

Senior Auditors' Response to Premature Sign-off by a  
Staff Member: Additional Insights

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### **SUMMARY**

Audit quality is directly threatened when auditors sign-off an audit step without actually performing the required work. As a result, firms have strict policies that forbid premature sign-off and generally require dismissal of auditors who engage in the behavior. However, firm policy can only be implemented if, as required, discovered instances of premature sign-off are reported. Prior research suggests that auditors who discover premature sign-off may not always report the behavior.

This paper reports the results of an experiment designed to assess the reporting intentions of auditors who discover that a staff member under their supervision has prematurely signed-off an audit step. The experiment manipulated the level of time budget pressure faced by the staff member as well as the staff member's premature sign-off intent. Results indicate that auditors were more likely to report the premature sign-off when the staff was working under conditions of an easy time budget versus a tight time budget and when the staff member intentionally signed-off the audit step as opposed to when the step was signed-off unintentionally as a result of confusion over what was expected. In addition, results indicate that auditors who had more staff evaluation experience were more likely to report the discovery of premature sign-off.

**Key Words:** Premature sign-off, Audit quality, Time budget pressure, Evaluation experience.

**Data Availability:** Please contact the first author.

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### **INTRODUCTION**

The importance of audit quality is a central theme addressed by the Commission on Auditors' Responsibilities (AICPA 1978), the National Commission on Fraudulent Financial Reporting (COSO 1987), and most recently the Panel on Audit Effectiveness (POB 2000). One of many direct threats to audit quality occurs when auditors sign-off on audit steps without actually performing the required work or noting the omission of the work (Malone and Roberts 1996). This behavior, referred to as premature sign-off, was first documented by Rhode (1978)<sup>1</sup> and has been investigated in numerous studies since that time (e.g., Alderman and Deitrick 1982; Buchman and Tracy 1982; Kelley and Margheim 1987, 1990; Raghunathan 1991; Kaplan 1995; Otley and Pierce 1995, 1996; Reckers et al. 1997; and Donnelly et al. 2000). The focus of prior premature sign-off research, with the exception of Kaplan (1995), has been to understand why and how much premature sign-off occurs from the perspective of the auditors who engage in the behavior.

In contrast, Kaplan (1995) investigated the organizational response to the discovery of premature sign-off based on the belief that one reason the behavior may occur is that it is not sufficiently discouraged when it is discovered. Specifically, Kaplan (1995) found (in an experimental setting) that seniors who discover premature sign-off by a staff member under their supervision would not necessarily report the behavior as

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<sup>1</sup> All references to Rhode's (1978) study are from the summary prepared by the Commission on Auditors' Responsibilities (AICPA 1978). Rhode's (1978) study itself is not publicly available.

required by firm policy. Seniors were less likely to report the discovery of premature sign-off if the staff member had a good work history in the firm or if the audit step prematurely signed-off was deemed to be ex-post unnecessary. In addition, Kaplan (1995) found that seniors with more staff evaluation experience were more likely to report the discovery of premature sign-off.

The purpose of this study is to investigate additional factors that may affect audit seniors' reporting intentions upon the discovery of premature sign-off by a staff member. The factors examined are time budget pressure experienced by the staff member and the intent of the staff member. In addition, like Kaplan (1995), this study examines the effect of the seniors' evaluation experience on their reporting intentions.

The remainder of the paper is organized as follows. The next section reviews relevant research and develops our hypotheses. The third section describes the research methodology, while the fourth section presents the results. The final section summarizes and concludes the paper.

## **BACKGROUND AND HYPOTHESES**

### **Prior Research**

Rhode's (1978) seminal study reports that approximately 60 percent of the AICPA members who responded to his survey admitted that they had prematurely signed-off on an audit step at some point during their career. The most common reason given for premature sign-off was time budget pressure. Other reasons given, in order of descending frequency, were (1) the audit step was considered unnecessary, (2) the audit step was not understood, (3) client-imposed deadline pressure, and (4) laziness or boredom with tedious work.

