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AUDIT PARTNER PREFERENCES AND RISK ASSESSMENT: IMPLICATIONS FOR AUDITOR PROGRAM PLANS

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ABSTRACT

The purpose of this study is to explore the effects of risk assessments and partner preferences for either effectiveness or efficiency on auditors' program plans for budgeted hours and planned tests. Importantly, the partner can set the tone on the engagement by communicating to staff the priorities in addressing competitive pressures. To examine these issues, 39 auditors completed a case based on an actual audit client in which they were asked to perform program planning for the revenue cycle. Partner preferences for either efficiency or effectiveness were manipulated in a between-subjects design. Results indicate that auditors budgeted more (fewer) hours in response to a partner preference for effectiveness (efficiency), consistent with expectations. In addition, there was a significant interaction between auditors' risk assessments and partner preferences, suggesting that the positive relationship between auditors' risk assessments and budgeted hours and planned tests held when there was a partner preference for effectiveness, but did not hold when there was a partner preference for efficiency. These results extend prior research on accountability and partner preferences by suggesting that the preferences of the engagement partner can influence the audit planning of the audit senior by affecting the relationship between the senior's assessed risk and the nature and extent of the audit work planned.

Key Words: Audit Planning, Partner Preferences, Risk Assessment, Auditors, Professional standard.

1.0 INTRODUCTION

Professional standards require auditors to assess risks during audit planning in order to determine the nature, timing and extent of audit testing (IFAC 2006). However, studies (Peecher 1996; Mock and Wright 1999; Gramling 2000) suggest that audit planning may also be influenced by the preferences of the audit engagement partner (Gramling, 2000; Bierstaker and Wright, 1999).

For instance, the engagement partner may encourage subordinates to increase audit efficiency, particularly in cases where audit revenues have been reduced (McNair, 1991). Thus, in developing program plans auditors are accountable to multiple sources such as an immediate superior (e.g., a manager), the partner, and the firm and, in a broader sense, to the public. Often these sources provide conflicting forces (Gibbins and Newton, 1994). For instance, intense competition for audit services may lead to reductions in fees, placing considerable pressure on auditors to improve efficiency. On the other hand, there are counteracting incentives for auditors to maintain or improve effectiveness as a result of professional training, concern for long-term career reputation, and reviewer expectations.

Auditors face significant pressure to reduce costs due to competition among auditing firms as a result of bidding, advertising, and direct solicitation, as well as from merger activity in the corporate sector, which reduces the number of available audit clients (Adams, Hermason and Turner, 1987). A primary concern is that competitive pressures will lead to reductions in audit hours or tests, which may impair audit effectiveness and expose the firm to potential litigation and loss of reputation (Bierstaker and Wright, 2000; Houston 1999; Gramling, 2000).

Previous research (Margheim and Pany, 1985; Kelly and Margheim, 1990) has suggested that time budget pressure can lead to dysfunctional auditor behavior, such as premature signoff and underreporting of time. Importantly, program planning decisions are made in an environment of complex accountabilities (Gibbins and Newton, 1994). Program planning decisions are initially made by an audit senior (Abdolmohammadi, 1999), who is accountable to his/her immediate supervisor, to the partner, to the firm, to the client, and to financial statement users such as investors and creditors. The senior must weigh these competing forces, which may provide counteracting pressures to achieve effectiveness and efficiency (McNair, 1991). While prior research has examined the impact of fee pressure on audit program planning (Houston, 1999), relatively little consideration has been given to the influence of the organizational setting. As the leader of the audit team, the partner is expected to set the tone for an engagement and have considerable impact on how seniors weigh and reconcile competing pressures. This study examines the impact of an explicit suggestion from a partner on audit program effectiveness. In addition, this study examines the effect of auditors' risk assessments on audit planning.

2.0 LITERATURE REVIEW

The Impact of Accountability on Audit Planning

Given the pervasive nature of accountability, there has been an extensive body of research on the impact of accountability on judgments and decisions (Lerner and Tetlock, 1999).

