need to be encouraged to speak up regarding their problems so that others can help. The success of the team may depend on the contribution of an individual auditor who needs to work in accordance with the group interest. Some auditors argue that a team leader may have a crucial role in ensuring they are aware of each auditor's strengths and weaknesses and that the team is able to maximise the potential of every member. An auditor below highlighted the team leader's role in managing the diverse team members who may also show varying performances.

> *A team leader needs to discuss with the auditor who does not perform as expected. I think a team leader should know the psychology of each individual auditor. So he might have a different approach for a different person. For example, an auditor who can do his job very well does not need much guidance. On the other hand, when an auditor is passive and is not cooperative, although he might be smart, he may not be able to give his best effort. So the team leader needs to encourage and motivate him to do his best. That is good not only for the auditor but also for the overall team.* (Auditor 32, Team Member, Interview)

A supervisor said that if there is an individualistic auditor who is not cooperating with other members, then *'this is the responsibility of the team leader. He needs to handle this matter'* (Auditor 2, Supervisor, Interview). Another auditor expressed a similar view as follows:

The condition of the team will influence the audit result. Normally there are four audit team member auditors in a team doing a 30-day-engagement. There may be new auditors who are still learning or an auditor who never maximises his best capabilities. It is the role of the team leader to handle this, to make sure they can work together. Because I think if the team has a less motivated auditor but the team leader can encourage him to work harder, the team still can succeed. (Auditor 20, Team Member, Interview)

However, in practice, it has been seen that the team leader's attitude may itself often be the trigger for conflict, tension and resistance from other team members. For example, a team member noted that *'if we have a bossy team leader, too strict, we as a team member are not happy'* (Auditor 5, Team Member, Interview). Another auditor said that she had a team leader who liked to work overtime. Quite often, the team members brought clients' documents and records to the hotel and the team leader asked the team to work overnight. The team members could not follow the team leader's working style. She recalled:

For example, in one engagement in one city, we came to the auditee's office at around 8 am and came back to the hotel at 5 or 6 pm. After having dinner and something else we worked together again at the hotel and having discussions until 1 am. In the morning, we have to give a report to the team leader. During the engagement we didn't have enough sleep. (Auditor 12, Team Member, Interview)

Another auditor below expressed his concern about the personal approach of the team leader to his or her juniors. Although team members generally expect a smart team leader, they may prefer to be led by a team leader who has a positive attitude towards his or her team members. He explained:

Maybe the team leader is smart but if he doesn't have good communication, sometimes he would get unexpected audit outcome (from the team members). Sometimes there is a team leader who is snobbish. Maybe he is smart but how he deals with the team could make us hurt. (Auditor 11, Team Member, Interview)

Another auditor said that *'if the team leader is too authoritarian or something like that, the team member may be averse to communicating and doing what it is asked'* (Auditor 18, Team Member, Interview). Another claimed that he had a team leader in one engagement who would not tolerate any single mistake. He said:

The team leader that had a temper. If we had mistakes, he would be angry with us. It affected our work. (Auditor 12, Team Member, Interview)

This brought tensions to the team. The team members could not work comfortably. It stifled their creativity because they were reluctant to take the initiative, thereby reducing their attempts to maximise their full potential.

An observation from another team revealed the opposite situation. The team leader seemed not to care and gave excessive autonomy to the team members. She rarely checked or monitored

team members' work on a regular basis. When working on an engagement away from their home city, the team leader spent a number of days at the home city, apparently to see her family. This could be perceived as negligent behaviour and unsettle the relationship between the team leader and the rest of the team members. In addition, another team member had a similar experience with her team leader. He recalled, *'when I was a very junior auditor I had a team leader who didn't direct us properly'* (Auditor 33, Team Member, Interview).

Some auditors argue that team leaders need to direct them to ensure there is effective coordination between members. Each team member has individual but interrelated tasks so that if one has difficulty completing his or her own tasks, the rest of the team may be affected and may not be able to achieve their common goals. *'A team leader must ensure everything is going well and he needs to handle issues that emerge in a team'* (Auditor 15, Team Leader, Interview). In contrast, some auditors claimed that other team leaders may give them too much freedom and flexibility and that this may at times cause problems as they need someone to review and correct their work, especially in the case of more junior auditors with little experience.

A supervisor gave a further example of how a team leader's unexpected behaviour may result in bad team management. A team leader in an engagement did not conduct his coordinator role very well which led to confusion and to some auditors performing unnecessary activities. He said:

> *Some team members worked without good coordination with other team members. Different auditors asked the auditee for the same documents many times. Some different auditors conducted audit confirmations to the same person many times. There was no good work coordination.* (Auditor 8, Supervisor, Interview)

To conclude, the discussions above expose some of the tensions that may emanate from the contradictory situation between team plurality and team cohesion that is subsequently reinforced by various existing organisational problems. The main tension relates on the one hand to the need for heterogeneous auditors with different expertise, backgrounds, identities and motivation, whilst on the other hand, in practice, it may lead to problems such as poor team cohesion, communication and a lack of teamwork.

9.4 Responses to Tensions: Reduced Audit Quality Practices

During the course of this study, the evidence has shown how a number of intra-team tensions, as identified in the earlier section, have the potential to contribute to the occurrence of poor audit practices. Some auditors argue that lack of coordination and communication between members in an audit team may be one of the dominant factors of RAQB. For example, an audit manager noted that poor communication may be a factor in an auditor's reluctance to report, for instance, the problem of insufficient audit evidence having been collected. He or she may be inclined to

prematurely or falsely sign off on audit procedures rather than to discuss the problem with the team leader or supervisor. She explained:

> When they cannot get the required documents, they may say, that's it. They may not report to the supervisor or audit manager because they are reluctant to communicate with us. (Auditor 29, Audit Manager, Interview)

Such problems may also occur at a more senior level. Some respondents argue that team leaders and supervisors may sometimes perform RAQB due to poor communication. One team leader said, 'supervision may not be done appropriately because of supervisors' poor communication with the team' (Auditor 19, Team Leader, Interview). As previously mentioned, some supervisors might not be able to establish good communication with the auditors in the team due to their poor communication skills and also their inability to keep pace with the rapid changes in audit knowledge (see Chapters 7 and 8). Some might avoid having intensive discussions with the auditors in an effort to conceal their own weaknesses. For example, some auditors revealed that some supervisors tended to keep their distance from the rest of the team in order to avoid discussing technical audit matters with them (see Chapter 8).

However, some supervisors also argue that poor communication may also be due to their excessive workloads. As previously mentioned in Chapter 7, some supervisors are responsible for managing two or more teams at the same time. It was suggested that it may be difficult for them to remain in contact with all of the teams, closely monitor the work and to establish good and in-depth communication with perhaps more than 15 auditors across different locations. A senior auditor commented on this issue:

> I admit that we sometimes don't supervise our teams properly. This is due to our ineffective communication with the team. We need to supervise many teams at the same time. We often can't be with the team in the field all days. (Auditor 19, Team Leader, Interview)

This auditor went on to say that although there are various tools of communication such as email and telephone, they may not be able to create intensive interaction as they very often they do not know each other prior to the first day of the engagement. Occasionally, they are not able to hold initial briefings to understand or get to know other team members. This situation might make it hard to build close and reliable relationships in a short engagement. 'If we already have good relationships for quite a long time, usually we do not hesitate to phone each other to discuss everything' (Auditor 19, Team Leader, Interview).

Another potential problem relates to the ill-suited and sudden selection and formation of an audit team. Important discussions about the agreed audit strategy and allocation of individual audit tasks are often neglected, with potentially adverse consequences. It may therefore not be possible to arrange a proper audit schedule and to distribute work to auditors in a proportional and balanced

manner based on their skills and capabilities, since each member may not have an understanding of other members' backgrounds, specialised skills, knowledge and experience from previous engagements. Some auditors reported there being a chance of the team comprising mostly inexperienced and unskilled members. There is a possibility that a team is not formed based on the collective competence of its members and in consideration of their strengths and weaknesses. One auditor noted:

> *Sometimes the composition of the team is made just before the engagement begins. It must be well prepared. Don't pick up randomly. We must consider the skills of each team member.* (Auditor 4, Team Member, Interview)

One auditor suggested that the above condition may lead to an *'unbalanced workload because one auditor may have more work than others'* (Auditor 10, Team Leader, Interview). Another auditor noted that he noticed some auditors would have more individual tasks or more accounts to examine than others. Although they may try to help each other when faced with a tight schedule with a limited period of time in which to complete the required tasks (see Chapter 7), most of the time they will tend to concentrate on their own individual work.

> *Sometimes we feel that some auditors have more workload and responsibilities than the others. For example, in this team, one of the auditors had more procedures to be executed and usually works more overtime than others.* (Auditor 23, Male, Team Member, Interview)

A team member explained that if one member does not cooperate with other members, the rest of the team members are likely to be affected. Some auditors argue that there needs to be some degree of individual sacrifice to support the wider interests of the group. Some remarked how it is not easy to take on the jobs of others when working to a tight schedule, and that this may be regarded as a great distraction. An auditor explained:

> *For example, if one of the team members is, for example, too bad, the other auditors will suffer. So it will distract our own focus as we need to help and handle him.* (Auditor 18, Team Member, Interview)

There comes a point, however, when individuals need to compromise their own schedules in order to achieve the team goals, for instance, when they need to cover for or take over from an auditor who is not able to finish his or her own tasks. For example, in a condition where one team member may not be able to perform their part adequately, the team leader may ask other members to cover that auditor's work. They need to accept this additional task in order for the team to accomplish its agreed goals. This may mean the individual is not able to fulfil his or her roles in a normal way.

We have only four audit team members for 30 days of engagement with a lot of work to do. If one member can't do what he is asked to do, it will affect the rest of us. (Auditor 20, Team Member, Interview)

As previously discussed, some auditors argue that a good team leader needs to communicate with the team members on a daily basis so that he or she can detect any members whose behaviour is not in line with the team's intended goals. The lack of an effective team leader may encourage individual auditors to pursue their own targets or agendas. An auditor explained:

It probably can be detected by the team itself. There is a team leader. His role is a coordinator as said in the audit manual. So he can monitor all the team members' work. The team members have to make weekly progress reports that can be reviewed directly by the team leader. For the supervisor, it could be difficult to detect such behaviour. (Auditor 11, Team Member, Interview)

The team leader has a vital role to ensure that every auditor maximises their full potential for the team. Any lack of teamwork and communication may increase the likelihood that the individual in the group does not work in accordance with the group interest. Each individual may have his or her own agenda or interest that may lead to non-conformity within the group. Their actions might not be congruent with the wider goals of the team. The empirical data suggest that with no means of detection by other team members, auditors are able, if they wish, to not put their best efforts into the performance of their duties, which may lead to reduced audit quality. Some auditors explained that, in a team, there might be some individuals who may lower their professional commitment to the team, and that this may in turn lead to RAQB.