Many studies since Rhode (1978) have further investigated the incidence and antecedents of premature sign-off. Although the percentage of auditors admitting to premature sign-off fluctuates from study to study, there seems to be no question that the behavior occurs on a regular basis. Based on a review of the literature, and consistent with Rhode's (1978) results, the two most common reasons for premature sign-off appear to be time budget pressure (Alderman and Deitrick 1982, Kelley and Margheim 1990, Raghunathan 1991, Otley and Pierce 1996, and Reckers et al. 1997) and a belief that the audit step prematurely signed-off was unnecessary (Alderman and Deitrick 1982, Margheim and Pany 1986, Raghunathan 1991, and Otley and Pierce 1996). In addition, the following factors also appear to contribute to premature sign-off: (1) inadequate supervision (Alderman and Deitrick 1982 and Otley and Pierce 1996), (2) fixed-fee billing arrangements (Margheim and Kelley 1992), (3) personality characteristics (Kelley and Margheim 1990; Otley and Pierce 1995, 1996; Malone and Roberts 1996; and Donnelly et al. 2000), (4) the auditor's employing firm (Margheim and Pany 1986), and (5) the perceived level of the firms' quality control and penalty for engaging in premature sign-off (Malone and Roberts (1996). All of these studies examined premature sign-off from the perspective of the auditors who commit the behavior in an attempt to understand the factors that motivate it.

Kaplan (1995) posited that another reason premature sign-off occurs is because the organizational culture in public accounting firms does not sufficiently discourage the behavior. Although audit firms have incentives to perform high-quality audits, they also face increasing pressures to perform audits more efficiently. McNair (1991) characterizes this situation as an inherent cost versus quality dilemma. This dilemma has led to the

existence of two sets of norms within audit firms: (1) the formal and publicly stated policy norms, which are used to signal high audit quality to the market, and (2) counternorms, which are informal communications within the firms that are used to convey the firms' profitability needs to their auditors. As a result, McNair (1991) states that auditors find themselves needing to operate in a "zone of compromise," where they must trade off the competing forces that on the one hand push them to reduce time spent in completing the audit and on the other hand drive them to invest more time.

Dirsmith and Covalleski (1985) report one example of the effects of the cost versus quality dilemma. They found that not reporting time for tasks performed, often referred to as "eating time," was strictly forbidden (the formal policy norm) at every office they interviewed. However, auditors whom they interviewed believed that the informal system (the counternorms) suggested that eating time was one way of signifying their commitment to the firm. In addition, McNair (1991) found that the firms she interviewed have established formal policies that forbid a variety of audit quality reduction acts (e.g., eating time, accepting a weak client explanation, not pursuing questionable items, and premature sign-off). Nevertheless, based on interviews with partners, the enforced penalty when these behaviors are discovered ranges from doing nothing, to providing counseling, to dismissal.

Due to the counternorms present in audit firms, Kaplan (1995) argued that seniors who discover instances of premature sign-off might be hesitant to formally report the behavior (as firm policy requires them to do). Kaplan (1995) suggested that the reason for their hesitancy is the seniors are fully aware of the counternorms that exist and realize the conflicting signals that are being received by the staff. And since the stated penalty of

premature sign-off is dismissal, the seniors may view the penalty as too harsh given such an environment. Additionally, Kaplan (1995) posited that seniors might be hesitant to report premature sign-off in a belief that it could reflect poorly on them because it would suggest that they did not provide adequate supervision. As a result, Kaplan (1995) began a new stream of research in premature sign-off by investigating factors that may influence seniors' reporting intentions when they discover premature sign-off by a staff member under their supervision.

Specifically, Kaplan (1995) experimentally manipulated the necessity of the audit step prematurely signed-off (necessary versus unnecessary) and the work history of the audit staff member (good versus poor). Kaplan's (1995) results showed that audit seniors' reporting intentions were significantly greater when the audit step prematurely signed-off was considered to be necessary or when the audit staff member had a poor work history. Kaplan (1995) also found that audit seniors who had more performance evaluation experience were more likely to report the premature sign-off.

Kaplan (1995) also examined two other dependent variables: (1) the seniors' overall performance evaluation of the staff member and (2) the seniors' willingness to support the staff member's request to work with the senior on a future audit. Results for the performance appraisal measure were essentially identical to those for the reporting intentions measure. With respect to being willing to work with the staff in the future, results were mixed. Work history of the staff member was significant, but step necessity and the seniors' evaluation experience were not.

The purpose of the current study is to investigate additional variables (time budget pressure and the staff auditor's intent) that may affect senior auditors' response to the

discovery of premature sign-off.<sup>2</sup> Consistent with Kaplan (1995), the primary dependent variable is the seniors' reporting intentions. In addition, the overall performance rating given by the seniors to the staff member and their willingness to work with the staff member on a future audit are examined. The following subsection develops the study's hypotheses.