Gibbins and Newton (1994) find that self-reports by auditors of their experiences reveal the existence of numerous, and often times conflicting, sources of accountability. In dealing with these conflicting pressures, actions are affected by a number of considerations such as the importance of the party to which one is accountable (e.g., one's superior), level of knowledge of the party's desired action, and the strength of the auditor's belief in his/her desired action. Prior research on the effects of accountability predominately suggest that this force has a positive impact by inducing individuals to exert greater effort and increase the complexity of their cognitive processing, potentially improving performance (Kennedy, 1993; Ashton, 1992; 1989; Tetlock and Kim, 1987). For instance, Asare (1999) indicate that accountability increases the extent and breadth of hypothesis testing and improves decision-making performance in an analytical procedures context. Asare (1999), also indicate that when accountable auditors are confronted with time pressure, the depth of testing is reduced but not the breadth of testing. This strategy may be adopted by auditors to investigate a variety of potential errors or irregularities that may occur (to preserve effectiveness), while seeking to minimize audit costs. Kelly and Seiler (1982) also suggest that time pressure may motivate auditors to reduce budgetary slack.

Although prior research (Adams *et al.,* 1987; McNair, 1991) suggests accountability can improve performance, this effect may be dependent on whether or not audience views are known in advance. In auditing research, when audience views were unknown, auditors wrote more thorough justifications for their decisions (Koonce, Anderson, and Marchant, 1995), and were more likely to qualify their opinions (Lord,1992), in the high accountability condition than in a low accountability condition. However, when audience views are known, individuals may make judgments to conform with those views to curry the favor of those to whom they are held accountable, and consequently reduce cognitive effort (Lerner and Tetlock, 1999). For example, Tan, Jubb and Houghton (1997) found that superior's risk assessments influenced the risk assessments of subordinate auditors, and subordinate auditors exerted less cognitive effort when the views of the superior were known than when the superior's views were unknown. Moreover, accounting research (Mock and wright, 1999) has also identified other potential dysfunctional effects of accountability such as the need for justification (Rich, Solomon and Trotman, 1997; Ashton, 1990). Thus, the consideration of multiple sources of accountability creates the potential for both desirable and undesirable effects, depending partly on whether or not audience views are known.

As described earlier, in performing program planning the audit senior faces multiple accountable parties.

An audit senior, for instance may desire a good performance evaluation from his immediate superior, a manager, to enhance career opportunities and reputation. However, the senior is also accountable to the partner, who wields greater power and influence in the firm than the manager.

Further, the manager is likely to convey the wishes of the partner to the senior, since the partner is the manager's immediate superior. In particular, the partner must decide how to respond to competitive pressures to attain the optimal balance between audit efficiency and effectiveness, and how to instill this balance in the engagement team. If the partner chooses to communicate the need for efficiency, it is likely that the audit team will make efforts to comply (Mock and Wright, 1999). Kermis and Mahapatra (1985), for example, found that a general directive to reduce hours by thirty percent from the previous year significantly affected auditors' time budgets.

However, subordinates may place less weight on a superior's view when it is expressed as a preference rather than an explicit directive (Tan *et al.,* 1997). Furthermore, subordinate auditors are trained to consider themselves as professionals with responsibilities to financial statement users (Jamal, 1997). Therefore, if a subordinate believes a superior's preference for greater efficiency will materially impair audit quality, he may chose to adopt a defensive non-compliance strategy, involving the development of arguments in support of his/her own position (Gibbins and Newton, 1994).

Moreover, a variety of factors appear to influence the way in which the partner "manages" competitive pressures. For example, partner aggressiveness toward practice development may depend on the existing client base (Cohen and Trompeter, 1998) ; and the competitiveness of the local audit market (Knapp, 1985; Shockley, 1981). Individual partners may also have different risk tolerances, which affect their client acceptance decisions (Asare *et al.,* 1994). Further, to please a superior, accountability to partners with lower risk tolerances may lead subordinates to more conservative judgments (Cohen and Trompeter, 1998). As a result of increasing litigation, partners may be increasingly risk averse, and more focused on audit quality (Marxen, 1990; Price Waterhouse, 1993; Gramling, 2000).