In addition, one supervisor explained that auditors are allocated individual audit programmes by team leaders who take into account many factors to create programmes that are achievable. It is auditors' responsibility to manage their own designated workloads effectively and to put in their best professional care. Working as a team, their tasks may be highly interrelated to those of their fellow team members. What they produce may affect the group outcome. Some less committed auditors may be selective in choosing to undertake the easy parts and leave the more complex areas, which may threaten the quality of the team's reports. The supervisor explained:

It depends on the auditor how to use their time effectively. I think if they can put in their best effort, creativity and manage their time and schedule very well, they still can achieve what they are supposed to do. But usually in certain cases, the auditor easily gives up, wants to make everything simple and faster, just take the easy ones and leave the hard ones. (Auditor 2, Supervisor, Interview)

If auditors encounter difficulties that make their schedule seem unachievable, they are able to revise procedures provided they explain the relevant reasons for doing so. However, some auditors tend to be reluctant to do this because to revise procedures entails further work in finding an alternative way of dealing with the examined accounts. They may therefore be tempted to

prematurely or falsely sign off the audit procedures. Some auditors suggest that this course of action may be selected over reporting the difficulties to a team leader or supervisor because it may be the most comfortable option for them and they may be aware that there is likely to be a low risk of detection (see Chapter 7). For example, one auditor admitted that they may take the risk by intentionally and falsely excluding a potentially difficult item when performing a selected sample calculation. They may do this because of a wish to work in the easiest way possible as they realise that certain items may take a considerable amount of time. He explained:

> *It seems that the auditors will find the most comfortable option. They do not include the potential troubled items in their selected sample.* (Auditor 4, Team Member, Interview)

Some auditors may work with their own personal targets in mind by lowering the level of effort they put in and choosing to work within their own comfort zone, at the expense of the team. For example, an auditor stated that they may commit an act of RAQB, such as reducing a sample size, in order to complete their own individual audit programme on time and with the minimum amount of effort: *'So we reduce to test the amount of samples selected and there are some client's explanations that we still doubt about but we just accept them (without making further examination)'* (Auditor 5, Team Member, Interview).

Another example may be found among supervisors. For example, some auditors argue that some supervisors may have different goals, values and attitudes to the members of their team. Some supervisors may feel they have sufficiently fulfilled their responsibilities by visiting the team and signing their working papers without attempting to examine auditors' work in more detail. Some may rely too much on the team leader and fail to exercise sufficient professional care, potentially leading them to perform superficial audit supervision. *'The supervisor may do the review with his eyes closed and depends (the audit review) largely on the team leader'* (Auditor 18, Team Member, Interview). They may passively wait for the team leader's and team members' initiative to report their audit progress. If the team does not report any problems to the supervisor, he or she may conclude that the audit is fine. This lack of professional scepticism and curiosity about auditors' work may be regarded as bad practice. One auditor noted:

> *They feel they have come and reviewed the team, that's more than enough. They believe they have fulfilled their job description, although in fact they do not put their best effort to do it.* (Auditor 4, Team Member, Interview)

In addition, some auditors explained that the practice of auditors continually working within the boundaries of their own comfort zones, largely in line with their own interests, may be identifiable through the audit results. For example, a team leader identified impaired creativity as a potential impact of an auditor maintaining their work within their own comfort zone for a long period of time. They may not think outside the box. A possible indicator of this may be the same type

of output delivered consistently despite the auditor working in different environments. One team leader said:

> The audit outputs tend to be quite similar year to year. I notice that apparently we don't want to leave our comfort zone. Because if we want to do more we will have much work to do. (Auditor 10, Team Leader, Interview)

To sum up, the discussions above explain RAQB in relation to some of the issues emerging from the tensions within a team. These pressures may lead to premature or false sign-off, a reduction of the items selected from a predetermined sample and superficial audit supervision. Some of the organisation's responses to problems such as those described here are presented in the following subsection.

9.5 Management Responses

Some of the informants to this study reported that the NAB is aware of the negative consequences of tensions within the audit team. For example, a manager from the human resources division said that once someone had acquired a reputation for not getting on well with others in a team, they may always carry this reputation going forward. As previously noted, the main problem is that no effective tools have been applied to detect or assess this type of behaviour within a team, meaning things such as lack of commitment and effort, rebelliousness and uncooperative behaviour are not routinely or easily detected on a formal basis, although their colleagues or immediate superiors may recognise it. However, according to an audit manager, this kind of relatively subjective and unreliable performance assessment may pose its own set of problems. For example, if an allegation is not true, this perception of an individual's behaviour may affect their future career. The manager noted:

> If he is known for his prior improper attitude, other managers are not likely to employ him in the team on a regular basis unless he can change his behaviour. However, it needs a lot of effort, and if it is subjectively judged, the opportunity to unleash his potential will reduce. (A manager from Human Resources)

The above manager also highlighted the importance of the assessment centre that can evaluate both auditor competence and past behaviour in the form of an auditor profile. According to him, the office has been developing this type of assessment so that each auditor will have his or her own profile that may be used as a proper and fair evaluation. *'We need to map every auditor including senior audit team leaders so that we can re-evaluate their position in terms of their competence and past behaviour'* (A manager from Human Resources).

In addition, according to the manager, team-related problems arising in an audit engagement team may be one of the important determinants of audit quality. Similar to the views previously expressed by auditors, he suggests that a team leader may play the most crucial part because a team

leader is able to manage team members' day-to-day interactions and he or she is responsible for the team's coherence and synergy. He or she can also ensure that each member is able to complete their duties within the group, as stated in the audit manual (NAB 2015). *'So the problem is not only in the guidance but also human resources, team managerial perspective....'* (a manager from Research and Development). In this regard, the manager claimed the organisation had set up a policy to increase the quality of team leaders by imposing tighter standards to pass the required qualification. It has also been trying to provide existing team leaders with intensive training. According to the review of documents and an interview with the manager from the training centre, they have begun to introduce subjects such as communication and teamwork skills into the training modules, particularly at the level of team leader.

Some auditors also pointed to more recent efforts from the office to encourage auditor commitment to the profession. Top-level management has been seen to place increasing importance on the commitment of audit staff to both the profession and its professional values to influence and encourage professional behaviour. Policies have been created in an attempt to encourage this kind of attitude. An auditor said that *'top-level policies and commitments will influence the audit'* (Auditor 22, Team Member, Interview). For example, a team leader explained:

> *We are given books about professionalism that are disseminated from the office to all the auditors. And in our engagement letter contract, there is a statement emphasising the importance of being professional.* (Auditor 10, Team Leader, Interview)

The discussion above highlights some of management's responses to audit team problems. Management have tried to mitigate some of the potential determinants of problems within teams. For example, they have worked on improving the assessment centre and also increasing the quality of team leaders through relevant training. There has also been continuous effort from top-level managers to promote auditors' professionalism.

9.6 Conclusion

In line with the discussion in Chapter 8, the increasingly demanding and complex nature of audit activity has given rise to the need for a substantial input of expert knowledge in various domains (NIK 2014). NAB auditors come from various academic backgrounds and types and levels of prior expertise. They also have different individual characteristics, values and motivations. Individual auditors are expected to collaborate with each other when carrying out audit assignments. However, in practice, the evidence indicates that these differences in expertise, academic and other backgrounds have led to tensions between the plurality and cohesion of audit teams. In other words, while diversity is needed to produce quality audits, it can also bring problems to the team such as a lack of coordination and teamwork.

The evidence also reveals that certain organisational problems have strengthened this tension. These include improper audit team selection processes and the ineffective rotation of regular auditors. Another problem with the potential to reinforce the tension involves team leaders, who play a significant role within an audit engagement, being unable to manage diversity within the team.

These tensions around team cohesion seem to have given rise to increases in RAQB. Some argue that certain supervisors may perform their supervisory role poorly or in a superficial manner due to a lack of communication, coordination and possibly time. A lack of coordination has, in itself, also likely resulted in some auditors having greater workloads than others that may have led them to engage in PFSO and a worrying reduction of the number of items tested in a sample. Furthermore, the NAB has been attempting to tackle and reduce the occurrence of problems that may emerge within a team during an audit engagement. They have developed the assessment centre, created additional guidance and provided group and leadership training to auditors and team leaders in order to enhance auditors' ability to work better within the team, with the overall aim of improving audit quality.

Chapter 10 Discussion and Conclusion

10.1 Introduction

In accordance with the objectives outlined in Chapter 1, this thesis has investigated the phenomenon of RAQB among external government auditors. This has been accomplished using a case study approach in the NAB applying observations, interviews and review of documents. This study has identified the incidence and significance of RAQB performed by government auditors. The study has also investigated the probable causes of this behaviour as viewed from the perspective of paradox theory. This has enabled the research to assess how both individual auditors and the audit organisation have responded to the conflicting requirements and tensions produced by those paradoxes.

The first chapter noted the significance of audit quality. This was further elaborated in Chapter 5 where the method of the research was highlighted along with a further detailed explanation of the qualitative approach to investigating RAQB taken in this research. Based on the results of the literature review it was determined that this may be the first research study into RAQB using direct observation (refer to Chapter 3). As explained in Chapter 1, most prior studies have applied self-reported surveys and experiments (Herrbach 2001). However, the use of these methods may fail to reveal important aspects of behaviour (Rhode 1978; Alderman and Deitrick 1982; Otley and Pierce 1996a) or fail to capture the consistency between how people say they are likely to behave and how they actually behave (Bryman 2012; Kelley and Margheim 1990). This study has investigated the phenomenon using a different and potentially more reliable approach to behaviour involving the investigation of auditors' actions and work practices during audit assignments, relying mainly on the methods of observation and interview. Empirical data were collected during the conduct of financial statement audits by five audit engagement teams between 13 January and 2 April 2014.

Prior studies have also explored the probable causes of RAQ actions, identifying factors such as auditors' personal and professional characteristics (e.g., Donnelly et al. 2003; Herrbach 2001; Malone and Roberts 1996), audit managers' leadership style and level of organisational commitment (e.g., Gundry and Liyanarachchi 2007; Otley and Pierce 1995), psychological contract or the exchange relationship between the audit firm and its auditors (Herrbach 2001), review procedures and audit firms' quality control (Malone and Roberts 1996; Margheim and Pany 1986), the reward/penalty system in place (McNair 1987b), auditors' perception of time budget pressure (e.g., Herrbach 2001; Kelley and Margheim 1990; McDaniel 1990; McNair 1987b), auditors' stress (Cook and Kelley 1988), moral intensity (Coram et al. 2008) and the ethical culture of the audit firm (Sweeney et al. 2010). This study, however, sought to explore how and why the phenomenon of RAQB occurs in relation to the existence of paradoxical tensions in the audit organisation. In so doing, the study has employed

paradox theory as a relevant theoretical lens. As explained in Chapter 4, a paradox can be defined as *'contradictory yet interrelated elements that exist simultaneously and persist over time'* (Smith and Lewis 2011, 382). The theory of paradox has been developed particularly to explain conflicting demands and opposing perspectives (Lewis 2000), and emphasising two elements of paradoxes: (1) the underlying tensions that persist over time through the actions of reflection or interaction, and (2) responses that embrace tensions simultaneously (Lewis 2000; Smith and Lewis 2011).