## **Hypotheses**

Time budget pressure is a fact of life for nearly all audit staff and seniors. In a survey conducted by Cook and Kelley (1988), respondents reported that 36 percent of time budgets are "very tight, practically unattainable," and an additional 34 percent of budgets are only "attainable with considerable effort." Similarly, seniors responding to a survey by Otley and Pierce (1996) reported that nearly 17 percent of budgets are "impossible to achieve," 29 percent are "very tight, practically unattainable," and 30 percent are only "attainable with considerable effort." Further, Otley and Pierce (1996) report that only 21 percent of the respondents believed that they could "often" or "nearly always" meet the budget if they did not eat any time. As discussed above, one of the most common reasons auditors give for engaging in premature sign-off is time budget pressure. In addition, the Commission on Auditors' Responsibilities (AICPA 1978), the National Commission on Fraudulent Financial Reporting (COSO 1987), as well as the Panel on Audit Effectiveness (POB 2000) have all discussed the issue of time budget pressure and its potentially negative effect on audit quality.

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<sup>2</sup> As reported in the Method section, the participants in this study include both audit seniors and managers. While completing the study's case materials, all participants were asked to assume the role of an audit senior supervising the work of a staff member. Consequently, and for ease of exposition, the study's participants will be referred to as audit seniors throughout the paper.

Audit seniors understand that some audits have very tight time budgets and they recognize the pressures that come with a tight budget. They also are well aware of the cost versus quality dilemma and the counternorms present within their firms (McNair 1991). Therefore, the fact that a staff auditor has been under time budget pressure prior to prematurely signing off an audit step may influence the seniors' reporting intentions upon discovery of premature sign-off. Having previously worked as an audit staff member, the senior may sympathize with the pressures experienced by staff members. Further, audit seniors are charged with supervising staff members and ensuring that the time budget is met. Therefore, a senior's job performance is threatened if a staff auditor goes over the time budget, and so the senior may be more lenient toward a staff member who prematurely signs off under pressure of a tight time budget in order to meet the budget. On the other hand, if the staff member was not under significant time budget pressure, a senior may have much less sympathy for a staff member who prematurely signs-off on an audit step. Based on this discussion, we test the following hypothesis.

- H1: Senior auditors' likelihood to formally report premature sign-off behavior will be greater when the staff member's premature sign-off behavior occurs under conditions of an easy time budget versus a tight time budget.

Very limited research has been done on intentional versus unintentional premature sign-off of an audit step. For the purpose of this research, unintentional premature sign-off is defined as premature sign-off on an audit procedure as a result of confusion concerning what needed to be done. Rhode (1978) reported that one of the reasons cited by auditors for premature sign-off was not understanding the audit step requirements. An audit senior may feel this kind of situation should not be formally reported due to the staff member's intentions. The senior may also blame him or herself for inadequately

supervising the individual, and therefore may be hesitant to formally report the incident. Intentional premature sign-off, on the other hand, implies the staff member did not perform the step even though he or she knew it was required. This situation would likely result in less sympathy by the audit senior, and may lead the senior to formally report the occurrence. Therefore, we test the following hypothesis.

H2: Senior auditors' likelihood to formally report premature sign-off behavior will be greater when the staff member who engages in the premature sign-off behavior did so intentionally versus unintentionally.

Kaplan (1995) found the propensity to formally report an incidence of premature sign-off was greater when the senior had more staff evaluation experience. This finding supports other research that has found task-specific experience can play an important role in auditor judgment (e.g., Taylor 2000, Bedard and Biggs 1991, and Bonner 1990).

Kaplan (1995) argued that experience in completing performance evaluations may cultivate a higher regard for the importance of treating all auditors equally and fairly. Not disciplining a staff member for premature sign-off behavior would be considered unfair to other staff members who also encounter time budget pressures and yet do not prematurely sign-off. We test the following hypothesis to assess the generalizability of Kaplan's (1995) findings.

H3: Senior auditors' likelihood to formally report premature sign-off behavior will be greater for seniors who have more staff evaluation experience versus less staff evaluation experience.

