

Impacts of Under Reporting of Time, Client Quotas, Inclusive Planning, and Audit Program on Audit Quality

Case study: Kosovo & Albania

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Abstract:

The objective of the present study is to analyze the audit quality as impacted by factors such as Under Reporting of Time (URT) and its impact on time budget in the following years; participation of audit staff in audit planning; audit planning and procedures; and impact of clients' fees. This includes the consideration as to whether these factors influence the audit quality in Kosovo and Albania.

Auditors who work for Big 4 audit firms, those who work for local audit firms, and independent auditors, participated in the present research. In addition, our samples included the whole audit staff from managing partners to audit staff.

A special interest is posed by the assessment of special factors related to their pressure on audit quality.

The results show that URT, non-participation in planning, and non-participation in accepting or non-accepting clients, or continuation or non-continuation of engagement with current clients, as well as the audit fee amounts, are factors, which, according to our study for Kosovo and Albania, influence the audit quality.

This study is the first one from the auditing field in both of these countries and its focus is on non-researched matters, with a view to the manner in which auditors handle the situations in which they find themselves.

Key words: Under Reporting of Time (URT); client payments; audit planning; audit quality; dysfunctional behavior; time budget

1. INTRODUCTION

The level of audit quality has been found to have a crucial role also in the reduction of the conflict with Standards on Auditing, on one side, and the improvement of credibility of clients and reputation of audit firms, on the other side, through the publication of high-quality audited financial statements. It is worth mentioning here that not all audited financial statements have the same audit quality. When we refer to audit quality, this does not necessarily imply that the audit is inappropriate or inaccurate when the audit quality of financial statements is lower.

The literature around the world contains numerous research papers related to the influence of these factors which we have identified for examining their impact on audit quality; this study is the first research attempt in this field in Kosovo and Albania. The present study is an attempt to intertwine similar research papers by comparing the auditors' behavior in various countries with the one of auditors in these two countries.

The ROSC 2006 report emphasized that auditing in these two countries has: “...*...problems with the objective of an audit, audit risk assessment, basic audit procedures, and other such common problems*”.¹

ROSC 2006 and 2012 reports concluded that, “Corporate financial reporting in Kosovo is perceived to be of very low quality, with the exception of the audited financial statements of financial institutions, which are perceived to be of relatively higher quality”².

I think that various decision-makers are currently facing a big risk of financial and non-financial information, on which they rely when taking decisions. More secure input for decision-makers would enable a better decision-making that would contribute not only to their sustainable growth but also to that of the Albanian economy in general.

Auditing is an independent professional service that improves the quality of financial information, increases the credibility of public (customers, investors, creditors, and governments themselves) in financial reports. Doing so provides support in decision-making for those who are interested in decision-making.

Convinced that the audit service is, as a profession of a special importance for the interest of the public of Kosovo and Albania, at an early stage and if we identify several factors (out of numerous ones) that influence the audit quality and if we recommend the measures that need to be taken to prevent the influence of such factors, I think that doing so is one of the proper steps at the present time and situation.

¹(ROSC) 2006, page 5/
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT>

² RRSK) 2012 Update of ROSK on Accounting & Auditing, page 23
[//http://web.worldbank.org/WBSITE/EXTERNAL](http://web.worldbank.org/WBSITE/EXTERNAL)

2. MAIN OBJECTIVE

The main objective of the present research is to examine whether factors such as Under Reporting of Time, client quotas, audit planning and program in Kosovo and Albania, have any significant influence and effect or not.

This research paper is an attempt to intertwine similar research, by comparing the auditors' behavior in various countries with the one of auditors in Kosovo and Albania.

The results of this study may be used by audit firms in order to help them to fairly budget the audit time. However, the findings from the study may be generalized and applied on several other fields of policy-making and regulatory framework of audit in order to eliminate the time budget pressure on audit quality.

This study addresses an important field of the management of enterprises that provide complex services such as audit firms.

Situation of concern

We have attempted to identify some factors faced by auditors in their practical work, and are convinced that these factors have a multifarious influence on audit quality. In addition, we think that these factors influence the audit quality and may be controlled and manipulated so that they are corrected to the benefit of increased audit quality.

Detrimental effects of various pressures on the quality of an auditor's performance pose serious concerns, particularly during a time when auditors and their work has given rise to strong criticism and when considering that the audit profession has become the object of a deep critical perspective (see Bazerman, Loewenstein, and Moore, 2002; Coffee, 2002; Clarke, Dean and Oliver, 2003; Eden, Ovadia, and Zuckerman, 2003; Imhoff, 2003; Simms and Oram, 2002).