Tensions may become increasingly intrusive and persistent in a dynamic and complex organisation (Lewis 2000). As a consequence, this study examined the phenomenon from two dimensions. The empirical evidence from this research suggests that RAQB will often result from negative responses to paradoxical tensions. In addition, this study has also explored the responses of management to both the tensions in the work environment and the incidence of RAQB. Chapter 6 highlighted the three types of prevalent RAQBs identified during the observations and interviews (premature or false sign-off (PFSO), superficial audit supervision and reduction of tested items in a sample), while Chapters 7 to 9 explained the three types of paradoxical conditions that may contribute to such actions. Based on the overall findings, this study contributes to the following three areas of understanding: research into RAQB; auditing research more generally; and extension of the discussion of paradox theory. These three areas of contribution will be presented in the following discussions.

10.2 Reduced Audit Quality Behaviour in Government Audit Process

Prior research has employed the terms dysfunctional audit behaviour (e.g., Donnelly et al. 2003; Herrbach 2001; Khan et al. 2013; Paino et al. 2011; Yuen et al. 2013) or irregular auditing (for example, Lee 2002; Willett and Page 1996) to define auditors' actions or behaviour that may reduce the quality of the audits they perform. A number of previous studies have applied theories such as reasoned action (for example, Lee 2002; Willett and Page 1996), theory or moral intensity (Khan et al. 2013) and situational, ethical and expectancy theory (Coram et al. 2008) to explore the phenomenon of RAQ practices and have tended to conclude that such behaviour may be performed intentionally by auditors due to, for example, their personal characteristics (Lightner et al. 1982). This study explores alternative explanations to provide insights into RAQB, especially in the government audit context, as discussed in the two following subsections.

10.2.1 Paradoxical Tensions as the Source of RAQB

This study sheds light on how paradoxical tensions can become the source of RAQB. The analysis in this study shows how paradoxical tensions may lead to the occurrence of RAQB from both organisational and individual perspectives. In the context of the government audit environment, I explored a number of prevalent factors, including structured and unstructured audit programmes

(see Chapter 7), dynamic audit changes, auditors' learning tensions and systems of promotion and rotation (refer to Chapter 8) and audit team plurality (see Chapter 9). At the same time, personal factors also affect the ability of auditors to work in a team (see Chapter 9) and also the auditors' reluctance to devote sufficient effort to updating their knowledge, especially among seniors, as explained in Chapter 8.

Similar to the findings of previous studies, my empirical findings suggest that RAQB could be mainly driven by environmental or organisational and also personal factors. As summarised in Chapter 2, prior studies included two contextual determinants of RAQB. The former concerns the organisational level involving firm size, the grade of the auditor, accountant's job function, audit area, firm culture, level of firm structure over procedures, perceived environmental uncertainty, risk of task, type of test, fixed-fee versus non-fixed-fee client, level of client influence over time budget, client issue of debt, size of client (Malone and Roberts 1996; Kelley and Margheim 1987; Carcello et al. 1996b; Sweeney and Pierce 2004) and level of control system such as time pressure, participative target setting, budget emphasis, style of evaluation and quality control (Alderman and Deitrick 1982; Otley and Pierce 1996b; Pierce and Sweeney 2004). The latter comprises an individual level involving type A behaviour, the need for approval, need for achievement, locus of control, self-esteem, ethical beliefs, organisational commitment, professional commitment and professional pride (Malone and Roberts 1996; McNair 1987b; Sweeney and Pierce 2004) in addition to a superior level consisting of leadership style and supervisor's approval of behaviour (Otley and Pierce 1995; Kelley and Margheim 1990; Sweeney and Pierce 2004).

10.2.2 Specific Types of RAQBs in the Government Audit Context

The observations, interviews and review of audit working papers have revealed three prevailing types of RAQBs: premature or false sign-off (PFSO), superficial audit supervision and the reduction of tested items in a sample. As discussed in Chapter 6, this study has identified a number of specific actions that can be grouped into the above three RAQBs. The following subsections highlight these actions.

10.2.2.1 Premature or False Sign-Off (PFSO) in Government Audit

Previous research has suggested that PFSO has been consistently performed by auditors at all levels (Rhode 1978; Alderman and Deitrick 1982; Coram et al. 2008; Margheim and Pany 1986; Willett and Page 1996; Herrbach 2001). In contrast to previous studies, this research includes the term 'false' along with premature in relation to such action. The rationale for this is that instead of prematurely signing off on procedures, some auditors intentionally falsify an outcome when performing procedures. Therefore, PFSO in this study means that auditors have falsely or prematurely signed off on a procedure as if the proper and correct action had been completed and the outcome was satisfactory, when, in reality, this is not the case.

PFSO in this study can be identified in the following specific actions (including some identified in previous studies): (1) not fully completing all or some of the steps in an audit procedure; (2) taking shortcuts to execute audit procedures; (3) not conducting further examination of suspicious items (Malone and Roberts 1996; Coram et al. 2008); and (4) conducting superficial review of a client's documents/records (Kelley and Margheim 1990; Malone and Roberts 1996; Otley and Pierce 1996a; Coram et al. 2008). A novelty of this study is that, along with identification of auditors' intentional falsification, these actions have been explored among government auditors as opposed to their private sector counterparts, as in prior studies.

This research study has identified 16 instances of PFSO performed by government auditors (see Appendix 2 for a detailed summary of their actions). This means that PFSO is the most common type of RAQB found among the three other types. Most prior studies have attributed PSO to time budget pressure (Rhode 1978; Alderman and Deitrick 1982; Margheim and Pany 1986; McNair 1987b; Kelley and Margheim 1987; Raghunathan 1991; Willett and Page 1996; Gundry and Liyanarachchi 2007; Nehme et al. 2016; Paino et al. 2013). This research, however, has highlighted PFSO from a broader perspective applying the paradox lens. It could be argued that PFSO may be caused by a number of organisational paradoxical tensions, as explained in Chapters 7 to 9.

10.2.2.2 Superficial Audit Supervision

This research has found deficiencies in some of the most important elements of audit, i.e. the audit review and supervisory process. I define the term *superficial audit supervision* as a superficial review of auditors' work performed by someone with a supervisory role in an engagement team. As explained in Chapter 6, it is argued that the review process conducted by supervisors could be the single most important control used during the conduct of the audit (Alderman and Deitrick 1982; Herrbach 2001).

The study's empirical findings suggest that auditors rely largely on an audit review process to ensure they maintain their work quality (Chapter 7, pp. 2–3). Little is known about the review process conducted by supervisors and little research has been conducted exploring the behaviour of supervisors. Studies of the audit review process have mostly been conducted to examine the correlation between a firm's quality control and the occurrences of PSO (Alderman and Deitrick 1982; Otley and Pierce 1996b; Malone and Roberts 1996). For example, Alderman and Deitrick (1982) revealed that 78 per cent of auditors believed that the audit review in their firm was sufficient to detect PSO. In a similar way, Otley and Pierce (1996b) suggested that the high perceived effectiveness of an audit review is associated with a low level or RAQB. However, these studies failed to examine what supervisors actually do when supervising auditors in the field.

This study found 13 instances of superficial audit supervision (refer to Appendix 3). In general, the research revealed that significant numbers of supervisors did not perform their roles very well.

Some supervisors did not actually check all of the working papers and procedures completed by the team members. Some supervisors merely signed auditors' working papers without trying their best to more thoroughly scrutinise auditors' work. Some completed a review but with only a cursory check of working papers to pick out any troubling or suspicious items.

10.2.2.3 Reduction and Modification of Tested Items in a Sample

This study found six identified occurrences of all items in a sample not being tested, as explained in Appendix 4. These findings are consistent with those of previous studies (Coram et al. 2008, 148) Willett and Page (1996). Unlike prior studies, this research has revealed the observed auditors to not only have not tested all of the items in a sample, but also to have reduced the determined number of samples by modifying or falsifying the sample size calculations. As explained in Chapter 9, some auditors intentionally did not include perceived problematic items in their selected sample due to the belief they may not be able to finish the audits in the prescribed time were to include these items.

Although it is clearly stipulated in the NAB's Code of Ethics (NAB 2011c) and auditing standards (NAB 2007) that auditors can be given formal warnings, penalties and sanctions if they commit RAQB (see Chapter 3), such misconduct behaviour may in reality be hard to prove (see Chapter 7). This is mainly due to an ineffective control/review process during hot review in addition to ineffective performance assessment. The internal audit unit has issued auditors with warnings and penalties in cases of negligence in terms of non-compliance with the code of ethics. However, misconduct may only be investigated after it has been reported, and warnings and penalties were sometimes given only after the auditor's negligence was determined by the court (NIK 2014).

To conclude, this study found three types of prevalent actions that can be classified as RAQB, some of which have not been identified and explored by prior studies. The next discussion will focus on how RAQB can be viewed from the paradox perspective. This study identified a number of paradoxical conditions that influence the occurrence of RAQB, and these are described as follows.

10.3 Contribution to Auditing Research: Paradoxes in an Audit Team Engagement

This study highlights significant findings in relation to the practical and academic discussion of auditing. As mentioned previously, this research applied paradox theory as a lens through which to theorise large volumes of qualitative data in order to identify themes from many possibilities (McNair 1987b; Kelley and Margheim 1990; Otley and Pierce 1996a; Herrbach 2001; Coram et al. 2003; Willett and Page 1996; Coram et al. 2008; Deis and Giroux 1992). This helped to construct and explain the significance of the phenomenon of RAQB from a sociological perspective. Table 10.1 below summarises the three paradoxical conditions identified and the four related tensions. Discussions of each paradox are presented in the following subsections:

Table 10.1 Paradoxes and the Related Tensions

Paradox	Tensions
Paradox of Audit Control	- Control vs. Efficiency - Consistency vs. Flexibility
Paradox of Dynamic Audit Knowledge	- Old vs. New
Paradox of Audit Team	- Team Plurality vs. Team Cohesion

10.3.1 Paradox of Audit Control: Compromising Control and Consistency for Efficiency and Flexibility

This study reveals the contradictory conditions bringing about a paradox of audit control. As described in Table 10.1, this paradox may result from two underlying tensions: *control versus efficiency* and *consistency versus flexibility*. In the paradox literature, related control paradoxes have been identified in several research areas, such as between control and collaboration (Sundaramurthy and Lewis 2003), empowerment and coordination (Gittell 2004) and between the need for effective supervision and a loosening of control (Lee 2013). The empirical evidence collected in this study suggest the existence within the NAB of tensions between control and flexibility and between consistency and flexibility. These tensions may be triggered by problems related to the lack of control over auditors. There are two main tensions that trigger a paradox of audit control, as discussed in the two following subsections.