## **METHOD**

### **Participants and Case Distribution**

We distributed an audit case to 91 audit seniors and managers at ten offices of a large national CPA firm in Iowa, Minnesota, and Illinois. An audit partner from the firm

served as our contact person. The partner identified the participating offices and provided us with a person at each office to serve as an office coordinator. A package was sent to each coordinator containing the agreed-upon number of cases to be distributed. Each package included equal numbers of the four versions of the case (described below). The coordinators distributed the cases to audit seniors and managers in their offices. To preserve anonymity, participants returned the cases directly to the researchers in the reply envelopes provided. We received completed cases from 58 auditors (a response rate of 64 percent). Three participants failed one of two manipulation check questions (described below). Therefore, the reported results are based on the 55 cases in which participants correctly answered the manipulation check questions.

### **Experimental Design**

Two factors, time budget pressure (easy versus tight) and intent of the audit staff member who prematurely signed-off an audit step (intentional versus unintentional), were manipulated in a 2 x 2 between-subjects design. Case materials were adapted from Kaplan's (1995) case and included information that remained constant across all cases, including an overview of the company (A-1 Appliances), its production cycle, and its financial statements for the current and prior year. This information was included in the case materials primarily to provide background and context for the research participants. The participants were asked to assume that they were the in-charge auditor (the senior) for this audit client. The case also included information about Laura Smith, the senior auditor's assistant (the staff member) for this engagement. In all cases, Laura is described as having a good reputation in the office for being competent and hard working. However, while reviewing her work in the inventory area, the senior determines that

Laura prematurely signed-off on an audit step that the senior subsequently determined was unnecessary. A staff auditor with a good work history and an audit step that was determined ex-post to be unnecessary were chosen because Kaplan (1995) found greater variability among his subjects' responses under these conditions.

After reading the information about A-1 Appliances and Laura's work on the audit, participants were asked to provide several appraisal judgments for Laura and to indicate their belief regarding how frequently audit staff members actually engage in premature sign-off of audit steps. Participants were then asked to answer two manipulation check questions and to indicate whether they had personally determined that audit staff under their supervision had ever intentionally or unintentionally signed-off on an audit step and if so, how many times it had occurred. Finally, participants provided a variety of biographical data.

### **Independent Variables**

As previously stated, two independent variables were manipulated between subjects: time budget pressure and intent of the staff auditor. An additional variable, the participants' staff evaluation experience, was obtained directly from the participants and was used as a covariate in our analyses.<sup>3</sup>

#### ***Time Budget Pressure***

We manipulated time budget pressure at two levels. In the tight time budget scenario, the case read, in part, "This year, due to increasing fee pressures, THE BUDGET WAS SET CONSIDERABLY TIGHTER than in previous years.

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<sup>3</sup> Based on the results of prior research (Kelley and Margheim 1990), participants also answered questions designed to assess the extent of their Type A personality to determine if this personality trait would affect the respondents' reporting intentions. The respondents' Type A personality was not found to be significant

Consequently, you believed that it would be VERY DIFFICULT (in fact, nearly impossible) to meet the inventory budget.” Alternatively, in the easy time budget scenario, the case read, in part, “In the past, other staff have not had much trouble meeting the inventory budget. This year the budget was similar to previous years, and you believed that it would be FAIRLY EASY to meet.” All versions of the case stated that Laura completed the audit work within the budgeted amount of time, but also stated that she would have gone over budget if she had not prematurely signed-off.

### ***Staff Auditor Intent***

We manipulated staff auditor intent at two levels. In the intentional premature sign-off scenario, the case read, in part, “When you discussed the matter with Laura, she said she INTENTIONALLY SKIPPED the step because she felt it was important to not go over budget and she thought the step was unnecessary.” Alternatively, in the unintentional premature sign-off scenario, the case read, in part, “When you discussed the matter with Laura, she indicated that she found the audit step requirements unclear and that she was uncertain how much work needed to be done... You conclude that Laura’s premature sign-off of the audit step was probably an UNINTENTIONAL MISTAKE. However, you also believe there should have been enough doubt in Laura’s mind about the proper interpretation of the audit step that she should have asked you about it up front.”

### ***Evaluation Experience***

Participating auditors were asked the question, “How many times have you evaluated the performance of a staff auditor?” This question, which Kaplan (1995) also

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in any of this study’s analyses; therefore, it is excluded from the discussion and the reported analyses.

asked his subjects, was included as part of the biographical data completed by participants.