As noted (Tan *et al.,*1997), on numerous occasions auditors are exposed to the fact that they are part of a profession with significant responsibilities to the users of financial statements, as highlighted by the AICPA Code of Ethics. Thus, auditors are expected to develop a sense of professional commitment (Aranya *et al.*, 1981; Sorensen and Sorensen, 1974). Auditors are also made aware that their workpapers may be examined for audit quality during peer review or internal review. Furthermore, despite pressures to enhance efficiency, auditing firm manuals and professional standards formally emphasize that effectiveness is the primary objective, with the greatest potential losses to the individual and the firm occurring when inappropriate conclusions are made. Performing tasks in a substandard manner may consequently harm an individual's longer-term career advancement, the firm, and the public.

However, competitive pressures may result in an organizational climate that does not serve to reinforce professional and firm policy, since superiors' informal communications with subordinates may not be wholly consistent with the formal guidelines of the firm (Dirsmith and Covaleski, 1985).

For instance, senior auditors are aware that the time budget will be used as a benchmark for performance evaluation by their superiors (McNair, 1991). Thus, in program planning an auditor must weigh pressures to enhance efficiency with those requiring effective performance. Two pressures are examined in this study that may influence audit planning: a partner preference for effectiveness and a partner preference for efficiency.

2.1 Partner preferences

Auditors are highly motivated to respond to the perceived preferences of their superiors, since salary increases, promotions, and future work assignments are based on the superior's evaluations of the subordinates work (Wright 1986; Koonce, Anderson, and Marchant, 1995). Peecher (1996) for instance, provides evidence that auditors may attempt to enhance audit efficiency in response to partner preferences. In an analytical procedures context, Peecher found that when the partner encouraged reliance on the client, auditors' likelihood assessments of a client explanation were higher, and search for alternative explanations were reduced. This increased reliance appeared to be a mechanism to justify the reduction in audit effort. However, Peecher did not examine auditors' perceptions regarding client risks.

Similarly, in an audit planning context, Bierstaker and Wright (1999) suggest that auditors may adjust program plans in response to partner preferences. Specifically, they found that auditors significantly reduced planned tests, and reduced budgeted hours at a marginally significant level, in response to a partner preference for efficiency. In addition, Bierstaker and Wright present exploratory findings that suggest auditors may reduce (increase) the hours of more (less) experienced personnel to improve audit efficiency. However, as discussed, accountability also provides compensating pressures to preserve audit effectiveness. That is, firm and professional pressures are present to maintain a minimal level of quality. Previous research (McNair, 1991) indicates that auditors who are subject to a time budget and know they will be held accountable include a greater breadth of audit tests than unaccountable auditors (Asare *et al.*, 1999). However, in that study the preferences of superiors were not known. Thus, we have limited knowledge of how superiors' preferences force auditors to reconcile the competing pressures of audit efficiency and effectiveness when making decisions regarding the allocation of resources.

Gramling (2000) examines the extent to which auditors would rely on weak internal auditors given partner preferences. The study found an interaction between partner preferences and information order. When positive information about the internal audit department was presented before negative information, the main effect of partner preference on budgeted hours was significant. However, when negative information was presented first, the main effect of partner preference was only marginally significant.

In addition, the main effect of information order on budgeted hours was significant within the partner preference for efficiency condition, but not within the partner preference for audit quality condition. In all, these findings suggest that partner preferences may adversely influence the appropriate extent of audit work.

Partner preferences for efficiency or effectiveness may vary depending on a variety of factors including: the profitability of the client, percentage of partner and firm revenues represented by the client, the partner's risk preferences, and the partner's concerns about litigation (Farmer, Rittenberg, and Trompeter, 1987). Marxen (1990), for example, found that time budgets set by partners were considerably higher than those set by managers, seniors, or experienced staff. These results imply that partners are more concerned about litigation than their subordinates. The emphasis on audit efficiency may also be mitigated if there is an increase in the likelihood of peer review (Hackenbrack and Nelson, 1996).