10.3.1.1 Compromising Control for Efficiency

This study has revealed that the desire for cost efficiency has compromised the need for effective control systems. It has long been recognised that audit firms face competitive pressure to rationalise or reduce the cost of audit by, for example, reducing man-hours and compromising audit control in order to maintain margins at an acceptable level (Otley and Pierce 1996b). Although the NAB is a non-profit-seeking organisation, it nevertheless faces a competitive environment similar to that in which its private sector counterparts operate in terms of the need for cost control (refer to Chapter 6 for further details). A number of conditions within the audit organisation have contributed to the ineffectiveness of its system of control. One of these is related to the tension between cost and control.

10.3.1.2 Auditor Shortage: Large Span of Control and Lack of Capable Seniors

This study has suggested that too wide a span of control is highly related to the problems of cost and efficiency. Rhode (1978) suggested that audit organisations operate increasingly high-intensity labour practices. Thus, the amount of time required to complete the audit process will have a significant bearing on the total cost of the audit. The most costly personnel are those in supervisory roles, i.e. audit supervisors, managers and partners (Rich et al. 1997; Bamber and

Ramsay 2000). Thus, an audit organisation needs to be very careful in terms of adding supervisory personnel time that at times may have the effect of compromising the audit quality.

The evidence has shown that several units have no ideal ratio between the number of supervisors and number of audited entities (see Chapter 6). Prior literature suggests that too large a span of control may undermine the effectiveness of control systems as supervisors are not able to observe behaviour and give appropriate feedback on the interrelated work processes (Gittell 2004; Blau 1972). A shortage of auditors may also mean engagement teams do not contain the optimum number of auditors for the tasks involved. Some auditors argued that the tendency for them to be allocated a lot of accounts made it very unlikely they were able to complete all of their activities in a timely manner. They work under time pressure, which is consistent with prior literature suggesting that time pressure is one of the factors contributing to RAQ and RAQB (for example, Rhode 1978; Alderman and Deitrick 1982; Coram et al. 2003; Gundry and Liyanarachchi 2007; Kelley and Margheim 1990; Liyanarachchi and McNamara 2007; McNair 1987b; Otley and Pierce 1996a; Willett and Page 1996).

Emmanuel et al. (1990) pointed out that along with behaviour, output and input control, an organisation may apply personnel control. In the auditing context, personnel control occurs through the supply of sufficient numbers of appropriately qualified individuals, achieved through the processes of selection, recruitment and training (Otley and Pierce 1996b). In contrast, due to budgetary constraints and the need to make efficient use of public funding (see Chapter 7), the NAB faces shortages of auditors, especially seniors capable of performing effectively in supervisory roles. It may not be easy to increase the number of auditors due to these budgetary limitations faced. Since the primary input in auditing relates to human resources (Prawitt 1995), any such personnel shortages may lead to a deficiency of control systems.

10.3.1.3 The Use of Time Budget as a Means of Cost Control

Audit control studies can be classified into two main types: those looking at the time budget audit control and those examining audit quality review process control. In private sector audit, firms use their time budgets to maximise effectiveness per unit of time as a means of cost control (McDaniel 1990). This situation has led to time budget pressures that have resulted in RAQB such as under-reporting of time, i.e. auditors intentionally under-reporting the chargeable time spent on audits in order not to exceed a time budget due to, for example, unrealistic time budgets that have been provided for relatively complex and time-consuming audit tasks (Margheim and Pany 1986; Shapeero et al. 2003). In contrast, the NAB audit budget does not come from the auditees or audit clients but rather from the government. As explained in Chapter 9 and Chapter 2, the total number of audit man-days that need to be funded are set out on an annual basis. The cost of an audit is determined using a system of man-days as opposed to a per-hour basis, meaning there is no clear limitation on how many chargeable hours the auditor should be recording in a day.

This study found that time pressure arises mainly from a lack of auditors, with each auditor tending to have a number of duties and responsibilities in excess of what may be considered typical (see Chapter 8). This is dissimilar to prior studies that have suggested that time pressure may mainly be caused by budget pressure in order to achieve an efficient audit operation (for example, Coram et al. 2003; Coram et al. 2000; Gundry and Liyanarachchi 2007; Kelley and Margheim 1990; Liyanarachchi and McNamara 2007; McNair 1987b; Otley and Pierce 1996a; Willett and Page 1996). In addition, this study has also revealed that a lack of capable auditors and issues related to the audit team such as lack of coordination and cohesion, have reinforced this problem. Inadequately trained or poorly motivated auditors means that workloads may not be distributed effectively or fairly so that some auditors experience time pressure to meet deadlines. Similarly, lack of cohesion in a team is related to a team's inability to manage the interrelated work very well. Conflicts then slow down the pace of the audit and this eventually, again, leads to time pressure (see Chapter 9).

10.3.1.4 Compromising Consistency for Flexibility

Previous studies have suggested that in order to have consistent audit results and to control the effectiveness and efficiency of the audit process, large audit firms have moved towards a more structured audit approach (McDaniel 1990; Arens and Loebbecke 1988; Grobstein and Craig 1984; Cushing and Loebbecke 1986). This includes detailed procedures and checklists (Cushing and Loebbecke 1986) promoting efficiency to reduce the time to construct a strategy to deal with any problem, thereby providing more time for the execution of tasks (MacGregor et al. 1984; McDaniel 1990; Lichtenstein et al. 1977; Gist 1994). A more structured approach may also reduce the cost of the audit since unstructured procedures rely heavily on auditor judgement that may require more skilled and costly auditors (Turley and Cooper 1991). It is also claimed that a structured approach decreases the potential for error arising from the possibility of decision variation (Armstrong et al. 1975; Meixner and Welker 1988; Libby and Luft 1993). However, in contrast, this type of approach may also make the audit too mechanical and result in less flexibility and judgement (Turley and Cooper 1991). In addition, some empirical studies found that highly structured audit approaches delayed the production of audit reports (Newton and Ashton 1989; Cushing 1989).

This research has examined the impact of both structured and unstructured approaches. It offers new insight into how the application of both approaches has negative consequences in the form of the occurrence of RAQB. The empirical evidence revealed how the auditors predominantly supported the use of structured procedures. Some auditors, notably juniors, argued that unstructured procedures may result in the audit lacking guidance and direction, thereby resulting in confusion and desperation. In relation to prior research findings, most of the auditors claimed that the issue with an unstructured approach is related to that of consistency rather than the efficiency and effectiveness of the audit. This view is in line with that of Armstrong et al. (1975) and Cushing and Loebbecke (1986) who asserted that a structured programme leads to higher performance

consistency. Some auditors suggested that unstructured audit approaches have led them to produce a greater variation of audit conclusions for the same issues (see Chapter 7) as they come to rely largely on the exercise of auditor discretion, creativity and professional judgement. Auditees have also noticed inconsistencies in audit results and reports, with some questioning why auditors produce different audit conclusions or findings relating to exactly the same issues or transactions in other entities.

On the other hand, in contrast to the prior literature, the empirical results from this study suggest that structure has led to inefficiency in terms of task execution time (MacGregor et al. 1984; McDaniel 1990; Lichtenstein et al. 1977; Gist 1994). Some auditors noted that too structured a process required them to spend more time on procedures which were considered unnecessary and that could be skipped if they were able to exercise a greater degree of professional judgement. Some interviewees said that more structured work patterns involved many standardised forms, templates and checklists that were sometimes too rigid, formal and unnecessarily detailed. Some argued that various programmable procedures were too inflexible and may not fit the fast-changing nature of audit and accounting environments. Very often these approaches took more of their time and took away from the flexibility that is sometimes needed in the field, where they may encounter unexpected changes and require time to develop strategies.

Furthermore, this study also reveals new insight into how the long-term use of programmable structures has made the audit too routine and mechanical (Turley and Cooper 1991). This has led to auditors being bound by programmable routine work and may prevent auditors from working 'outside the box'. Some auditors noticed this had led them to place an emphasis on the same areas and criteria from one engagement to the next, despite the pattern of errors changing, while audit risk assessments had not been properly applied in the case of some audits.

10.3.2 Paradox of Dynamic Audit Knowledge: Failure to Adapt to New Practices

Chapter 8 explored two tensions resulting from the dynamic audit knowledge that needs to be adopted by an audit organisation. In the organisational context, change is inevitable (Turley and Cooper 1991). Dynamic changes in an organisation have become a central concern of researchers (Chia 1999; Nasim and Sushil 2011). Some researchers have also explored the issue of dynamic changes using a variety of theoretical perspectives, including application of the paradox lens. Paradox emphasises the phenomenon from the perspective of inconsistencies, contradictions and polarities in an organisation (Perrow 1994; Van de Ven and Poole 1995; Nasim and Sushil 2011; Chia 1999). However, little is known of the dynamic changes in the audit context, which will be discussed in the following subsections.

10.3.2.1 Auditing as a Dynamic Process

Auditing is not static, but is instead dynamic as it has developed over time in line with contextual and technological changes (Eisenhardt and Martin 2000; Lewis 2000; Van de Ven and Poole 1995). However, little is known about how these changes have affected audit practice within the audit organisation. This research has explored such changes that have led to RAQB using the paradox lens in a government audit environment. The empirical evidence revealed that similar to its counterparts in the private sector, the observed government audit organisation has also experienced problems associated with dynamic organisational and environmental change.

The most notable issue involves the tension between old and new (Burns and Fogarty 2010). In other words, there is a contradictory pressure experienced by auditors, especially among more senior auditors, between the dual needs to retain perceived established practices while also adapting new changes into their routines (Lewis 2000). These attitudes relate in part to the inability of the actors to adapt the new knowledge into their current routines (Lewis 2000; Vince and Broussine 1996; Leonard-Barton 1992). This paradoxical tension occurs when the hangover of knowledge from an earlier time fails to keep up with external dynamic changes (Lewis 2000).

10.3.2.2 Changes of Audit Environment: Continuity vs. Stability

The findings suggest that some seniors fail to adapt to the introduction of new practices by the organisation and also to keep up with the dynamic changes taking place within the audit environment. Auditors may attempt to maintain their traditional practices because changing requires them to abandon their established customs. There is a struggle between the comfort of the past and the need for future changes (Cannon 1996). This may occur due to attempts by auditors to hold on to their established capabilities, thereby promoting rigidities and also preventing them from adequately considering change (Lewis 2000).

This is in line with the prior literature suggesting that members of an organisation tend to show a strong preference for consistency in their behaviour and beliefs (Leonard-Barton 1992) and to keep their attitudes and commitments consistent between the past and the future (Cialdini et al. 1995; Heider 1958). Such a viewpoint may lead to the forces of organisational inertia in routines (Weick 1993), processes (Eisenhardt and Martin 2000) and capabilities (Gilbert 2005). The paradox of inertia versus change may exist in which the organisation faces continuous changes to fit a dynamic environment (Leonard-Barton 1992).