### **Dependent Variables**

In practice, immediate supervisors typically evaluate their subordinates' performance at the end of each audit engagement. This written evaluation, among other things, provides the supervisor with a formal method to report the discovery of premature sign-off by a subordinate. After reading the case materials related to A-1 Appliances and Laura's work on the audit, participants were asked to respond to three questions, which were used as this study's dependent variables.<sup>4</sup> The first question, and primary dependent measure, relates to whether the participants would be likely to report Laura's premature sign-off on her written performance evaluation. The secondary measures relate to the participants' likelihood of assessing Laura's overall performance on the audit as unacceptable and to their willingness to work with Laura on a future engagement.

### ***Reporting Intentions***

The participating firm's formal policy requires its auditors to report the discovery of premature sign-off. Accordingly, participants were asked the following question: "Given Laura's performance as described in this case, how likely is it that your written evaluation of Laura would include the fact that she did not perform an audit step that she signed-off?" The question was answered using a seven-point response scale (1 = Extremely UNLIKELY to include in written evaluation; 7 = Extremely LIKELY to include in written evaluation).

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<sup>4</sup> Kaplan (1995) used three very similar questions and response scales for his dependent variables.

### ***Overall Performance Rating***

It seems reasonable to suppose that an audit staff's overall performance evaluation might suffer from the discovery that the staff member had prematurely signed-off an audit step. Consequently, participants were asked the following question: "In your written evaluation of Laura's performance, how likely is it that you would evaluate her overall performance as 'Unacceptable' because of the fact that she did not perform an audit step that she signed-off?"<sup>5</sup> This question was also answered using a seven-point response scale (1 = Extremely UNLIKELY to evaluate as "Unacceptable"; 7 = Extremely LIKELY to evaluate as "Unacceptable").

### ***Support on Future Engagements***

To assess the seniors' willingness to work with Laura on a future audit, the participants answered the following question: "To what extent would you support Laura's request to be assigned to you on another engagement? (That is, she initiates the request with scheduling.)" This question was also answered using a seven-point response scale (1 = Would NOT SUPPORT Laura's request; 7 = Would strongly SUPPORT Laura's request).

### ***Manipulation Checks***

One manipulation check was included for each manipulated independent variable. After responding to the dependent measures, but prior to providing biographical data, the case stated the following: "Case Scenario Information: Please respond to the following without looking back at the case description." The first manipulation check asked, "The inventory time budget on the engagement this year was:" and subjects chose between

“VERY DIFFICULT TO MEET” and “FAIRLY EASY TO MEET.” The second manipulation check asked, “Laura prematurely signed-off on the audit procedure:” and subjects chose between “INTENTIONALLY” and “UNINTENTIONALLY.” Of the 58 auditors who completed and returned one of the cases, three failed one of the two manipulation checks. Consequently, results reported in this study are based on the 55 cases with correctly answered manipulation check questions.

## RESULTS

### Descriptive Statistics

Descriptive statistics of the participating auditors are provided in Table 1. Panel A presents two measures of the auditors’ experience. On average, participants had nearly 58 months of audit experience (std. dev. = 28.4) and had evaluated the performance of an audit staff member 40 times (std. dev. = 41.7). Panel B of Table 1 presents information about the participants’ personal experience in discovering premature sign-off by a staff member. Eleven auditors (20% of participants) indicated that they had discovered *intentional* premature sign-off by an audit staff member under their supervision. Further analysis of the data reveals that for these 11 auditors, the mean number of intentional premature sign-offs encountered is 3.5 (std. dev. = 2.8). Panel B also shows that 50 auditors (91% of participants) reported that they determined a staff member under their supervision had *unintentionally* signed-off an audit step that was not performed. Further data analysis reveals that for these 50 auditors, the mean number of unintentional premature sign-offs discovered is 9.4 (std. dev. = 9.5).

<Insert Table 1 About Here>

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<sup>5</sup> The wording for this question is consistent with the wording used by the participating firm’s actual staff

Comparing our results for discovery of premature sign-off to Kaplan's (1995), he found that 33 percent of the senior auditors in his study had discovered premature sign-off by a staff member under their supervision. However, as noted by Kaplan (1995), his study did not delineate between intentional and unintentional sign-off (his intent was to learn about participating auditors' experience with intentional premature sign-off) and some of his participants may have been responding to instances of unintentional premature sign-off. In any case, the results suggest that premature sign-off is fairly commonplace and, especially in the case of unintentional sign-off, is dealt with on a regular basis in public accounting.

