

Review Methods Matter

By Joseph F. Brazel, Christopher P. Agoglia, and Richard C. Hatfield

New technologies have created the ability to review audit files in different ways. While a traditional form of review involves an auditor (preparer) and a reviewer meeting to discuss the reviewer's concerns in a face-to-face review, today audit documentation is often prepared online and accessed electronically. The evolution of alternative methods, such as an e-review, raises questions: Does the review method affect the performance of the preparers anticipating the review? Does the review method play a role in determining an audit's effectiveness and efficiency?

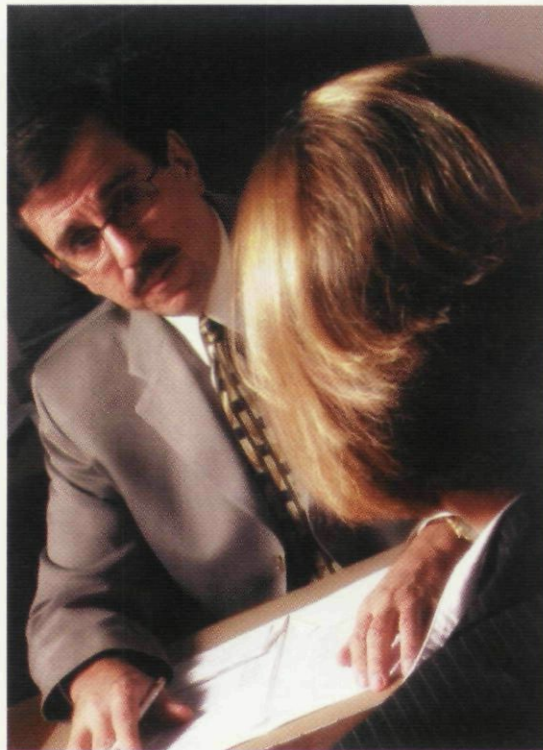
Recent consideration of audit documentation has addressed the "reviewability" of such documentation (PCAOB; SAS 96). Not much attention has been given to how reviews are, or should be, performed. The first standard of fieldwork requires that an engagement be properly planned and that assistants be properly supervised. According to SAS 22, *Planning and Supervision*, the supervision process includes the review of work performed and documentation prepared by assistants. And while it has been estimated that 30% of total audit hours are allocated to the review process, little guidance exists on how to effectively perform a review.

The authors examined different review methods and analyzed their impact on auditors' performance. The findings suggest that the method a reviewer chooses may have implications for the preparer's performance, which in turn could impact the effectiveness and efficiency of the audit engagement.

Methods of Review

Audit managers were asked about their current review practices. The sur-

vey results indicated that two formats dominate: face-to-face review and e-review. Face-to-face review, where the reviewer relays comments to the preparer in a face-to-face meeting, either verbally or in writing, was used 35% of the time. E-review, which involves the



preparer's receiving and responding to review notes via e-mail, was used 63% of the time. Although face-to-face review represented the more traditional format, e-review has risen in popularity because it allows several engagements to be reviewed concurrently and from remote locations, reducing traveling time and the necessity to coordinate schedules.

The review process helps ensure the adequacy of procedures performed and

the appropriateness of conclusions drawn. It also increases preparers' accountability for their work, because they know it will be reviewed by a superior. A separate survey of audit seniors indicated that they are typically aware of, or can anticipate, the method of review that will be

used by their reviewer. Thus, it seems reasonable that preparers anticipating different review methods might perceive different levels of accountability, which could lead to differences in performance.

With the traditional face-to-face review, preparers may need to respond immediately to unanticipated reviewer concerns. In addition, face-to-face review allows the reviewer to see nonverbal cues, such as signs of nervousness on the part of the preparer. One way for preparers to cope with this increased pressure is to spend more time and effort on workpaper preparation. This additional effort should lead to increased workpaper quality and, therefore, fewer questions from a reviewer. On the

other hand, when responding to review comments via e-mail, preparers may feel less pressure; there is an inherent delay in e-mail communication that allows preparers time to revisit an issue and prepare their response. While preparers anticipating an e-review will, of course, still be concerned about preparing high-quality workpapers, where possible these preparers may look to save time and effort in order to complete their tasks under budget.

Survey Results

To investigate the potential impacts of using different review methods, the authors asked 30 senior-level auditors to complete a preliminary going-concern analysis for a hypothetical client. Participants were provided with prior-year audit documentation depicting the entity as financially viable and current-year evidence depicting a decline in business conditions. Fifteen of the auditors were informed that they would be reviewed face to face, while the other 15 were told they would receive an e-review. All auditors were asked to prepare current-year workpapers consisting of a preliminary judgment regarding whether the going-concern assumption was reasonable on a scale of -- 7 (the going-concern assumption was definitely not reasonable) to +7 (the going-concern assumption was definitely reasonable), along with supporting documentation for the judgment.

The survey data indicate that preparers anticipating different review methods view their positions differently and thus differ in their performance (see the *Exhibit*). As expected, preparers anticipating a face-to-face review did feel more accountable to their reviewers than did those anticipating an e-review. After completing their workpapers, participants reported their perceptions on a scale from 0 (not at all accountable) to 10 (extremely accountable). Preparers anticipating a face-to-face review provided an average response of 8.27, while the average for those anticipating an e-review was 5.20. Relative to their e-review counterparts, participants expecting a face-to-face review also reported that they spent greater effort, anticipated their reviews would be more demanding, and felt greater pressure to perform well to impress the reviewer. Their anticipation of the review method clearly affected the thought processes of preparers.