These situations have created various pressures within the organisation, bringing about conflicts and dissatisfaction that have the potential to threaten stability. As noted in Chapter 8, the auditors that stick to the status quo are regarded as a burden to the organisation. Team leaders have been appointed from among more junior auditors who are seen as being knowledgeable in terms of current practice. This has led to certain defensive responses from seniors. Frustrations and fears may

not be avoided in the changing practice if the organisation does not anticipate the potential benefits to be gained through change (Ferna ndez-Alles and Valle-Cabrera 2006). Changes in practice are a natural response to changing internal and environmental conditions (Vince and Broussine 1996). There may be inherent stability that conflicts with the need for adaptation (Leifer 1989). Therefore, the organisation needs to manage this very carefully as both stability and continuity are needed if they wish to survive in a dynamic environment (Ferna ndez-Alles and Valle-Cabrera 2006).

10.3.2.3 The Impact of Auditor Rotation on the Continuity of Learning Process

As mentioned previously, this research has offered new insights into the paradoxes arising from changing practices in the audit context. Along with the pressures mentioned above, a number of specific problems within the audit organisation have reinforced the tensions. The main problem relates to regular auditor rotation and a lack of audit specialisation. The regular movement of auditors from one division to another and from one type of audit to another has added to an already complex and changing environment. Auditors claim there is no continuity in the learning process. It is common practice to immediately assign a new auditor in a new unit to an engagement without them having had time to update their knowledge of the new environment. The issue of auditor rotation has been explored by scholars, including the effect of auditor rotation on auditors' independence (Sturdy and Grey 2003) and audit quality (Roush et al. 2011; Dopuch et al. 2001). Prior studies in this area have yielded mixed results (Knechel and Vanstraelen 2007). Some findings have supported the need for such rotation (Bowlin et al. 2015; Geiger and Raghunandan 2002) while others have not been in favour of it (e.g. Vanstraelen 2000; Levinthal and Fichman 1988).

This research contributes to the existing literature on auditor rotation from the perspective of a paradox lens. The evidence shows that regular rotation in a perceived short period of time leads to auditors always needing to learn new things. They need to acquire knowledge and skills of more diverse audit tasks, more audit regulations and more auditee environments. This leads to tension and frustrations in the learning process. Some juniors argue that it is not easy to find very experienced auditors in their division that they can learn from due to the frequency of their rotation. This is consistent with the view of prior studies suggesting that experience influences an auditor's ability to complete audit tasks successfully (Dopuch et al. 2001; Geiger and Raghunandan 2002) (Libby 1983) (Wright 1988a; Bedard 1989b; Tubbs 1992).

In addition, the lack of capable seniors has also raised tensions among juniors, particularly in relation to the effective transfer of knowledge through coaching and mentoring during an audit engagement. Juniors have had to learn by themselves and sometimes without the guidance of senior auditors, which undermines the learning process. The literature suggests that mentoring is a key factor in the successful completion of tasks in audit (Dirsmith and Covaleski 1985). The mentoring process involves more senior auditors guiding juniors and assisting them in their learning (Dirsmith

and Covaleski 1985; Bobek et al. 2012). Lurie (1982) pointed out that the relationship between seniors and juniors enables them to share experiences, with juniors learning from seniors. This type of interaction can be achieved through both formal and informal tools such as bulletin boards and also audit firm social outings (Vera-Munoz et al. 2006).

10.3.3 Paradox of Audit Team: The Lack of Cohesion in a Heterogenous Audit Team

Unlike previous studies, this research has explored tensions and contradictory actions in audit assignments from a broad sociological perspective. The empirical evidence gathered in this research supports the existence of the tensions in a group due to the group's pluralistic knowledge base (Libby 1981, 1983; Birnberg and Shields 1984; Gibbins 1984) and heterogeneous members' characteristics, skills and expertise (Bamber et al. 1998; Notgrass et al. 2013; Bobek et al. 2012; Smith and Berg 1987). Rather than improving the quality of the audit team's work, the audit team members' heterogeneity has the potential to undermine team cohesion and quality. As explained in Chapter 9, differences between the auditors seemed to engender divergence as opposed to collaboration. The auditors seemed to group themselves based on their backgrounds, leading them to display a reluctance to help others from different backgrounds and areas of expertise. In addition, due to their different motivations and levels of commitment, reinforced by ineffective control systems and a poor assessment mechanism, auditors may be able to operate comfortably by putting in less effort and even faking their own results by engaging in RAQB. The evidence also reveals that plurality may lead to conflict, undermining cohesion within the team. Auditors regarded as persistently engaging in unacceptable behaviour may be rejected by others in the team. The attitude and behaviour of team leaders also appeared to trigger conflicts. For example, an authoritarian team leader may not get along with his or her team members. As a result, there may be poor communication that eventually threatens team cohesion.

This research also examined how organisational factors contribute to paradoxical situations and also how such contradictions may result in RAQB. The first problem is concerned with the inability of the observed audit organisation to apply good systems of selection when setting up audit teams. The second problem is related to the regular rotation of auditors. As noted previously, one of the aims of this is to maintain auditors' independence from the audited entities. However, the evidence shows that some auditors feel that being moved too frequently to very different environments makes adjusting to the new environment difficult.

10.4 Contribution to Paradox Theory: A Framework of RAQB Through the Paradox Lens

As was noted in Chapter 1, the objective of this research was to explore RAQB through a paradox perspective lens. Chapter 6 identified three types of prevalent RAQBs among the auditors studied. Chapters 7 to 9 presented the paradoxical conditions found in audit team engagements. This subsection outlines the framework of how RAQB can be viewed from the perspective of a

paradox lens. Figure 10.1 below outlines the framework of this study that was adapted from (Smith and Lewis 2011). According to Smith and Lewis (2011, 382), paradox can be defined as *'contradictory yet interrelated elements that exist simultaneously and persist over time'*. The study of paradox has identified two elements: underlying tensions and responses to these tensions (Lewis 2000). The figure below first identifies the factors that cause paradoxical tensions. The four paradoxical tensions then give rise to a series of negative actions or audit practices in the form of RAQBs. The organisation responds to both the RAQB and also the paradoxical tensions to seek resolutions. This produces a cycle in which the organisation fails to find effective resolutions. The following subsections will explain the framework in more detail.

Figure 10.1 The Framework of RAQB
Source: (adapted from Smith and Lewis 2011)

Paradoxical Tensions

Tensions
Contradictory yet interrelated elements embedded in organising processes that persist because of organisational complexity and adaptation:
- Control vs. Efficiency
- Consistency vs. Flexibility
- Old vs. New
- Team Plurality vs. Team Cohesion

Factors causing tensions:
- Limited human resources, audit time, and funding (Scarcity)
- Dynamic audit knowledge (Change)
- Group members plurality (Plurality)

Organisational Responses

Paradox and RAQB Resolution
- Informal sanction
- Informal assessment
- Applying structured system (Supporting)
- Forcing seniors to keep improving knowledge through tighter promotion systems (Suppressing)

RAQ Behaviours
- Premature or False Sign Off
- Superficial Audit Supervision
- Reduction or Modification of Tested Items in a Sample

10.4.1 Paradoxical Tensions and The Contributory Factors

As noted in previous subsections, four main contradictory tensions exist. Empirical evidence shows that these tensions are caused mainly by three main organisational factors. This is consistent with the three environmental factors of Smith and Lewis (2011): scarcity, change and plurality. The first factor relates to the scarcity of resources that the NAB suffers. Scarcity is concerned with the restriction of resources, whether these are temporal, financial or human resources (Lewis 2000; Smith and Lewis 2011). An organisation needs to identify and select the best options for allocating limited resources, but regardless of the choice made, the outcome is likely to be an exacerbation of inherent tensions (Smith and Lewis 2011). In this research context, scarcity includes the limitations of human and financial resources, and the time available to finish an audit. The evidence shows that some tensions mainly relate to the limited number of auditors. Auditor shortages have led to limited direct supervisory time, work overload, time pressure, never-ending audit assignments and an excessive supervisory span of control. This scarcity has affected the four identified tensions. In the

paradox of audit control, both limited funding and numbers of auditors were the main factors in the battle between control and efficiency and also the tension between consistency and flexibility (Chapter 7)

Change is associated with the paradox of dynamic audit knowledge, i.e. the tension between old and new (Chapter 8). Paradox scholars have noted the tensions emerging from environmental forces on dynamic business changes (Smith and Lewis 2011) due to, for instance, technological innovation (Smith and Tushman 2005) and hyper-competition (Clegg et al. 2002). Audit environments have also constantly been changing (Iansiti 1995; Lee and Azham 2008). These changes have increased pressure on the NAB and its auditors. There is a constant demand to adapt practices to fit these changes. However, some auditors fail to keep up and try to maintain old practices (Chapter 8 and Subsection 10.3.2).

Previous studies on paradox have highlighted plurality as one of the sources of a paradoxical condition, denoting here a variety of views on diffuse responsibilities, tasks and powers (Gilbert 2005, 2006; D'Aveni and MacMillan 1990) that may trigger inconsistent processes and competing goals (Gibbins and Mason 1988). In the context of the audit, plurality is concerned with relatively complex audit environments requiring different roles, diversity of knowledge-based tasks and interrelated responsibilities (Denis et al. 2007). Audit teams are often heterogeneous in nature, consisting of auditors from different backgrounds and expertise. This study found that this diversity leads to a number of pressures being placed on the auditor, notably in relation to team cohesion (Chapter 9 and Subsection 10.3.3).

10.4.2 RAQB: Negative Responses of Paradoxical Tensions

In line with the prior studies on paradox, tensions may lead to either negative or positive responses (Cohen and March 1986). In this research context, as described in Figure 10.1, the negative responses depicted by the dotted downward arrow denote RAQBs. With regard to the tension between control and efficiency, some supervisors who perform a control function feel they have too large a supervisory span of control and limited direct supervisory time. They exhibit denial (Libby and Luft 1993) of this condition and use it as a justification for performing superficial audit supervision. In addition, the evidence also shows that the absence of perceived essential controls, such as limited hours of supervisory time, has led some auditors to engage in PFSO and a reduction or modification of the items tested in a predetermined sample. Furthermore, even if RAQB were detected during the engagement, there is no likelihood of the auditors being given a formal sanction. This factor has been regarded as reinforcing the persistent occurrence of such behaviour. Auditors may also be able to maintain such prior behaviours to ensure consistency, thereby making detection even more difficult (Lewis 2000; Smith and Lewis 2011).

In relation to the tension between structured and unstructured audit procedures, some argue that unstructured procedures may result in the audit lacking guidance and thereby leading to confusion and desperation (Vince and Broussine 1996), again encouraging the auditor to sign off on certain procedures either falsely or prematurely. In contrast, some auditors took shortcuts if they perceived procedures as being too structured because they felt they contained unnecessary steps. Some studies support this finding, suggesting that the consideration of one or more audit steps as unnecessary is one factor contributing to the occurrence of PSO (Weick 1993). According to the paradox response literature, the negative consequences shown by actors could result from the frustrations, anxiety and discomfort caused by the tensions (Smith and Berg 1987).