### **Reporting Intentions**

To test this study's hypotheses, we used an ANCOVA model with the participants' reporting intentions as the dependent variable, time budget pressure and staff auditor intent as dichotomous independent variables, and participants' staff evaluation experience as a continuous covariate variable. The ANCOVA results are presented in Table 2 Panel A; descriptive results are presented in Table 2 Panel B. The descriptive results include the mean, standard deviation, minimum score, first quartile, median, third quartile, and maximum score for each level of the two independent variables.

Our first hypothesis predicts that senior auditors will be more likely to report a staff member's premature sign-off when the staff member prematurely signs-off under conditions of an easy time budget versus a tight time budget. Panel A of Table 2 shows that the budget pressure variable is significant ( $p = .006$ , one-tailed). Consistent with H1, Panel B of Table 2 shows that participants were more likely to report the staff member's

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performance evaluation form.

premature sign-off under conditions of an easy time budget (mean = 5.8, std. dev. = 1.5) as opposed to a tight time budget (mean = 4.5, std. dev. = 1.7). Differences in reporting intentions consistent with H1 are also seen for the first quartile, median, and third quartile scores. A median score of 7 in the easy time budget condition indicates that at least 50 percent of the participants were extremely likely to report the staff member's premature sign-off. With a first quartile score of 5, an additional 25 percent of participants in the easy time budget condition were likely to report the premature sign-off. On the other hand, a median score of 4.5 in the tight time budget condition indicates that 50 percent of the participants reported a score of 4 or less, suggesting that they were either undecided as to their reporting intentions or unlikely to report the premature sign-off.

<Insert Table 2 About Here>

Our second hypothesis predicts that senior auditors will be more likely to report a staff member's premature sign-off when the staff member's behavior is intentional as opposed to unintentional. Panel A of Table 2 shows that the intent variable is significant ( $p = .004$ , one-tailed). Consistent with H2, Panel B of Table 2 shows that participants were more likely to report the staff member's premature sign-off when it was done intentionally (mean = 5.7, std. dev. = 1.6) rather than unintentionally (mean = 4.5, std. dev. = 1.7). Similar to H1, differences in reporting intentions consistent with H2 are also seen for the first quartile, median, and third quartile scores. A first quartile score of 5 in the intentional condition indicates that 75 percent of the participants were likely or extremely likely to report the staff member's premature sign-off. In contrast, a first quartile score of 3 when the staff member's premature sign-off appeared to be

unintentional indicates that 25 percent of the participants were unlikely to report the behavior.

Our third hypothesis predicts that senior auditors who have more staff evaluation experience will be more likely to report a staff member's premature sign-off. Panel A of Table 2 shows that the evaluation experience variable is significant at  $p = .056$  (one-tailed). Consistent with H3, analysis of the data reveals that the sign of the coefficient for evaluation experience is positive, indicating that participants with more staff evaluation experience were more likely to report the premature sign-off.

### **Supplemental Analyses**

We conducted two supplemental analyses to investigate other possible responses by the participants upon discovery of premature sign-off by a staff member. In the first analysis, we examine the likelihood of the participants assigning the staff member an overall performance rating of "unacceptable" as a result of the premature sign-off. Secondly, we examine the participants' willingness to support the staff member's request to work with the participant on a future audit engagement.

### ***Overall Performance Rating***

In order to investigate the effects on the overall performance rating, we used an ANCOVA model with the participants' likelihood of assigning an overall performance rating of unacceptable to the staff member as the dependent variable, time budget pressure and staff auditor intent as dichotomous independent variables, and participants' staff evaluation experience as a continuous covariate variable. The ANCOVA results are presented in Table 3 Panel A, while descriptive results are presented in Table 3 Panel B.

<Insert Table 3 About Here>

Panel A of Table 3 shows that the budget pressure variable is not significant ( $p = .463$ , one-tailed). However, the intent variable is significant ( $p = .000$ , one-tailed). The pattern of mean results found in Panel B of Table 3 suggests that the participants would be more likely to assign an overall performance rating of unacceptable to a staff member who intentionally signed-off an audit step (mean = 3.4, std. dev. = 1.7) as opposed to one who unintentionally signed-off as a result of confusion over what was required (mean = 1.8, std. dev. = 1.0). Differences in the overall performance rating are also found for the first quartile, median, third quartile, and maximum scores. The third quartile score of 2 in the unintentional condition indicates that at least 75 percent of participants were either unlikely or extremely unlikely to assign an overall performance evaluation of unacceptable to the staff member. On the other hand, at least 25 percent of the participants in the intentional condition were likely or extremely likely to assign an overall performance rating of unacceptable.