As stated previously, the partner sets the tone for the audit engagement. Moreover, partners have a strong influence on a staff member's salary, promotions, and future work assignments. Therefore, in an audit planning context, auditors' time budget decisions are anticipated to be influenced by the preferences of the partner. If the engagement partner encourages the senior to improve audit efficiency, the amount of planned audit effort may be reduced (Kermis and Mahapatra, 1985). This reduction of audit effort may result in a decrease in the budgeted number of hours and/or the number of tests planned in the audit program. On the other hand , if the engagement partner encourages the senior to maintain audit effectiveness, a reduction in audit effort may not occur.

2.2 Risk Assessment

Although professional standards prescribe that program planning decisions regarding the nature, extent, and timing of tests should be responsive to client risks (SAS No. 47 (AICPA, 1993)), auditing research has not found a strong relationship between audit programs and assessed client risks (Mock and Wright, 1993; 1999), including control risk (O'Keefe, 1994). Bedard and Wright (1994) suggest that as a result of increased competitive pressures auditors are inclined to reduce a previous year's time budget, especially if no problems are uncovered on the prior audit. In contrast to previous research that found auditors were reluctant to reduce audit hours when analytical procedures did not signal problems (Biggs *et al.,* 1989; Cohen and Kida, 1989), Bedard and Wright report that auditors in their study decreased hours on average by approximately 20 percent. Similarly, using archival data, Mock and Wright (1993) found that auditors decreased hours by approximately seven percent on average from the previous year. Further, Gramling (2000) found in all experimental conditions that on average auditors reduced budgeted audit hours. These findings suggest that competitive pressures may provide incentives for partners to reduce the extent of audit testing, particularly if there is not an increase in client risks. However, in the presence of increasing client risks, the partner may choose to stress efficiency or effectiveness. Unlike previous research on partner preferences, our study examines partner preferences and auditors' perceptions regarding client risks in a situation where client risks are increasing. Given the tendency for individuals to want to please superiors, partner preferences may interact with auditors' risk assessments to influence auditors' program planning decisions.

3.0 METHODOLOGY.

The foregoing motivates our research hypotheses stated hereunder as the first set of hypotheses and reflect the expectations reached in earlier discussion.

H1: Budgeted hours will be lower when there is a partner preference for efficiency as opposed to effectiveness.

H2: The planned number of audit tests will be lower when there is a partner preference for efficiency as opposed to effectiveness.

The final set of hypotheses also follow these expectations:

H3: There will be a positive (negative) relationship between budgeted hours and assessed inherent and control risk when there is a partner preference for effectiveness (efficiency).

H4: There will be a positive (negative) relationship between planned tests and assessed inherent and control risk when there is partner preference for effectiveness (efficiency).

3.1 Participants

Thirty-nine auditors with an average of 49.2 months of experience (standard deviation of 8.4 months) participated in the study. Auditors with between 3 and 5 years of experience were sought because they are typically assigned to perform audit program planning (Houston 1999). To control for potential confounding effects as a result of differences in audit approach, all participants came from KPMG, Lagos regional office, Nigeria, and the experiment was conducted under controlled conditions during staff training sessions.

3.2 Experimental Design

As previously mentioned, an important feature of the audit environment is that auditors are accountable to their superiors (Koonce *et al.,* 1995). Furthermore, an auditor's response to partner preferences is contingent on the existence of accountability, requiring the auditor to weigh pressures to improve efficiency against those to preserve effectiveness. Based on prior research (Peecher, 1996; Cohen and Trompeter, 1998), two principal mechanisms were used to induce accountability: (1) all auditors were informed that a sample of individual responses, along with a summary of the results, would be forwarded to an audit partner at their home office, and (2). Auditors were also randomly assigned to one of two partner preference conditions (efficiency or effectiveness). Auditors in the efficiency condition were informed that: "The partner in charge of the audit expects that greater efficiency can be achieved during the current engagement." Auditors in the effectiveness condition were informed that: "The partner in charge of the audit recognizes efficiency but stresses that, nonetheless, achieving a quality audit is of the utmost importance during the current engagement." These manipulations were developed based on discussions with firm personnel to reflect realistic, moderate level preferences from a partner.

The information pertaining to the treatment conditions was provided to subjects prior to completing the tasks described below. To control for potential demand effects, a between subjects design was employed.