These differences in perceptions led to differences in performance between the two groups. The more highly accountable face-to-face group did devote more time to workpaper preparation. In fact, two-thirds of the face-to-face preparers went 10% or more over the budgeted time for the audit task, while only one-third of the e-review preparers went greater than 10% over bud-

get. Most e-review preparers were reluctant to go significantly over budget and tended to deem their work complete as they reached their budgeted time for the workpaper. The next question was whether the extra time spent by the face-to-face group led to increased effectiveness.

The prior-year going-concern evaluation workpaper indicated positive financial conditions at the hypothetical company. On the other hand, the current-year evidence provided to all auditors indicated a significant decline in business conditions. Three audit experts—two senior managers and a partner—were asked to evaluate the hypothetical company and to provide an expert response, on a 15-point going-concern evaluation scale ranging from -- 7 (the going concern assumption is definitely not reasonable) to +7 (the going-concern assumption is definitely reasonable). The experts provided an

average response of 0.67, very nearly neutral. The face-to-face group's average judgment, 0.60, was remarkably close to the experts and suggests that their extra time was well spent. The e-review group's average going-concern judgment, 2.57, indicated that it was less likely to recognize the current-year decline in business conditions. Thus, while preparers anticipating a face-to-face review were less efficient at the task (i.e., took considerably more time), they were more likely to identify the going-concern issue.

Auditors in the e-review group may have attempted to save time by relying more heavily on the prior-year going-concern evaluation. Given the current-year change in conditions, this reliance caused them to overestimate the entity's ability to continue as a going concern. This supposition is supported by the fact that the e-review auditors spent more time examining the prior year's workpapers and less time con-

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sidering the current-year evidence than did the auditors expecting a face-to-face review.

Reviews and Audit Effectiveness

The survey results indicate that, when confronted with a complex task, auditors that anticipate different forms of review perceive different levels of accountability, which, in turn, leads to differences in performance. While both groups are likely concerned with audit effectiveness, auditors anticipating a face-to-face review appeared to be relatively more concerned with their effectiveness. On the other hand, e-review auditors seemed to be more concerned about staying within their time budgets.

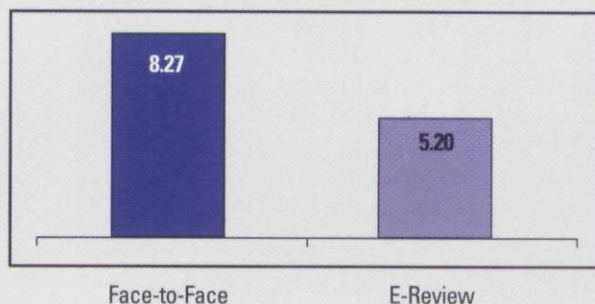
Given that the review method used can affect how preparers balance audit efficiency and effectiveness, reviewers may want to try matching the review method to the audit task at hand. For complex and risky audit areas, letting staff know about an impending face-to-face review may result in increased effort. For less complex or less risky areas, an e-review approach might draw out a more appropriate level of audit effort, while ensuring that budgets are met. Another way to avoid the downsides of each review method might be to combine the two techniques. An e-review might be followed up with a telephone call. Face-to-face reviews could incorporate a discussion of budget concerns and the possibility of overauditing. Last, mixing up review techniques may make review formats less predictable.

Regardless of how reviews are performed, reviewers should be aware that the method used may have implications for the effectiveness and efficiency of audit engagements. □

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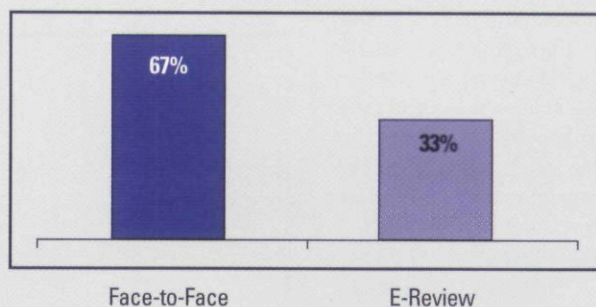
EXHIBIT Effects of Different Review Methods

Average Accountability Perceptions

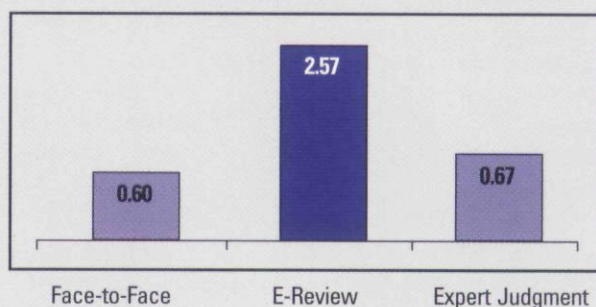


Scale from 0 "Not at All Accountable" to 10 "Extremely Accountable".

Percentage of Participants Going Over Time Budget by 10% or More



Average Going-Concern Judgments



Scale from -7 "Going-Concern Assumption Definitely Not Reasonable" to +7 "Going-Concern Assumption Definitely Reasonable."

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