Panel A of Table 3 shows that the evaluation experience variable is significant ( $p = .019$ , one-tailed). Further analysis of the data shows that the variable's coefficient is positive, indicating that participants with more staff appraisal experience were more likely to assign an overall performance rating of unacceptable to the staff member.

### ***Support on Future Engagements***

To examine participants' willingness to work with the staff member on a future engagement, we used an ANCOVA model with the extent to which a participant would support the staff member's request to work with the participant on a future audit engagement as the dependent variable, time budget pressure and staff auditor intent as dichotomous independent variables, and participants' staff evaluation experience as a

continuous covariate variable. The ANCOVA results are presented in Table 4 Panel A, and descriptive results are presented in Table 4 Panel B.

<Insert Table 4 About Here>

Consistent with the results on overall performance ratings, Panel A of Table 4 shows that the budget pressure variable is not significant ( $p = .482$ , one-tailed) and the intent variable is significant ( $p = .018$ , one-tailed). The pattern of mean results found in Panel B of Table 4 suggests that the participants would more strongly support the staff member's request to work with the participant in the future if the staff member unintentionally signed-off the audit step (mean = 5.3, std. dev. = 1.0) as opposed to intentionally engaging in the behavior (mean = 4.5, std. dev. = 1.8). Differences in the support on future engagements measure are also found for the minimum, first quartile, median, and third quartile scores. Finally, Panel A of Table 4 shows that the evaluation experience variable is not significant ( $p = .123$ , one-tailed); however, further analysis does reveal that the sign of the variable's coefficient is in the expected direction.

### **SUMMARY AND CONCLUSION**

Premature sign-off and its antecedents have been the focus of much prior research. This research is important due to the potentially negative effects of premature sign-off on audit quality. With the exception of Kaplan (1995), previous research has studied premature sign-off from the perspective of the individuals engaging in the behavior in an effort to learn about its antecedents and the rate at which it occurs. In contrast, Kaplan (1995) examined the reporting intentions of senior auditors upon the discovery of premature sign-off by a staff member under their supervision. He posited that one reason premature sign-off occurs is that the organizational response may, at times, be insufficient

due to auditors' unwillingness to report the discovery of premature sign-off. Although auditors are formally required to report discovered instances of premature sign-off, they may not always comply with the requirement because: (1) they believe the firms' stated policy of dismissing auditors who engage in premature sign-off is too harsh and (2) they are aware of the counternorms that exist within the firms, which send mixed signals regarding the cost versus quality dilemma and the actions the firms desire their auditors to take. Kaplan (1995) also posited that there might be certain situational or personal factors that could influence auditors' reporting intentions. His results indicate that audit step necessity, the staff member's work history and the participating seniors' staff evaluation experience all influenced the seniors' reporting intentions.

The current study examines additional factors that may affect auditors' response to the discovery of premature sign-off by a staff member. Specifically, we experimentally investigate the effects of time budget pressure, whether the staff member intentionally or unintentionally signed-off the audit step, and the audit seniors' staff evaluation experience on the seniors' likelihood of reporting a discovered instance of premature sign-off by a staff member under their supervision. We find that the study's participants were more likely to report the staff member's premature sign-off under conditions of an easy time budget versus a tight time budget or when the staff member's premature sign-off was done intentionally as opposed to unintentionally. Also, our results indicate that participants who had more staff evaluation experience were more likely to report the premature sign-off.

Further experimental research in this area seems warranted. Such research could examine additional factors that may influence seniors' reporting intentions upon

discovery of premature sign-off, such as the seniors' leadership style (see Otley and Pierce 1995), the seniors' tolerance for ambiguity (see Johnson et al. 1998), and the gender of the staff member who prematurely signs-off on the audit step (see Johnson et al. 1998). In addition, survey research is needed to learn more about seniors' discovery of and response to premature sign-off. For example, a survey could further explore the types and frequency of discovered premature sign-off, the actions actually taken by seniors in response to its discovery, as well as the ultimate organizational response to the cases that are reported.