Pressures on an auditor's work performance, such as the pressure of time budgets, Under Reporting of Time, clients' quotas, audit planning and program, may lead to serious individual, organizational, and social consequences (Cooper, Dewe and O'Driscoll, 2001). This might include (individual) health issues, reduced audit work quality as non-functional conduct, overloading the staff (organizational) and health expenses, gender-related prejudices, and (social) ranks/positions of auditing staff members.

Albania

Social changes in early '90s were accompanied with economic reforms that aimed at going from a centrally planned economy to a market economy. These changes were also reflected on the accounting reforms. Therefore, in January 1993, the law on accounting, drafted in compliance with EU accounting directives, was approved. Based on this law, the National Accounting Council was established, the function of which was to draft and develop accounting policies and relevant handbooks for implementing them.

Based on Law no. 7632 on Commercial Companies, of 19 November 1992, the freelance profession of Authorized Expert Accountant was established.

The Institute of Authorized Chartered Auditors of Albania (IEKA) was established on 24 November 1997, having the status of a non-profit association of professionals, that gathers accounting professionals bearing the title "chartered accountant expert", who exercise the audit profession in public practice, in an independent manner, in their capacity as natural persons, or in compositions of firms of authorized expert accountants.

Besides the members who exercise their profession in the public practice – 213 auditors and 54 audit firms (included in the Public Register of Registered Auditors) – there are also

97 members who are not included in the Public Register of Registered Auditors, as they lack compliance with the requirements to exercise their profession.

According to a Report on the Observance of Standards and Codes by the World Bank (ROSC, 2006), *while the regulatory framework of audit service operates in line with the previous eighth EU Directive, the audit functioning should acquire more credibility*. This report mentions the fact that there are very few auditors who are knowledgeable and experienced to carry out audits based on ISAs. It is also mentioned that there are cases where the auditors find no independence from the economic units they audit, this being an issue related to the lack of efficient quality control systems. Furthermore, this study stresses the importance of a more rigorous supervision by the Ministry of Finance as regards the organization of this profession³.

Audit opinion, provided by local auditors, has very little credibility for users⁴. The audit quality is deteriorating also due to setting tight deadlines for carrying out the audit, the high number of medium-sized entities that undergo statutory (legal) audit, and fiscal evasion⁵.

A system of public supervision of legal auditors and audit firms is important. This would ensure that the systems of quality control, investigation, and discipline are sufficient to encourage high-quality audits.

IEKA system for the control of quality needs to be significantly upgraded in order to continually and timely detect any incompatibility with standards on auditing.

In order to improve and strengthen the public supervision of auditing profession, on 05 March 2009, Law no. 10091 On Legal Auditing, Organization of Approved Licensed

³ ROSC 2006 *Albania – ROSC on Accounting and Auditing Page 30*

⁴ ROSC 2006 *Albania – ROSC on Accounting and Auditing Page 30*

⁵ ROSC 2006 *Albania – ROSC on Accounting and Auditing Page 30*

Statutory Auditor was approved. Under this law, the Institute of Chartered Experts (IEKA) is responsible for providing continuous training to accounting and auditing professionals/firms in order to update them with the latest developments in the professional field, newly-approved standards, or any progress in the IFAC projects.

Kosovo

On 29 October 2001, based on UNMIK Regulation no. 2001/30, the Kosovo Board on Standards for Financial Reporting (KBSFR) was established. In October 2001, the KBSFR issued 19 Kosovo Accounting Standards (KAS), which are a simplified version of their equivalent – International Accounting Standards (IAS). KASs are applicable since 2002. In 2002, this Board certified the first auditors in Kosovo.

The accounting and auditing profession in Kosovo has experienced a fast development due to the foreign technical assistance. The current education program has been compared with the standards of the Association of Chartered Certified Accountants (ACCA). SCAAK has successfully met the accession conditions and has been accepted as a full member of IFAC in 2009.

Education and vocational training

The current certification program for auditors in SCAAK meets the criteria of the Directive on Statutory Audits and International Standards of Education (ISEs). This program is based on the training materials translated and regularly updated by ACCA.

Current legal framework in Kosovo concerning the field of accounting and auditing is composed of: Law no. 04/L-014 on Accounting, Financial Reporting, and Auditing;

This law regulates the accounting and financial reporting system of business organizations, competences and responsibilities of Kosovo Council for Financial Reporting, audit requirements, qualifications for professional accountants, licensing of auditors, as well as foreign and local audit firms.⁶

The financial statements of big- and medium-sized enterprises should be audited, with ISAs being the applicable auditing standards.

The submission of annual financial statements of business organizations is required by law, in compliance with EU *acquis*. Article 11 of Law on Financial Reporting provides that, “The financial statement of the big Business Organizations have to be submitted and published by in KCRF and a copy submitted to Ministry of Trade and Industry (MTI), which keeps the Register of Business Organizations, no later than 30 April of the following year”⁷. Furthermore, the consolidated financial statements have to be submitted to KCFR and a copy delivered to MTI no later than 30 of June of the following year.