With regard to the tension of dynamic changes (old vs new), some auditors adhering to the status quo performed superficial audit supervision as a defensive reaction (Margheim and Pany 1986; Otley and Pierce 1996b) to their failure to keep up with essential audit knowledge. Some attempted to avoid discussing technical audit matters with the team in order not to look bad. Some auditors who did not have current knowledge displayed a tendency to either intentionally or unintentionally sign off on procedures falsely or prematurely.

The evidence also shows that the need for team plurality can compromise team cohesion. Some teams displayed poor communication among team members, also potentially leading to RAQB. Less communication and coordination can also trigger unbalanced workloads among team members. Some committed sample reduction practices in order to meet deadlines in the very limited time available as part of wider attempts to counter their excessive workloads. Some supervisors and team leaders who were unable to coordinate the work of individual team members created situations where some members of the team appeared able to set their own work agendas (Lewis 2000; Smith and Lewis 2011; Smith and Tushman 2005).

10.4.3 Organisational Responses: Paradox and RAQB Resolutions

As indicated in Figure 10.1, the organisation has sought to find a resolution to both the paradoxical tensions and their negative consequences, i.e. RAQBs. As noted previously, in instances where RAQB was detected, no formal sanction was given to the auditors concerned. Auditors have thus come to feel that the organisation is tolerant of such behaviour. Some auditors responded to this situation by creating informal mechanisms in the form of social or peer review sanctions for auditors recognised as consistently engaging in such behaviour. However, even though there is an informal sanction, an auditor notable for his or her misbehaviour may continue to be included in the engagement because the organisation lacks sufficient numbers of audit staff. Similarly, because of the absence of any method of evaluation of RAQB, some supervisors and audit managers apply their own informal assessments. They map auditors' previous performance and misconduct behaviour records based on their personal impressions and evaluations formed during audit assignments. However, some have rejected this type of reporting system as unreliable and subjective.

The available evidence shows there has been no effective resolution of RAQB outcomes. This means that auditors tend to treat paradoxical tensions as a challenge to the sustainability of their function (Lewis 2000; Smith and Lewis 2011; Smith and Tushman 2005; Jarzabkowski et al. 2013) and a threat to the attainment of long-term success (Cialdini et al. 1995). With regard to the two polarities of structured against unstructured procedures, the organisation has supported a programmable audit programme by introducing more standardised audit steps and procedures. However, although some auditors are in favour of this, there are also opposing views, particularly from seniors. In turn, the seniors blame those auditors who are in favour of detailed procedures for seeking an easy way to conduct audits and for neglecting to improve their own audit knowledge and skills.

The NAB has also taken various actions in relation to the issue of auditor preference for the status quo over change. Along with the application of a new requirement for promoting auditors in the form of annual assessments of performance, the audit organisation has strengthened the need for auditor development by including more aspects of professional development in the credit threshold criteria for promotion. In order to be promoted, auditors are required to improve their current skills by, for example, undergoing a minimum of 40 hours' training per year. Auditors who fail to meet this requirement may not move to a higher position and may even be demoted. However, some auditors display a defensive response to this as they perceive the system to be suppressing and threatening (Smith and Lewis 2011). They say that the policy places a significant burden on their career as it makes it difficult to reach the set targets.

Similarly, the audit organisation believes that the tension between audit team and team cohesion may be caused by the failure of auditors, especially team leaders and supervisors, to adopt or hold good managerial skills to coordinate and control auditors' work. Therefore, the NAB has provided more relevant training, such as on teamwork and communication skills and leadership. Some auditors still see this as insufficient, with some arguing that training is not effective and that what they really need is a comprehensive policy and commitment from top-level management to improving their current practice and professionalism.

In summary, the paradox framework explains that tensions will always exist in an audit organisation. These tensions may be triggered by three main factors, namely, scarcity, change and plurality. These tensions give rise to three types of RAQBs, which in turn are also reinforced by both individual and environmental reactions. In order to deal with both the tensions and their adverse consequences (i.e. RAQBs), the organisation has sought to find resolutions. It has, however, failed to identify effective resolutions to the problems. The tensions threaten both the sustainability and long-term success of the audit organisation (Smith and Lewis 2011). If the paradoxical tensions cannot be resolved, RAQB will continue to be prevalent.

10.5 Research Conclusion and Contribution

Referring back to the research questions and also the research objectives outlined in Chapter 1, this research has been able to identify three prevalent types of RAQB in government audit. The results are broadly consistent with the findings of previous studies conducted in the private sector. The findings provide important insights into RAQB as seen from a paradox theory perspective. The framework adapted from Smith and Lewis (2011) helps to explain RAQB as the consequence of paradoxical tensions within the organisation. The absence of effective responses to these tensions and RAQB outcomes has resulted in a complex situation where the audit organisation has been unable to reach a stable or sustainable situation.

This thesis has contributed to the empirical, theoretical and practical study of RAQB and the consequences of organisational paradox. The empirical contribution is related to the novelty of this research in its direct approach to examining RAQB in the field. While prior empirical evidence has illustrated the problem of RAQB through surveys or experiments, this research has provided empirical evidence from the equivalent of 26 days or 189 hours (on average of 7.3 hours a day) of direct observations on five audit engagement teams, on assignment, during the conduct of their fieldwork audits. The respondents comprised 45 individuals at different stages in their audit careers. The results of the observations were then corroborated through interviews and reviews of audit team documentation, such as working papers. This may be the first study to attempt to view this problem from behind the audit veil using such observational and associated qualitative techniques.

The theoretical contribution has been presented in this last chapter. The framework has enriched the case study-based paradox literature of complex organisational settings. Adapting the dynamic equilibrium model of Smith and Lewis (2011), the findings provide the necessary empirical evidence to suggest that RAQB can usefully be viewed through the paradox theory lens. This research has proposed a new framework explaining that RAQB may be caused by paradoxical tensions existing within the organisation. A cycle that perpetuates and reinforces the initial tensions may develop in the event that the organisation fails to take effective responses to both the RAQBs and the sources of the paradoxical tensions.

This research has contributed to practical understanding of the phenomenon of RAQB in government audit. Organisational factors that contribute to paradoxical tensions causing such patterns of behaviour have been explored. The findings suggest it is imperative to try to identify effective responses to any paradoxical tensions that become apparent. With regard to the control tensions, an audit organisation needs to strengthen its audit control during the audit in the form of a hot review because an ineffective supervisory process may be one of the most important issues giving rise to RAQB. The combination of instances of RAQB often being difficult to detect with the absence of any formal sanction for offending auditors might encourage RAQB. The audit organisation

should consider the application or institution of a system of sanctions and strict penalties for those auditors persistently engaging in RAQB.

The findings could be used by the government to ensure they have auditors who keep their knowledge up to date since the empirical evidence suggests most of the observed auditors struggled to maintain and improve their current audit skills and proficiency. This research has shown that team problems around cohesion also contribute to RAQB. The audit organisation needs to make sure that it does not encourage team conflict. This may best be achieved by: planning the audit well; not changing auditors in the middle of an engagement; assigning competent team leaders; and encouraging the auditors to have good communication.

10.6 Reflection, Limitations and Suggested Future Research

There has been a lot of challenge, learning and excitement throughout the pursuit of this research. Working with and observing auditors in the field every day for a significant period time was rewarding. It was not an easy process to capture the behaviour of the auditors. The most difficult aspect was how to get along with them and gain their acceptance and trust so that they were comfortable being open with me. I needed to develop a strategy in order for them to trust me. For each team, on the first day of observation, I had a brief introductory briefing with all of the auditors and explained to them that I would ensure their anonymity. In the course of my continuing site visits and data collection they then came to accept me as part of the team. Some of them said they did not even see me as a visitor on the team. A number of impromptu informal conversations, held during lunch breaks, for example, and documented in my observational field notes, helped to enrich the observations and insights. They also helped me to build a closer connection with the auditors that proved useful in securing further interviews, held after the initial interviews, to follow up on specific questions.

To sum up, this research has portrayed the problem of RAQB in a government audit institution. However, no attempt has been made to generalise its findings. Instead, it is intended to provide a more comprehensive view of the phenomenon of RAQB, especially within the context of government audit. Although careful attention was paid to the reliability and validity of the data, this research may be subject to limitations such as a degree of subjectivity, bias and interpretation. This research could also have included more observed teams and more auditors. Alternatively, the incorporation of focus group methods may have allowed the auditors to collectively make, or express, their own sense of the outcomes of RAQB. Focus group approaches may address issues of the joint construction of knowledge by creating a view out of the interaction in the group (Bryman 2012). However, this approach might also introduce the danger of bias from more voluble group members. This research may also have focused excessively on organisational factors. Nevertheless,

future research exploring the paradoxical cognition of auditors from the perspective of cultural and other contextual variables would be fruitful.

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Appendices

Appendix 1: A Summary of the Results of the Observations

Observation Information	Descriptive Notes			Reflective Notes	Ref
	Profile of auditors or team	A description of the physical setting	Account of particular events or activities		
Day 2 of Observation of Team 1. Date: 16 January 2014 Time: 08.07 – 16.43 Duration: 8 hours 36 minutes Place: The auditee's office Number of auditors: Three team members.	The team consists of one manager, one supervisor, one team leader and four team members. The first team member is quite a senior auditor team member with 8 years' experience, but who has just been moved to the unit one day before the engagement. The two other team members have been auditors for four and six years, respectively. The last team member would only join in the middle of the engagement as he was still on another engagement.	The auditors work in a dedicated auditors' room. There are a lot of documents that need to be verified by the auditors. Two auditors plan to do stock checks and also test the existence of assets located in three different places. The first storage rooms are at the auditee's premises, on different floors. The other stocks are located at the other building about 30 minutes' drive away.	08.07 I arrive in the auditors' room. One auditor is already there and the other two arrive at 08.11 and 08.47. The team leader does not come in because he is attending a 3-day workshop on the conduct of Central Government Financial Statements Audit. .... 09.04 I travel with two auditors to carry out stock checks of medical supplies in one of the storage rooms located on the ground floor of the building (the auditors' room is on the fourth floor). They have conducted examinations on two prior occasions and found significant differences between the stock cards and the actual balances held in the storing room. When arriving there, they do not find the person in charge of the stock and according to another employee, he is still on leave. The office has tried to contact him but he cannot be reached and nobody else is able to explain the auditors' findings. 09.35 The auditors then return to their room to discuss the issue. I observed the discussion and one auditor argues that they need to propose a revised audit procedure and to find alternative procedures to verify the assets. However, the other auditor insists they have a very tight schedule and have other stocks to verify in other places. There is no audit team leader for three days and they then decide not to report the differences. According to my later review of the auditors' working papers (see the review of documents note), the procedures are	The team leader is away from the team for 3 days attending a workshop. It appears the team members are not being guided very well, especially the inexperienced team member who has to make some important decisions. The auditors engage in premature sign-off. One of the reasons relates to uncooperative auditees.	1.2