3.3 Tasks

An experienced manager was consulted extensively during development of the audit case. The case focuses on the revenue cycle and is based on an actual client. Subjects received background information on the client in its seventh year under audit by the participants' client (BRYCG Nigeria), a narrative description of the client's accounting procedures for the revenue cycle, selected account balances and financial ratios, and the previous year's time budget for the revenue cycle. Importantly, in all conditions audit fees were reduced from N1.32 million to N1.19 million, or about 10.9 percent. The magnitude of this decrease in fees is substantial, but representative of fee changes in practice from the authors experience of similar client in terms of balance sheet size.

In addition, the case was designed to have an increase in client risks from the previous year. The background information included that the M.D and Financial Controller of BRYCG Company resigned during the past year and the new M.D and Financial Controller has only been with the company for a few months, executive compensation is linked to company profitability as of the current year, and there has been some turnover among the accounting personnel. In addition, compared to the prior year, the cash balance decreased by 40 percent and accounts receivable increased by 25 percent. In the debriefing questionnaire, auditors were asked how the risk of material misstatement in the current year compared with the prior year, with 1 being lower than the prior year and 7 being the highest. Auditors' mean response to this question was 5.8, indicating that on average they perceived that risk had increased from the prior year.

Auditors were asked to prepare a time budget and develop an audit program for the current year's audit of the revenue cycle. Auditors were also asked to make a combined assessment of inherent and control risk (consistent with the approach of the participating firm). To prevent potential confounding inferences of reliance on other ways to enhance efficiency, subjects were told to assume that: (1) assistance from the client will not increase over the previous year, (2) further efficiency improvements are not possible through the use of computer audit technology, and (3) staff competence is consistent with prior years. The time budget was based on an actual engagement and included a list of 19 tests to choose from, as well as a space where additional tests could be added if so desired. The number of budgeted hours in the previous year for first year staff, second year staff, and the senior were also provided based on the standard program of the participating firm. Auditors were given information about the previous year's audit because, as is common in practice, the participating firm develops preliminary audit programs based on prior year information (Hirst and Koonce, 1996; Mock and Wright, 1993). Debriefing questions also gathered information about the participants' program planning experience.

3.4 Dependent Variables

The main dependent variables are the percentage change in budgeted hours for the prior year (HOURS), and the percentage change in the number of planned tests from the prior year (TESTS). There were a total of 128 hours and 19 tests in the audit program for the prior year.

4.0 RESULTS

Manipulation checks

Partner pressure

To examine the effectiveness of the partner pressure manipulation, auditors were asked to respond on a seven point Likert scale to the following statement: "In the situation presented in the BRYCG Company case, the partner in charge of the audit was primarily focused on: (with 1 indicating efficiency and 7 indicating effectiveness)." The mean for the efficiency condition is significantly lower than the mean for the effectiveness condition (2.53 vs. 4.47, $t = 4.99$, $p = 0.0001$), indicating the partner preference manipulation was successful.

Hypothesis Tests

Percentage Change in Budgeted Hours From the Prior Year

The means for percentage change in budgeted hours from the prior year are shown on Panel A of Table 1. As expected, auditors who received a partner preference for effectiveness reduced budgeted hours less (mean 7.6 percent) than those who received a partner preference for efficiency (11.2 percent). However, it is noteworthy that across both conditions auditors reduced hours, presumably in response to the client fee reduction. Thus, a fee reduction seems to evoke a belief that audit efforts will need to be cut, at least to some degree. As shown on Panel B of Table 1, a regression analysis reveals the main effect of partner preference is marginally significant, supporting the first hypothesis (H_1). In addition, the interaction between risk and partner preferences is significant, supporting H3. The nature of this interaction suggests that there is positive (negative) relationship between budgeted hours and perceived risk in the effectiveness (efficiency) condition. That is, when effectiveness is stressed by the partner, budgeted hours increase with higher assessed risk, which appears desirable in ensuring efforts address risks. However, when efficiency is stressed by the partner, budgeted hours are reduced across risk levels.