KCFR benefits from the progress of Albania, with IFRS being translated and updated annually. Albania has also regulated the translation of ISAs (2010 translated edition) and the Code of Ethics of IFAC.

The Central Bank of Kosovo (CBK) determines the accounting requirements for banks, financial institutions, and insurance companies. The resulting systems meet the CBK objectives, but they are not fully compliant with the “complete IFRS”. Although there are differences, the CBK monitors the compliance with IFRS, applied in Kosovo and applies it to financial statements issued by banks, insurance companies, Microfinance Institutions (MFIs), non-bank financial institutions (NBFIs), and those that applied the IFRS.

⁶ Law no. 04/L-014

⁷ Law no. 04/L-014

The KCFR is a regulatory of the accounting and auditing field in Kosovo. The Kosovo Council for Financial Reporting (KCFR) was established in 2011, pursuant to Law no. 04/L-014 on Accounting, Financial Reporting, and Audit (Law on Financial Reporting). As a supra-regulatory entity, the KCFR establishes the standards on accounting, auditing, professional ethics, and professional education in auditing; it is both a regulatory and executive body.

The Law on Financial Reporting determines the accounting and auditing framework in Kosovo and makes KCFR responsible for the following:

- setting accounting and auditing standards for business organizations, although this authority does NOT include the financial sector;
- determining the accounting and auditing requirements for financial statements of business organizations, including the corporations established under Law on Business Organizations, Manufacturing and Service Enterprises and Private Manufacturing Enterprises, as well as for the financial sector;
- establishing and setting standards for professional training of accountants and auditors, thus leading to the certification of accountants and licensing of auditors where the law, nevertheless, delegates the regulation of accountants to the licensed professional associations; and
- reviewing the requests for granting auditing licenses to individuals and firms, and licensing associations of professionals (currently, the Society of Certified Accountants and Auditors of Kosovo is the only licensed association of professionals).

In order to carry out all of these responsibilities, the KCFR should have available a broad technical expertise. Currently, the KCFR does not have such expertise.

The Law on Financial Reporting has vested in KCFR another big responsibility, namely collection and publication of financial statements of entities that are subject to the requirement for submission of financial reports.

The number of auditors and statutory audit firms in Kosovo today is as follows: 21 audit firms (15 are local and 6 international) and 60 statutory auditors (51 are local auditors and 9 foreign). This piece of information from KCRF bears the date 04 May 2016⁸.

Our research will identify the factors that influence the auditing in practice and reduce/diminish the audit quality. We will then provide recommendations that we deem to have an impact on the increase of audit quality in practice.

3. LITERATURE REVIEW

Basiruddin conducted a research on the impact of audit fees on audit quality and reached the conclusion that the higher quality audits lower the income of audit firms (2011/UK Evidence, Durham theses, Durham University. Available at Durham E-Theses, accessible online at: <http://etheses.dur.ac.uk/9385/>)

(Barua and Smith, 2013). Additional working hours necessary to maintain the audit quality lead to an increase in audit fees. This implies that auditors assess the risk at a higher level for the audited companies. This requires a greater control, a greater number of qualitative samples, and this whole process

⁸ <https://mf.rks-gov.net/sq-al/DIVIZIONET/Divizioni-Administrativ-i-K%C3%ABshillit-Kosovar-p%C3%ABr-Raportim-Financiar-KKRF/Lista-e-Auditorve-dhe-Firmave-Audituese>

results in higher audit fees for covering all the potential of audit risks.

Quick et al. (2013) find a correlation between an auditor's opinion and audit fees. Companies that have higher audit fees get non-qualified opinions compared to companies that have lower audit fees and are provided with various types of auditor's qualified opinions. They emphasize that non-audit fees seemingly violate an auditor's independence.

Pierce & Sweeney (2004) and Margheim, Kelly & Pattison (2005) have, in their literature, identified two distinguished forms of time pressure on auditing process: **time pressure resulting from budget and time pressure**. The competition among audit firms and the pressure of audit fees result in an accelerated audit process that is completed under time pressure and with an inadequate budget, thus leading to exercised pressure on auditors. The time budget pressure occurs when an audit firm allocates an insufficient number of hours available to auditors to complete the specific audit procedures.

(Margheim et al, 2005). Sweeney & Pierce (2006). Given that the audit firms have a high intensity of work and the audit quality is difficult to measure, this implies that the formal control of cost is performed by using the time budget. Auditors are responsible for making sure that their audit duties have been carried out within the limits of the budget allocated by the management and are compatible with standards, regulations, and audit rules. However, it is difficult to balance such responsibilities, which results in one of the elements being compromised. (Robertson, 2005).