			reported as satisfactory without reporting the differences. .... 11.20 An auditor is assigned and scheduled to conduct a test of management's assertion of the existence of some medical equipment in another office building. According to audit procedure programme point B.3 regarding capital expenditure testing, he needs to *'conduct a physical examination of the existence of the asset resulted from the spending of capital expenditure'*. He has been reviewing purchase order documents for the assets in question since the morning. However, he tells the team that he has decided not to perform a test. He states that the auditees have conducted proper purchase procedures and there has been a report from the employee in charge of the purchase stating that the assets have been received and placed in the intended rooms. He said that it is almost lunchtime and it would take him 45 minutes to get to the location and in the afternoon he and the other two auditors need to check stocks in the other locations. The later review of working papers during the final stage of the audit reveal that he completed the procedures by saying that he had seen the assets. The team leader has added a signature and the supervisors have approved completion of the procedures.	The auditors engage in premature sign-off.	1.2
Day 3 of Observation of Team 1. Date: 19 January 2014 Time: 09.12 – 16.02 Duration: 6 hours 50	The team consists of one manager, one supervisor, one team leader and four team members. The first team member is quite a senior team member auditor	The offices being visited are located in several different places around the city. It takes around 20 to 30 minutes to travel from one place to another.	.... 12.45 I travel with one auditor to carry out a cash on hand examination and also to verify year-end stocks. The audit procedure requires him to conduct a physical observation of items that have been determined applying a statistical sample selection method. The items are not all located in one place, but are instead in several places. It takes about 35 minutes to reach the first place. We travel in the auditor's car. In the car, during informal conversation, the auditor said that today he has a	The auditor engages in sample size reduction due to his lack of understanding of the business process and also lack of technical ability to examine the stocks because he has just been moved from another unit that has a different	1.4

minutes Place: The auditee's office Number of auditors: One team leader and three team members.	with 8 years' experience but who had just been moved to the unit one day before the engagement. The two other team members have been auditors for 4 and 6 years. The last team member would only join in the middle of the engagement as he was still engaged on another team engagement.		rather hectic schedule to check supplies. He said that he has just been moved from another unit and feels he does not have a good understanding of the business process of the current audited organisation. We arrive at the first place and immediately check the supplies. It takes about 30 minutes. Afterwards, we drive to another office building where the second sample is located. By 15.12 we have visited four of the eight sites as planned, before returning to the auditors' room. The auditor said that he had not been able to complete the examination according to the original schedule because he was still learning how each unit managed its stock supplies. During the informal conversation in the car he said that the examination had covered only around 40 per cent of all the selected items and that he did not intend to continue with it.	audit environment.	
Day 4 of Observation of Team 1. Date: 17 February 2014 Time: 11.25 – 16.02 Duration: 4 hours 37 minutes Place: The audit organisation. Number of auditors observed: one team leader and four team members.	The team consists of one manager, one supervisor, one team leader and four team members. The first team member is quite a senior team member auditor with 8 years' experience but who had just been moved to the unit one day before the engagement. The two other team members have been auditors for 4 and 6 years. The	The auditors work at their own desks in one of the units in the audit organisation. Their desks are close to each other in quite a large room occupied by around 20 auditors.	11.25 After almost a month's break from observing Team 1 and conducting an observation in another team, I return to observe them. I arrive at the audit organisation office. There are three audit team members and one team leader. .... 11.45 The auditors do not seem to have much to do. Some team members are chatting with each other, and only the team leader seems to be doing something on his laptop. When I enquire whether today is a busy day, one auditor states that they have just returned from an assignment performing an examination of constructions from procurements in several places out of the base city and that they needed a bit of rest in the morning to work on some reporting before proceeding to do a documents examination in the afternoon. Conversations with them reveal they did not complete testing on all procurements. Out of six planned locations, they visited only four, tested the biggest and most suspicious ones and left the others. They said that they had spent more time in the field than was scheduled. The	The auditors engage in sample reduction due to a perceived limited amount of time to finish the audit.	1.4

	last team member has just joined the engagement after having been previously engaged with another team.		team leader then decided to skip some samples and go with the biggest items that looked the most suspicious, considering their professional judgement, media reports and also last year's audit reports. According to the later analysis of their working papers, they did not report this reduction in the working papers.		
Day 6 of Observation of Team 1. Date: 12 March 2014 Time: 08.02 – 16.12 Duration: 8 hours 10 minutes Place: The auditee's office Number of auditors observed: one team leader and four team members.	The team consists of one manager, one supervisor, one team leader and four team members. The first team member is quite a senior team member auditor with 8 years' experience but who had just been moved to the unit one day before the engagement. The two other team members have been auditors for 4 and 6 years. The last team member has just joined the engagement after having been engaged in another team. The audit team leader was attending a seminar for one day unrelated to the engagement.	Two examined buildings are under construction, located about 40 minutes' drive from the auditors' room base.	.... 09.30 I travel with two auditors to examine two office buildings under construction. It is suspected, according to a performance audit conducted before this financial statements audit engagement, that the procurement processes have not been carried out appropriately. The constructions are accounted for as 'buildings under construction' in the fixed assets. The auditors are required to examine the last progress of the building and find any potential irregularities and fraud such as overpricing and any potential contract violation. Before leaving for the construction site, the two auditors receive documents related to the contract and also some other documents from the auditee. Some of them said they had reviewed some and during the audit planning and interim the team had put some 'red flags' for auditors' concern when examining them. It takes us about 40 minutes to drive to the site from the auditors' room base. 10.10 We arrive at the site and meet with the two auditees in charge of the construction building. The auditors then check the constructions accompanied by the two persons in charge. They have a quick chat and take photos of the building without even looking at the documents they have brought. They do not seem to conduct any further examination of the 'red flags' and do not match some of the contents of the document with the physical evidence in the field. The whole process takes less than 15 minutes. When I enquire as to why it was so quick, they state they would return later to conduct a further examination. According to conversations with the auditors during and after the examination, they said they did not feel they had sufficient knowledge	The auditors do not conduct further examination of suspicious items and engage in premature sign-off due to a lack of understanding of the subject of the audit.	1.2

			of conducting such an examination. For example, there were some technical terms they did not know and they said they did not know how to examine the 'red flags', with one auditor stating that the procedures were insufficiently detailed, meaning they struggled to carry out the appropriate examination. The two auditors in charge of the account reported they had just been moved from other units and immediately assigned to this audit engagement. They said they would return later with the more experienced team leader who at the time was at a one-day seminar unrelated to the audit engagement. However, they did not return prior to the end of the engagement and according to the review of working papers, reported the examination as satisfactory without revealing the real conditions they faced.		
Day 2 of Observation of Team 3. Date: 2 April 2014 Time: 10.02 – 16.25 Duration: 6 hours 23 minutes Number of auditors observed: One audit manager, one supervisor, one team leader and four team members.	The audit team composition was different from the interim audit. The team leader has just been moved to the unit and it is the first time she has led this kind of audit. Two audit team members have joined in the middle of the engagement.	The auditors are given a dedicated room. It is quite big with some chairs and tables. There is much space that is used by the auditors to examine the auditee's documents. I am given a chair and table in the corner.	10.02 I arrive in the auditors' room. There is a supervisor, team leader and two other team members. Two other audit team members are out of the room conducting audit confirmation for several auditees. .... 10.35 As planned, the team leader and one of the audit team members go out to visit five designated petrol stations to undertake audit confirmations and to verify selected sample transactions. In the audited entity, a significant number of the entity's vehicles are allocated directly to senior managers and are also used by the office for daily operations. Every vehicle is allocated a refuelling allowance and to use the allowances, users can either spend vouchers provided by the office or can provide receipts issued by one of the five designated petrol stations. One audit team member said that, based on the review of documents, they suspected a significant amount of fictitious recording to have been carried out. Thus, an audit procedure required them to conduct audit confirmations to verify a selection of sample transactions from the 5 petrol stations.	It is found that the auditors performed a reduction of the number of items tested in a determined sample.	1.4

| | | | | 13.25 The team leader and team member return to the auditors' room. They discuss the results of their visits. They report they were only able to visit one gas station out of the planned five. They said that the locations were too far away and that there was insufficient time to check all of them, although they did admit that the account was quite significant and suspicious and had significant risk. They found nothing from the petrol station because they were unable to acquire the data they needed. They said that it took one whole day to get one sample and that they did not have enough time or manpower to complete all of them. According to one auditor, they verified less than 25 per cent of the selected transactions in the sample. She did understand that the transactions were quite significant, that some were suspicious and that the system they were using was risky. However, she said that she had spent more time than expected and had thus decided to reduce the number of tested items.

....

11.02 I am observing an auditor in the team who is responsible for examining social donation expenditure. She has been collecting some of the required documents and according to one of the audit procedures she has to verify whether the donations have been received by the correct beneficiaries by examining the supported recordings and documents and conducting direct confirmations. According to her, during the audit planning and interim audit, the team has identified potential fraud. This is also a risky account that is frequently misused by management. However, because there is a very large frequency of transactions comprising many small amounts, the auditor needs to verify and conduct confirmation of many records. She has been trying to contact beneficiaries via mobile phone but seems not to be able to reach all of the contacts. According to her, she is required to directly confirm the amounts with the beneficiaries if she feels transactions are suspicious, but nobody can be contacted on the phone at this time. However, she fails to go back and gain any of the important confirmations prior to the end of the examination, and signs off on the procedure as if the tested account is fine. A later interview with her | It is found that the auditor does not perform a further examination for suspicious transactions. | 1.2 |

			suggested she was, in fact, not fully convinced and suspected potential irregularities, but argued that she had limited time and had also found other significant problems in other accounts that she chose to focus on more. She is currently examining more accounts as one auditor in her team is a very new auditor and being given less accounts to work on. She has also taken over the work of a team member who missed his first week with the team. .... 15.10 One auditor is carrying out an examination of salaries and employee allowance expenditure. She reported that salary expenditure amounted to 1.7 trillion Rupiah and accounted for significant contributions to the overall expenditures in the financial statements. She said that the transactions were routine and less risky despite the amount being significant. She said that she had only examined about half of the total items in the sample due to it being perceived as a less risky account and that she had spent more time than expected looking at the documents. She said that she was in charge of that account alone and in reality needed at least two days to complete all of the tests rather than the one day that was scheduled.	It is found that the auditors perform a reduction of tested items in a determined sample due to perceived less risky accounts.	1.4
Day 5 of Observation of Team 4. Date: 14 February 2014 Time: 08.02 – 13.25. Duration: 5 hours and 23 minutes Number of auditors	The team consists of one manager, one supervisor, one team leader and four team members. The team leader is quite a senior team leader with 10 years' experience as an auditor. The third team member is	The audit team and I stay in a hotel close to the audited organisation. Every auditor has his or her own separate room. The audited organisation has also provided the team with a dedicated room in its premises that is quite big with chairs	08.20 The team, with the exception of the team leader, is leaving the hotel to go to the organisation being audited, only a 10-minute drive away. The team leader said that she would follow the team later as she had a stomach ache. .... 09.15 Since yesterday, I have been observing a team member who is conducting only her second audit assignment. She is responsible for 8 accounts relating mainly to revenues and account receivables. Conversations with her show that she suspects some rare irregular issues regarding cash on hand balances that were in the possession of	The auditor does not carry out further examination of suspicious items due to her lack of competence and also less detailed audit procedures. She also said that she is	1.2