Table 1: Percentage Change in Budgeted Hours From the Prior Year

Panel A: Mean (Standard Deviation) [sample size] by Experimental Condition

Partner Preference	Total Budgeted Hours	Percentage Change
Efficiency	112.6 (16.8) [19]	-11.2 (12.2) [19]
Effectiveness	117.5 (17.14) [20]	-7.6 (12.4) [20]

Panel B: Regression Analysis

REGRESSION MODEL: HOURS = f(RISK, PARTNER, RISK*PARTNER)

F VALUE: 1.79 P-VALUE: 0.08 R-SQ: 0.133 ADJ. R-SQ: 0.059

VARIABLE	EXPECTED	BETA	T-VALUE	P-VALUE	DIRECTION
RISK	+	0.419	1.93	0.03	
PARTNER	-	0.751	1.58	0.06	
FEE*PARTNER	-	-0.929	-1.96	0.03	

Key:
HOURS = percentage change in budgeted hours from the prior year
RISK = combined inherent and control risk assessment (0 to 100 percent)
PARTNER = partner preference (0 = effective, 1 = efficient)

Note: P-values represent one-tailed tests when findings support theoretical (directional) expectations.
Source: SPSS output, 2014

Percentage Change in the Planned Number of Tests from the Prior Year

The means for the percentage change in the planned number of tests from the prior year are shown in Panel A of Table 2. As expected, auditors who received a partner preference for effectiveness reduced planned tests less (mean 2.9 percent) than those who received a partner preference for efficiency (6.7 percent). Similar to the results for budgeted hours, auditors reduced the number of tests on average across both conditions. As shown on Panel B of Table 2, a regression analysis reveals the main effect of partner preference is marginally significant, providing some support for the second hypothesis (H_2). In addition, the interaction between risk and partner preferences is significant, supporting H4. The nature of this interaction suggests that the positive relationship between planned tests and perceived risk holds in the effectiveness condition, but not in the efficiency condition.

Table 2: Percentage Change in Planned Number of Tests From the Prior Year

Panel A: Mean (Standard Deviation) [sample size] by Experimental Condition

Partner Preference	Total Planned Tests	Percentage Change
Efficiency	17.7 (2.23) [19]	-6.7 (13.7) [19]
Effectiveness	18.5 (2.61) [20]	-2.9 (11.7) [20]

Panel B: Regression Analysis

REGRESSION MODEL: TESTS = f(RISK, PARTNER, RISK*PARTNER)

F VALUE: 1.57 P-VALUE: 0.10 R-SQ: 0.118 ADJ. R-SQ: 0.043

VARIABLE	EXPECTED	BETA	T-VALUE	P-VALUE	DIRECTION
RISK		+	0.128	0.58	0.28
PARTNER		-	0.626	1.31	0.10
RISK*PARTNER		-	-0.844	-1.77	0.04

Key:
TESTS = percentage change in planned number of tests from the prior year
RISK = combined inherent and control risk assessment (0 to 100 percent)
PARTNER = partner preference (0 = effective, 1 = efficient)

Note: P-values represent one-tailed tests when findings support theoretical (directional) expectations.
Source: SPSS output, 2014

Additional Analysis
Assignment of Budgeted Hours by Rank

In addition to reducing the nature and extent of tests, auditors may also attempt to improve efficiency by modifying the level of audit personnel assigned to certain tasks (Usoff, 1997; Bierstaker and Wright, 1999). For example, auditors may hold budgeted hours constant, but reduce the rank of the auditor performing the tests in order to lower audit costs. However, staffing decisions may also be contingent upon other factors such as the minimum perceived level of competency needed to perform the task, and the level of inherent or control risks present. For instance, in a high risk setting, assigning a less experienced auditor to do a task may be considered inappropriate. Since there has been very little research and theory regarding staffing decisions (Bedard and Wright, 1994), results on this issue are reported as exploratory.

To examine auditors' staffing decisions, mean budgeted hours for the revenue cycle for first year staff and second year staff were analysed. Auditors in the efficiency condition budgeted 38.5 hours for first year staff, compared to 34.2 hours for auditors in the "effectiveness" condition ($t = 0.62, p = 0.29$).