A number of studies have surveyed auditors as regards their engagement in relation to reduced audit quality practices (RAQPs). Lightener et al. (1982) found that 67% of surveyed auditors of the Big Eight accepted to have made Under Reporting of Time (URT).

Numerous research studies suggest that the time requirements resulting from periods of high-level engagement have a detrimental effect on an auditor's individual performance (Alderman and Dietrich, 1982, Kelley and Margheim, 1990, Raghunathan, 1991, Willet and Page, 1996; Coram, et al ., 2004; Tackett, 2004). Archive literature recognizes the influence of high-level engagement periods, but still needs empirical research in order to specify the effects of high-level workload on management decisions related to the time budget available to auditors.

The effective management of a client's portfolio makes it possible to ensure a long-term survival for audit firms (Gramling et al, 1998;. Bell et al, 2002). Auditors assess various types of risk and consider the adequacy of their fees to cover the costs related to essential risks suggested by their clients (Johnstone and Bedard, 2003; Bedard and Johnstone, 2004). Therefore, this assessment constitutes an essential component of accepting a client and maintaining an auditor's engagement for the years to come (Huss et al, 1993;. Johnstone, 2000, Bell et al, 2002) In addition to the increase of their fees, auditors use various strategies to control the risk while managing their clients' portfolios. These strategies may be involve carrying out additional analytical procedures.

(Bell et al., 2002). Local partners of Big-N firms typically contract their clients directly and bear the primary responsibility for all the audit duties performed, including the supervision of duties that they delegate to local offices. In addition, local partners play an important role in the decisions of a firm to admit a client, continue the engagement with them or terminate such engagements.

Trompeter (1994) finds that the compensation schemes of Big-N firms may, as they are closely related to local offices, influence the judgment of the partners at local offices. A relevant study (Hay et al, 2007) finds that the audit firms that

are more financially integrated (namely, the firms that allocate their profits to a greater group of partners) are associated with more dangerous portfolios available. We expect these conditions to influence the decisions related to the management of portfolios of local partners, by making the analysis in this study more relevant for the level of local offices.

Sweeney and Summers (2002) find that the high-level workload during the period with high-level engagement influences the pressure and stress of employees. Other studies on behavior have found evidence demonstrating that time budget pressure may influence auditors to carry out ordinary audit duties or engage themselves in **non-functional conduct**, such as **preliminary signing, superficial review of documents, and acceptance of insufficient explanations from the client** (Alderman dhe Dietrich, 1982; Kelley and Margheim, 1990; Raghunathan, 1991; Willet and Page, 1996;. Coram et al, 2004). The conclusions of this group of authors are part of our research.

(McNamara & Liyanarachchi, 2008);(Piano, Thani & Zulkarnain, 2011) As a result of budget pressure, auditors find themselves in a zone called “**compromise zone**”: **auditors have to decide, on individual basis, to properly combine their audit tasks that are to be carried out in order to maintain high work standards, with the appropriate time period spent to carry out the audit duties.** The pressure is intensified even more by the “double pressure” that exists in the case **where auditors are not able to discuss the problems with time pressure with their supervisors due to the fear of being perceived as incapable.**

When faced with time budget pressure, auditors typically respond in two main types of conduct: **functional and non-functional**. The functional conduct may be characterized as the conduct of a person who simply works more and reports the time properly, although due to

detrimental effects of exceeding time budgets on career advancement, not all auditors see doing so as the right solution. Another solution would consist of audit staff requesting an increase in time limits from their supervisors, however, by doing so, they risk being perceived as incapable (Margheim et al, 2005). **Therefore, the auditors may, as a self-protection mechanism, rely on non-functional conduct, such as skipping several audit steps, premature signing, gathering and analysis of insufficient samples and evidence.**

Anderson-Gough, Grey and Robson (2001) identified that British accountants from the Six Big Firms have paid a lot of importance to meeting deadlines. Anderson-Gough et al., (2001, p. 112) declare that, “failure to perform and lack of enthusiasm for overtime work (not reported and unpaid) is believed to severely damage the individual perspectives of career”. In other words, “the cultural norms” in these firms seems to put pressure on accountants to resort to under reporting of time (URT). Failure to meet their deadlines damages extremely their careers. As a result, the time budget may turn into a pressure source in cases where firms render decisions on the assessment of the staff based on the deadlines met, as opposed to the quality of their auditing tasks. This is because the evidence related to audit quality are more difficult to observe (and measure) (McNair, 1991). Alderman and Deitrick (1982, pg. 58) elaborate on this correlation, stating that, “An auditor’s ability to meet the deadlines, including the time budget, is generally believed to be the main criteria for promotion in the firm”.