observed: one team leader and three team members.	very inexperienced and this is her second audit assignment. The second team member joins the team around one week after the audit has started. The team is conducting the audit for 30 days out of their base city. They are staying at a hotel close to the audited organisation.	and tables for each auditor. There is much space in the room that is used by the auditors to lay out all of the auditee's documents and recordings. I am given a chair and table in the corner from which to observe the team.	tax collectors. However, although she stated that the amounts were quite significant, she elected not to continue with further detailed examination because she said that additional examination was not required in the initial procedures and so she had not prepared for investigating the systems that were not fully explained in the audit procedures. She argued that due to her inexperience it would take her a considerable amount of time, so she had decided to concentrate more on inventories that, based on her prior audit, would attract more attention from the team leader and supervisor.	in charge of a lot of accounts and that its seems unrealistic to conduct in-depth examinations on all of them. For example, she cannot trace some revenue accounts from beginning to end, although she strongly believes they look suspicious in some areas.	
Day 2 of Observation of Team 2. Date: 25 February 2014 Time: 14.25 – 18.45 Duration: 4 hours 20 minutes. Number of auditors observed: One audit manager, one supervisor, one team leader, four	The team has very experienced and inexperienced auditors. The team leader has led this kind of audit about 4 times previously. Two auditors have more than 5 years' experience. One audit team member has just joined the unit and was immediately assigned to this audit. One team member has just	The auditors are given a dedicated room. It is quite big with some chairs and tables. The auditors can put some documents near their tables as they have enough space. I am given a chair and table in the corner from which to observe them.	.... 15.25 Today, one new audit team member has joined the team engagement. When I return to the auditors' room after travelling with another auditor to examine some assets, the supervisor and audit team manager are in the room conducting supervisory tasks. They are chatting with the auditors but about things mostly unrelated to audit matters. They are talking about their new office policy on auditor remuneration, auditor rotation and about some of their colleagues that are leaving. The only significant discussion related to the audit matter in hand is when one audit team member asks them about one of the findings regarding asset management. He has found that some assets are not supported by convincing legal documents. The supervisor states that if he still has time he can check it. The team member says he has a tight schedule and has seen the assets in question. The supervisor instructs him to proceed.	At the end of the preliminary audit, supervisors and audit managers are visiting the audit team. I am able to observe how they supervise the team. They do not review all of the procedures in the audit programme but merely ask directly about any identified problems and the potential audit findings. I look at team members' working papers and ask one team member about the issue. I found that not all of the working papers had been prepared but for those that had been prepared, the supervisors had not checked and	1.2

team members.	joined the team after missing several days through working on another team engagement.		....	signed them. They focus on the problems encountered and the potential findings of the audit.	
			16.12 Some team members still have some auditees in the room to interview and confirm some issues. The supervisors and the audit manager spend most of their time talking to the team leader but again most of what they discuss is unrelated to the audit matters.	The supervisor seems to wait to be asked by the auditors rather than to proactively ask and review team members' work.	
			....		
			17.32 One of the subdivision heads at the audited organisation comes to the auditors' room. He has a discussion with the supervisor and team leader. They talk about many things but mainly about office matters. The head said that he has just returned from the capital two days ago and has not had significant meetings and discussions with the auditors.	According to my investigation, the supervisor and audit manager neither properly focus on nor execute their roles. They quite often have discussions about things unrelated to audit matters. They wait for team members to report to them or to ask something and do not look at the team's working papers. They do not use their limited supervising time properly.	
			....		
			18.00 So far, the supervisor and audit manager do not seem to be reviewing the auditors' work.		
			18.45 At the end of the day I look at the team members' working papers. They have done some of the audit procedures and have prepared the working papers with supporting documentation. Most of the papers have not been signed by the supervisor and audit manager. One auditor said that the working papers need to be signed off and signed by both of them but usually they do it when they have finished the engagement and returned to the office.		
Day 4 of Observation of Team 5. Date: 05 March 2014 Time: 07.44 – 17.38 Duration: (10 hours)	The sub-team engagement has some experienced auditors. There are senior team members that have been auditors for more than 5 years. One team member	Auditors are given a dedicated room on the fifth floor of the auditee's office building. It is a very big room with chairs and tables. The auditors can arrange their documents near their	07.44 I arrive at the auditors' room. One auditor is already there. .... 09.00 All of the auditors are now in the room. Auditors are grouped into their own sub-teams and look busy examining documents. Some of them are having discussions. Today, the supervisor is scheduled to supervise the sub-team I am observing.	The supervisor is carrying out a review but seems to not be doing the role very well. He only looks at auditors' weekly progress reports without checking the working papers and related supporting documents or audit procedures carried out by the auditors. He discusses general matters with the audit team leader,	1.2

Place: The auditee's office. Number of auditors observed: One supervisor, one team leader, four team members.	has not joined the team because he is working on another team engagement, completing the final reporting stage.	tables as they have enough space. I am given a chair and table in the corner. There are two sub-teams working together in the room for a period of several days. I observe only one sub-team engagement.	.... 09.45 The supervisor is in the room. He is talking to some of the audit team members. I am in the corner and can clearly hear what they are talking about. The discussions are very general about how the audit is going. The supervisor asks for each sub-team's weekly progress report. The supervisor spends about 15 minutes reading the reports. .... 11.14 The team leader has a discussion with the supervisor. The supervisor is confirming something with the team leader about points in the weekly progress reports that appear to have attracted his attention. 11.45 The supervisor and team leader are still discussing the weekly reports. The supervisor also asks the team leader about the schedule for today and what the auditors are going to do for the next couple of days. 12.15 The supervisor never looks at the auditors' working papers. He has now sat down at a table and looks busy with his mobile phones. .... 12.45 All the auditors and I have lunch at the canteen in the office building. .... 13.30 All of the auditors return to the room. The supervisor tells the team he needs to go out because he has something to do and will return soon. .... 14.50 The supervisor has not yet returned although his bag is still on his table.	mostly outside the audit context.	

			.... 15.58 The supervisor returns to the auditors' room. He stays for about ten minutes, again without looking at the weekly reports. He then states that he needs to leave. During his visit he never reviews the auditors' working papers and supporting documentation.	

Appendix 2: Incidences of Premature or False Sign-Off

Specific Actions	Gained Through
(1) An auditor took a short cut by checking only the purchase order of an asset instead of conducting a physical examination of the existence of the asset as required in the audit procedures.	Observation and interview
(2) Two auditors did not perform a required detailed examination of the construction of a building.	Observation and interview
(3) An auditor did not conduct a required further examination of a public donations account despite suspecting some potential irregularities.	Observation and interview
(4) An auditor did not perform further examination of the cash on hand balances of tax revenue accounts.	Observation and interview
(5) An auditor did not carry out further examination of a cupboards procurement.	Interview
(6) An auditor did not conduct further important audit confirmations.	Interview
(7) An auditor did not carry out a full examination of the required auditee recordings and documentation. He instead performed it selectively.	Interview
(8) The team did not verify some significant differences between the stock cards and falsely signed off on the audit procedure.	Observation and Interview
(9) An auditor did not thoroughly check travel expenditure recordings and documents.	Interview
(10) An auditor skipped some steps and did not perform some examinations.	Interview
(11) Some auditors just checked the existence of the asset (of the procurement contract) without doing further examination when needed.	Interview
(12) An auditor just did what the procedures said without conducting further examination when needed.	Interview
(13) An auditor ignored some of the procedures.	Interview
(14) Some auditors did not properly execute all procedures.	Interview
(15) Some juniors did not examine the auditee's documents properly.	Interview
(16) Some auditors could not get the required documents, then gave up and did not report this to the supervisor or audit manager, opting instead to falsely sign off.	Interview

Appendix 3: Incidences of Superficial Audit Supervision

Specific Actions	Gained Through
(1) Two supervisors relied too much on the weekly progress reports without substantiating the claims with the working papers.	Interview
(2) Some supervisors rarely communicated with the team and did not proactively monitor the team's work on a daily basis.	Observation and interview
(3) Two supervisors did not monitor the auditors' work properly, did not check all the completed procedures and did not review the sufficiency of collected evidence in the working papers.	Observation
(4) Two supervisors were not properly checking the working papers prepared by the auditors.	Observation
(5) Three supervisors looked quickly at working papers for only troubled or suspicious items.	Interview
(6) When auditors sought advice a supervisor sometimes just instructed them to do what they thought they should do without providing any solutions.	Interview
(7) Some supervisors visited the auditor for only a very short time, just asked significant matters and did not give the auditor technical guidance or advice when the auditor asked for it.	Interview
(8) A supervisor did not carry out the monitoring role. He did not review auditors' working papers. The team felt that the supervisor just wasted the auditors' time.	Interview
(9) Three supervisors signed the working papers although they did not closely check the work of the auditors documented in the working papers.	Observation, Interview and Review of documents
(10) A supervisor asked only general questions without thoroughly looking at auditors' working papers.	Interview
(11) A supervisor admitted he did not fully control the team when he did an audit far away from the home base.	Interview
(12) When a supervisor was visiting the team, the first question asked was where the best restaurants in the area were, and he rarely discussed auditors' progress. He looked like a traveller rather than a supervisor.	Interview
(13) Some of the supervisors just signed the auditors' working papers without trying their best to examine the auditors' work in a more detailed way.	Interview

Appendix 4: Incidences of the Reduction or Modification of Tested Items in a Sample

Specific Actions	Gained Through
(1) An auditor tested only 25% of the total required sample in the examination of vehicle gasoline expenditure in a local government entity.	Observation and Interview
(2) An auditor who was responsible for testing salary and employee allowance expenditure picked up approximately half of the quantity of items in a planned sampling.	Observation and Interview
(3) In the examination of year-end supplies stock, an auditor visited only four of the eight sites that needed to be tested, covering about 40 per cent of all planned selected items.	Observation and Interview
(4) Three auditors completed verification of only four building constructions out of the six in the predetermined sample. According to later analysis of the working papers, they did not report this reduction.	Interview and Review of Document
(5) Some auditors did not include the potential troubled items in their selected sample.	Interview
(6) Some auditors reduced the amount of samples selected that needed to be tested.	Interview