For second year staff, auditors in the efficiency condition budgeted 57.5 hours, compared to 67.5 hours for auditors in the "effectiveness" condition ($t = 1.26, p = 0.10$). These marginally significant results suggest that auditors in the "efficiency" condition reduced hours of second year staff to a greater extent than auditors in the "effectiveness" condition.

5.0 CONCLUSIONS

This study has examined the effects of partner preferences for effectiveness or efficiency on auditors' planning decisions. Consistent with expectations, auditors reduced budgeted hours in response to a partner preference for efficiency. In addition, there was a significant interaction between auditors' risk assessments and partner preferences, suggesting that the positive relationship between auditors' risk assessments, and budgeted hours and planned tests, held when there was a partner preference for effectiveness, but did not hold when there was a partner preference for efficiency. These results suggest that the preferences of the engagement partner can influence the audit planning of the audit senior by affecting the relationship between the senior's assessed risk and the nature and extent of the work planned. For instance, when risk is assessed as high, partner preferences for effectiveness seem to reinforce concern for addressing risks by only minimally reducing hours and tests in audit plans. However, a preference for efficiency appears to exacerbate the situation by leading to greater reductions in budgeted hours and planned tests, raising concerns that these plans may not provide sufficient evidence to arrive at appropriate audit conclusions.

Furthermore, as a result of a client fee reduction, even in the effectiveness condition auditors on average reduced program plans. Thus, a fee reduction apparently provides a signal that program reductions are expected, irrespective of the fact that in this case client risks had increased. Firms must be careful to manage the planning implications of a fee reduction for staff and/or consider whether the existence and magnitude of a reduction should be communicated below the manager level.

The findings have both theoretical and practical implications. From a theoretical standpoint, while previous research has suggested that accountability to one's superiors may provide pressures to enhance audit effectiveness (Kennedy, 1993; Ashton, 1992) or efficiency (Bierstaker and Wright, 1999; Peecher, 1996; Gramling, 2000), our findings add to this research by suggesting that partner preferences may influence auditor judgments through moderating the relationship between auditors' risk assessments and planned audit effort. From a practical standpoint, auditors may attempt to enhance audit efficiency, while maintaining audit effectiveness, by decreasing effort to less effective audit procedures and low risk audit areas (Houston, 1999). Therefore, a reduction in budgeted hours and planned tests may reduce audit costs and improve audit efficiency by possibly eliminating over-auditing and budgetary slack.

This study does not possess a normative benchmark to evaluate audit effectiveness, a common, complex problem facing program planning studies (Bedard *et al.*, 2000). However, when hours and tests are reduced, there is the potential to jeopardize audit effectiveness, increasing the risk of audit failure, damage to the firm's reputation, and future litigation.

Based on the findings of this study, audit partners and managers should carefully weigh the formal and informal communications they have with seniors regarding audit efficiency.

If audit programs become too constrained in response to competitive pressures, auditors may be more likely to engage in behaviors that interfere with the proper conduct of the audit, such as premature signoff and underreporting of time. To the extent that audit fees are a function of reported time, underreporting of time could also lead to further reductions in audit fees, leading to a downward spiral in budgeted audit hours.

Additional research is needed to examine the role of the review process and competitive pressures on audit program planning. Superiors generally assist in establishing the initial audit program. Marxen (1990), for example, suggests concerns about an excessive focus on efficiency, and the potentially more salient threat of future lawsuits, may lead more experienced auditors to revise the audit plans of their subordinates to improve audit effectiveness. However, information asymmetry between preparers and superiors may prevent managers or partners from appropriately revising the preliminary audit program (Rich *et al.*, 1997). Moreover, given competitive pressures and the need to maintain good client relations, superiors may also revise budgeted hours and planned tests downward to further enhance efficiency. Thus, future research is needed to studys the impact of competitive pressures on partners' and managers' revisions to seniors' audit programs. Moreover, since a limitation of this study is that seniors could not interact with their superiors regarding specific areas where audit efficiency could be improved, future research involving groups of seniors, managers and partners would be valuable.

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