Time budget in auditing bears the potential to cause pressure because such action is used not only as a control mechanism, but also as a tool for measuring the performance in public accounting firms (Liyanarachchi, 2007); the pressure from time budget in auditing has the tendency to increase proportionally with the public accountants’ dysfunctional

behavior (Cook & Kelly, 1991); time budget pressure in auditing are one of the main reasons of public accountants' dysfunctional behavior (Kelley and Margheim, 1990). DeZoort (1997) suggests that one of the effects of audit time budget pressure is the type of behavior. Another type of behavior of a public accountant in case of tight audit deadline is the dysfunctional one (McNamara, 2008)⁹.

Overtime auditing leads to an increase of audit fees for maintaining the audit quality. It is understood that auditors consider the risk at a higher level for the aforementioned companies (Accounting and Auditing Enforcement Releases - AAER). In order to maintain a good quality control, auditors charge higher audit fees in order to cover all possible risks (Barua and Smith, 2013).

URT, another type of dysfunctional behavior, which has drawn attention in the course of research, refers to auditors who under report the actual time spent for a certain auditing task or procedure (Otley and Pierce, 1996a; Kermis and Mahapatra, 1985). Although it is usually argued that URT has less detrimental effects to a carried out audit than the Reduced Audit Quality Practices (RAQPs) (Alvesson and Karreman, 2004), it still undermines the field controlled by an auditor (McNair, 1991). This is why URT bears the potential to be carried out to the time budget of the following year (Fleming, 1980); that's why it puts pressure on the auditor who will carry out the same duty the following year, which will lead to RAQPs (Pierce and Sweeney, 2004; Ponemon, 1982; Otley and Pierce, 1996a). Cook and Kelley (1991) found that more than half of senior and junior auditors from New Zealand have under

⁹ Ely Suhayati; The Influence Of Audit Fee, Audit Time Budget Pressure And Public Accountant Attitude On The Public Accountant Dysfunctional Behavior And It's Implication On Audit Quality Survey On "Small" Scale Public Accounting Firm's In Java; JOURNAL OF GLOBAL MANAGEMENT JULY 2012. VOLUME 4. NUMBER 1

reported their time at least once in a while, whereas Otley and Pierce (1996a) found such URT levels in Ireland, and Coram et al., (2003) report an even higher level in Australia.

International Standards on Auditing (ISA) 220, “Quality Control for an Audit of Financial Statements”

The objective of the firm is to create, implement, maintain, monitor, and impose the application of a quality control system that ensures reasonable security that the firm and its staff comply with the International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services” [*or the equivalent professional standards and the applicable legal and regulatory requirements under the jurisdiction of the firm*] and that the reports on firm engagement are appropriate for the given circumstances¹⁰.

4 RESEARCH METHODOLOGY¹¹

In the present research paper, we have used the method of survey/questionnaire, as this method allows us to conduct a good empirical research based on gathered responses, statements, behavior, and perceptions of groups of professionals in this field as regards the factors that influence the Audit Quality. This research was conducted in order to examine the factors that influence the audit quality in Kosovo and Albania.

Test of hypothesis and other data analysis have been performed using SPSS version 20

This method was used after considering that any other research method would relatively have much more serious limitations

¹⁰ **ISA 220**

¹¹ The methodology and data used in this research are the same as in the study titled “Research on the Impact of Time Budget Pressure on Audit Quality; Case Study: Albania and Kosovo”, authored by Ymer Shatri.

than the one of survey/questionnaire. The use of semi-structured interview demonstrated a low level of acceptance of dysfunctional behavior, because the respondents might have hesitated to accept such behavior in a one-to-one situation.

The method selected for gathering and processing primary data consists of a combination of the empirical method of survey with the one of case study.

We deemed it appropriate to use this method because this research examines and analysis a special and highly specific information about the impact of time budget on the audit service quality in two countries, Kosovo and Albania, and compares the same findings from research conducted across the world and the EU countries. As regards the collection, analysis, and interpretation of data, we have opted for a combination of quantitative methods (an emphasis is put on gathering data that may be processed statistically) and qualitative ones.

Data¹²

The sample of the study contains data from the data of Kosovo Financial Reporting Council (**KFRC**) and the Institute of Authorized Chartered Auditors of Albania (**IEKA**). We got responses from 104 auditors of the audit firms of both countries. The respondents were assured that the confidentiality and their anonymity would be dully respected. The questionnaire was sent to all auditors in Kosovo and those in Albania through the associations of professionals in both countries. It was sent in an electronic form, while numerous audit firms were visited and provided with explanations as regards the purpose of research, assuring them that the confidentiality would be duly kept.