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**Table 1**  
**Descriptive Statistics of Participating Auditors (n = 55)**

**Panel A: Experience Measures**

	Mean <u>(Standard Deviation)</u>
Months of audit experience	57.9 (28.4)
Number of audit staff members evaluated	40.0 (41.7)

**Panel B: Discovery of Premature Sign-off**

	Number of Affirmative Responses <u>(Percentage of Participants)</u>
Personal determination of <u>intentional</u> premature sign-off behavior by an audit staff member	11 (20%)
Personal determination of <u>unintentional</u> premature sign-off behavior by an audit staff member	50 (91%)

**Table 2**  
**The Effect of Time Budget Pressure, Staff Auditor Intent, and Evaluation Experience on Reporting Intentions**

**Panel A: ANCOVA Results**

<u>Source of Variation</u>	<u>Sum of Squares</u>	<u>df</u>	<u>Mean Square</u>	<u>F</u>	<u>Sig.</u>
Evaluation Experience	6.300	1	6.300	2.619	.056
Budget Pressure	16.615	1	16.615	6.907	.006
Intent	18.659	1	18.659	7.757	.004
Budget Pressure × Intent	0.212	1	0.212	0.088	.768
Error	120.270	50	2.405		

**Panel B: Descriptive Results**

<u>Experimental Treatment</u>	<u>Mean</u>	<u>Std. Dev.</u>	<u>Minimum Score</u>	<u>First Quartile</u>	<u>Median</u>	<u>Third Quartile</u>	<u>Maximum Score</u>
Tight Budget Pressure	4.5	1.7	2	3	4.5	6	7
Easy Budget Pressure	5.8	1.5	2	5	7	7	7
Intentional Sign-off	5.7	1.6	2	5	6	7	7
Unintentional Sign-off	4.5	1.7	2	3	5	6	7

**Table 3**  
**The Effect of Time Budget Pressure, Staff Auditor Intent, and Evaluation Experience on Overall Performance Rating**

**Panel A: ANCOVA Results**

<u>Source of Variation</u>	<u>Sum of Squares</u>	<u>df</u>	<u>Mean Square</u>	<u>F</u>	<u>Sig.</u>
Evaluation Experience	8.810	1	8.810	4.519	.019
Budget Pressure	0.017	1	0.017	0.009	.463
Intent	35.841	1	35.841	18.383	.000
Budget Pressure × Intent	2.918	1	2.918	1.497	.227
Error	97.481	50	1.950		

**Panel B: Descriptive Results**

<u>Experimental Treatment</u>	<u>Mean</u>	<u>Std. Dev.</u>	<u>Minimum Score</u>	<u>First Quartile</u>	<u>Median</u>	<u>Third Quartile</u>	<u>Maximum Score</u>
Tight Budget Pressure	2.6	1.4	1	1	2.5	4	5
Easy Budget Pressure	2.8	1.9	1	1.5	2	3	7
Intentional Sign-off	3.4	1.7	1	2	3	5	7
Unintentional Sign-off	1.8	1.0	1	1	2	2	4

**Table 4**  
**The Effect of Time Budget Pressure, Staff Auditor Intent, and Evaluation Experience on Support on Future Engagements**

**Panel A: ANCOVA Results**

<u>Source of Variation</u>	<u>Sum of Squares</u>	<u>df</u>	<u>Mean Square</u>	<u>F</u>	<u>Sig.</u>
Evaluation Experience	3.065	1	3.065	1.346	.123
Budget Pressure	0.005	1	0.005	0.002	.482
Intent	10.595	1	10.595	4.655	.018
Budget Pressure × Intent	0.006	1	0.006	0.003	.958
Error	113.815	50	2.276		

**Panel B: Descriptive Results**

<u>Experimental Treatment</u>	<u>Mean</u>	<u>Std. Dev.</u>	<u>Minimum Score</u>	<u>First Quartile</u>	<u>Median</u>	<u>Third Quartile</u>	<u>Maximum Score</u>
Tight Budget Pressure	4.9	1.3	2	4	5	6	7
Easy Budget Pressure	4.8	1.8	1	4	5	6	7
Intentional Sign-off	4.5	1.8	1	3	5	5	7
Unintentional Sign-off	5.3	1.0	3	5	5.5	6	7