¹² The data of this research as the same as those provided in the study titled "Impact of Time Budget Pressure on Audit Quality; Case Study: Albania and Kosovo", authored by Ymer Shatri.

Gender: Male/Female		
Answer Options	Response Percent	Response Count
M	57.7%	60
F	42.3%	44
answered question		104
skipped question		0

Your position in the audit firm:		
Answer Options	Response Percent	Response Count
Managing Partner	18.4%	18
Partner	15.3%	15
Manager	20.4%	20
Senior	32.7%	32
Junior	11.2%	11
Staff	2.0%	2
Other (specify)		5
answered question		98
skipped question		6

Firm:		
Answer Options	Response Percent	Response Count
Local	73.0%	73
International	27.0%	27
answered question		100
skipped question		4

5 HYPOTHESIS

The research identified and empirically verified the following hypothesis:

H1: The level of Under Reporting of Time increases when time budget becomes less achievable.

This hypothesis is analyzed based on the responses provided by our respondents as to the following questions:

- Do you under report time by working during your personal time?
- Do you work more but charge the time appropriately?

H2: The increase of auditor’s participation in time budgeting causes the increase of the extent to which the time budgets are met and, therefore, the decrease of the pressure on the auditors. This hypothesis will be analyzed based on the responses of managing partners, partners, managers, senior auditors, junior auditors, while the responses from other staff engaged in auditing will not be included.

This hypothesis will be tested based on the answers given to question no. 12: “How achievable was the budgeted time during your engagement over the recent years?”

H3: The increase of the clients’ quota for auditing reduces the time budget pressure.

This hypothesis will be tested relying on the responses that our respondents gave to this answer:

- To what extent do the payments expected from the client influence the budgeted time?

Findings that confirm the dysfunctional behavior of auditors as regards the URT

Answering to question 9.2, respondents provided the following responses:

Do you under report time by working during your personal time?		
Answer Options	Response Percent	Response Count
Almost always	29.9%	29
Frequently	37.1%	36
Rarely	26.8%	26
Never	6.2%	6
<i>answered question</i>		97
<i>skipped question</i>		7

Based on these responses, we note that an extreme 65 auditors often under report time, while 26 other auditors have rarely under reported time (however, they have also under reported time in rare cases); therefore, it turns out that a total of 91

auditors have, in a way or another, under reported time. 7 auditors skipped this question.

Answering to question 9.3, respondents provided the following responses:

Do you work more but charge the time appropriately?		
Answer Options	Response Percent	Response Count
Almost always	43.9%	43
Frequently	35.7%	35
Rarely	18.4%	18
Never	2.0%	2
answered question		98
skipped question		6

81 auditors almost always work more, but they register the time properly. They do so in order not to be perceived as incapable; they think that by doing so they will be promoted sooner, etc. Based on these two tables, our second hypothesis reading: **H1: The level of Under Reporting of Time increases when time budget becomes less achievable** is confirmed.

Analyzing the two tables above, we notice how dangerous it is that 65 auditors under report time or 81 auditors work more, but report the time appropriately. When analyzing these pieces of information, we can assert how dangerous it is to rely on time reports of the previous year to budget the time necessary for client auditing in the following years.

The tables we presented for hypothesis 1 reveal that the intrinsic risk, unrevealed from the previous years, may be highly significant and even cause dysfunctional behavior among auditors in the years to come.

Testing hypothesis 1 by SPSS 20

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.002	.192		15.628	.000
1 Do you under report time by working during your personal time?	-.112	.070	-.157	-1.599	.113
Do you work more but charge the time appropriately?	-.174	.080	-.214	-2.182	.032

a. Dependent Variable: Audit quality

b. Predictors: (Constant) : Under Reporting of Time

Fig.6.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Do you under report time by working during your personal time?	100	1.90	.927	.093
Do you work more but charge the time appropriately?	100	1.78	.811	.081

Fig.7.

In order to confirm this hypothesis, we have asked some questions, however two of the most important ones are question 9.2 “**Do you under report time by working during your personal time?**”, and question 9.3 “**Do you work more but charge the time appropriately?**”; based on these questions we have reached the conclusion that Hypothesis 1 is confirmed.

We note that the hypothesis is confirmed based on the significance level shown in Fig. 6 and 7. In both Fig. 1 and Fig. 2, it can be noticed that the significance level is more than 0.05, which means that hypothesis H_0 , according to which the payments influence the budgeted time is confirmed, whereas H_1 , according to which the payments do not influence the budgeted time, is not confirmed.

H2: The increase of auditor’s participation in time budgeting causes the increase of the extent to which the time budgets are met

Question no.10 Section I

Have you participated in audit planning?		
Answer Options	Response Percent	Response Count
Yes	71.7%	71
No	28.3%	28
<i>answered question</i>		99
<i>skipped question</i>		5

Question no. 11 Section I

Do you participate in decision-making concerning the accepting/non-accepting of a new client or continuation/non-continuation of relation with an existing client?		
Answer Options	Response Percent	Response Count
Yes	60.4%	61
No	39.6%	40
<i>answered question</i>		101
<i>skipped question</i>		3

Concerning the audit planning, we tried to present reasons as to how important it is to plan an audit engagement. If about 30% of auditing staff does not participate in planning, the decision-makers have hardly made any real plan, which will not experience issues in the course of achieving the planned objectives.

Based on responses to question 11, we notice that 40% of auditors are not part of decision-making on the accepting/non-accepting of a new client or continuation/non-continuation of relation with an existing client.

Therefore, someone else (at higher job positions) renders the decisions. Meanwhile, those who know best how much time it takes to perform the duty are the auditors who have carried out audits at the same company in the previous years; who

know the accounting system; who know the difficulties they faced the previous year to carry out the proper assessments; who know how much time they actually needed to successfully complete the auditing in the previous years. In other words, they know what pressure they faced with, what their URT was when they submitted their report the previous year. However, based on responses to question no. 12, it can be seen that 42.8% of auditors have serious problems with achievability of deadlines.

Section II Question 5

How often do you feel that you have a significant influence when time is budgeted for one of your tasks?

Answer Options	Response Percent	Response Count
Almost always	34.0%	33
Frequently	30.9%	30
Rarely	27.8%	27
Never	7.2%	7
<i>answered question</i>		97
<i>skipped question</i>		7

It can be seen that of 104 respondents, 97 auditors responded to this question.

We have no answers for 7 respondents.

In addition, we have not analyzed the responses of ‘other staff’ in the tables below, because we have deemed them not to be significant, as such positions are not recognized in the hierarchy of this profession.

The number of such staff is 6.

There results confirm the second hypothesis H2: The increase of auditor’s participation in time budgeting causes the increase of the extent to which the time budgets are met and, therefore, the decrease of the pressure on the auditors.

H3: The increase of the clients’ quota for auditing decreases the time budget pressure

As to whether the quota affects the audit quality or not, this will be analyzed based on the responses provided by our respondents to these questions:

To what extent do the payments expected from the client influence the budgeted time?		
Answer Options	Response Percent	Response Count
To e very great extent	14.4%	14
To a significant extent	47.4%	46
To a very low extent	32.0%	31
Have no influence whatsoever	6.2%	6
<i>answered question</i>		97
<i>skipped question</i>		7

Based on these responses, the third hypothesis is confirmed: **H3: The increase of the clients’ quota for auditing reduces the time budget pressure.** The payments expected from the clients have a significant influence on time budgeting. This is what 60 respondents think. This means that if we expect the payments to be higher, then more time is expected to be budgeted for auditing a client, thereby the time pressure on auditors will decrease. Only 6 auditors consider that the expected client fees have no influence whatsoever on time budgeting.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.448 ^a	9	.397
Likelihood Ratio	7.085	9	.628
Linear-by-Linear Association	.140	1	.708
N of Valid Cases	100		

Analysis conducted by SPSS 20

H₁ according to which fees have no influence on budgeted time

H₀ according to which client fees/quotes influence on budgeted time

Fig.11. This table shows the importance of client fees/quotes on budgeted time. Based on the analysis of responses, we have noted that the level of significance is higher than 0.05% or 5%, which means that Hypothesis **H₀**, according to which client fees/quotes influence on budgeted time, was confirmed, while **H₁** according to which fees have no influence on budgeted time, was rejected. This hypothesis (H₀) is was confirmed because the significance level is very high, meaning that H1 was not confirmed.

The increase of influence of time budget of previous year causes the increase of its pressure for the following year.

To what extent does the time reported from previous year influence the budgeted time?

Answer Options	Response Percent	Response Count
To e very great extent	35.1%	34
To a significant extent	61.9%	60
To a very low extent	2.1%	2
Has no influence whatsoever	1.0%	1
answered question		97
skipped question		7

Earlier research shows that time budgets are typically compiled based on the figures reported from the previous year. Since the firms are often engaged in repeated assignments, the real time spent in the previous year might greatly influence the time budgeting of the present year. There is a great risk that if the time budgets of previous years have produced pressure on auditors, such pressures will be continuously occur also in the years to come.

6 RESULTS

Based on the results of this research, it turns out that the auditors in Kosovo and Albania are facing an increased time budget pressure. Finding themselves before such pressure, they resolve to URT. Since the firms are often involved in repeated engagements, the real time spent in the previous year might greatly influence the time budgeting for the present year. Given that the time budgets of previous years have produced pressure on auditors, such pressures will be continuously occurring also in the years to come.

Based on the research, it turns out that auditors ranked at lower positions such as: real property auditors, junior auditors, and auditing staff (the staff that carries out the main tasks) in terrain, are under higher levels of stress than the staff ranked at higher positions, such as managing partner, partner, or audit manager.

In addition, it turns out that the clients' quotas affect the audit quality in Kosovo and Albania.

Based on the responses, 40% of auditors are not part of decision-making on the admission/non-admission of a new client or continuation/non-continuation of the relation with an existing client. Therefore, someone else (at higher job positions) render the decisions and plan the auditing.

Meanwhile, those who know best how much it takes to perform the duty are the auditors who have carried out audits at the same company in the previous years; who know the accounting system; who know the difficulties they faced the previous year to carry out the proper assessments; who know how much time they actually needed to successfully complete the auditing tasks in the previous years; and who know what their URT was when they submitted their report in the previous year.

It was found that those who carry out the main tasks in terrain do not participate in audit planning and programming or audit procedures.

We have identified the factors that influence the decrease of audit quality, how auditors behave when they are the pressure of such factors, and how it will be possible to reduce their influence on auditors, through performing controls and reflecting on the elimination of such factors.

Understanding the detrimental effect of this pressure on audit staff will help audit firm and managing staff to identify what influence the inadequate audit time budgeting has and what it causes, as well as how auditors behave when they fail to achieve the time budgets.

7 CONCLUSIONS AND RECOMMENDATIONS

The aggressive competition with audit fees on the market makes it difficult for audit firms to charge additional fees to their clients, considering the time necessary for auditing/time budgets. The audit quality is also influenced by these practices and this influences the other results of a vicious cycle (for example, it influences the poor decisions of staff and leads to hiding the need to review the budget, thus resulting in time pressure that are unknown in future audits). **This conflict causes pressure on auditors to sacrifice the audit quality to the benefit of reducing audit costs.**

The wave of audit failures in the world accounts for a large part of disappointment among investiture and other actors who have capital power to invest, because they do not believe the corporate financial reporting.

If empirical studies on specific environmental factors are not carried out, the problem of low audit quality might be deteriorated, resulting in possible severe consequences for the new economy of both countries.

The auditors' performance assessment and promotion made based on this component (reaching time budgets) influences the auditors' dysfunctional behavior.

An auditor must spend the necessary time on effective audit planning, because “he who fails to plan plans to fail”.

From the experience of numerous researchers, audit practice experts, research companies, audit quality control supervisors, it has been proven that one hour effectively spent in planning saves up to five hours of audit plan implementation. The effective audit planning draws the line between a high quality audit within the budget and a poor quality audit in the excess of the budget.

- ❖ In sum, the results of this study show that auditors perceive the budgets as more achievable if the current budgets are based on the one of the previous year. Relying on the time budget of the previous year, when such time budget was not true (because a shorter time was reported) for the purpose of compiling a time budget, would lead to issues rising over the course of following years.
- ❖ Based on researched literature and the results of the present research, it turns out that if the lower rank staff in audit firms, as the main carrier of duties in terrain, will be given a greater autonomy in drafting time budgets and empowered, the auditors' dysfunctional behavior may be expected to decrease.
- ❖ In order to reduce pressure and minimize dysfunctional behavior, the firms must consider it necessary to compile reasonable budgets. By allowing a broader participation especially from medium-rank auditing staff during the processes of compilation of time budgets and by not relying only on real figures deriving from the assessments carried out in previous periods, but by

always taking into account the **audit program and procedures** that are to be met, the audit firms may create time budgets that are more achievable.

- ❖ Audit firms, both international and local, must not consider the time achievements as criteria for promoting their staff members; instead, they should return to audit quality control, adherence to ISAs, and audit program and procedures.
- ❖ It is necessary to increase the participation of the whole audit staff in time and financial budget planning, in order to have more self-initiative, creativity afterwards. Auditors will not have to complain, since it will be them who planned the time and price for an audit, and the responsibility for meeting the audit objectives will be greater. In addition, the skipping of audit procedures will decrease. Therefore, the audit quality will increase in practice.
- ❖ Strengthening and improvement of mechanisms for monitoring the IAS and ISAs implementation process. Establishing of a functional public supervision system for the auditing profession, particularly in the field of quality control. The system must rely on the current practices of EU member states, particularly on those of countries which, prior to accessing the EU, had to implement quality insurance systems in similar, if not identical, situations as the ones of Albania and Kosovo.
- ❖ **The audits should be carried out in line with Directive 2014/56/BE**, which amends the Statutory Audit Directive (SAD) 2006/43/EC, and contains a series of amended and new provisions governing every statutory audit in the European Union.

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