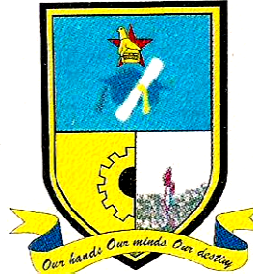


# MIDLANDS STATE UNIVERSITY



**AN INVESTIGATION INTO CAUSES OF BUDGET OVERRUNS IN EXECUTION OF  
AUDIT ASSIGNMENTS**

**BY**

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**SUBMITTED IN PARTIAL FULFILMENT OF THE BACHELOR OF COMMERCE  
ACCOUNTING (HONOURS) DEGREE**

**2014**

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## **DEDICATION**

This dissertation is dedicated to my late father Mr. J.Bwerinofa who played a pivotal role in helping me archive my goals through his support both financially and socially. If it had not been him I would not have reached where I am today.

## **ACKNOWLEDGEMENTS**

I would like to thank the almighty God for his guidance throughout the project. I would also want to pass my heartfelt gratitude to my supervisor to Mr.R.K Noko for giving the required support and direction on how to carry out my project properly. I am also thankful to BDO staff who provided me with the relevant information I needed to ensure progress in my research.Im also grateful to my friends B.Mbaringa, S.Kadungure , G. Makoni ,S.Mabharani and my family members who include my mother, aunt and cousin who stood by my side through their support and inspiration.

**MAY GOD BLESS YOU!!!!!!**

## **ABSTRACT**

The aim of this research was to investigate into causes of budget overruns in execution of audit assignments and to make relevant suggestions to mitigate them. Questionnaires and interviews were used as data collection instruments necessary for collection of data. Primary and Secondary sources were both used to obtain data. The Secondary sources used by the researcher included the use of text books, internet sources and Journals. The use of literature as well as the findings obtained from data collected revealed that budget overruns were as result of both the audit firm and the clients. The research revealed that the audit firm and their related Clients both contributed to budget overruns in some ways. It highlighted on how the clients affected the auditor's ability to complete audit assignments on time resulting in budget overruns. The use of tables, pie charts and graphs were used to display data for analysis. The data and information obtained indicated that budget overruns has some significant effects or impacts on the audit firm and its clients. This dissertation outlined the factors considered in preparing audit time budgets before the commencement of any audit work as well as their importance in the auditing field. It also examined the importance of audit procedures in improving audit efficiency as well as how they may be of use in the auditing field. The research also looked on how staffing issues in terms of numbers and experience could have an impact on the audit duration.

## TABLE OF CONTENTS

RELEASE FORM.....	i
APPROVAL FORM.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENTS.....	iv
ABSTRACT.....	v
CHAPTER 1: INTRODUCTION.....	1
1.1 INTRODUCTION.....	1
1.2 Background of the study.....	1
1.3 The statement of the problem.....	3
1.4 Research objectives.....	3
1.5 Research questions.....	4
1.6 Significance of the study.....	4
1.7 Delimitations of the study.....	5
1.8 Theoretical/Conceptual Frame work.....	5
1.9 Limitations.....	7
1.10 Chapter Summary.....	7
CHAPTER 2:LITERATURE REVIEW.....	8
2.1 Introduction.....	8
2.2 Time budgets and their importance in the auditing field.....	8
2.3 Factors considered in preparing audit time budget summaries.....	9
2.4 The difination and explanation of budget overruns.....	13
2.5 Causes of budget overruns in execution of audit assignments.....	13
2.6 Effects of staffing issues in terms of numbers and experience on the audit duration.....	18
2.7 Importance of audit procedures in improving audit efficiency.....	19

2.8 Effects of budget overruns on the client and the auditing firm.....	20
2.9 Overall of implications of the literature.....	21
2.10 Chapter Summary .....	22
CHAPTER 3: RESEARCH METHODOLOGY .....	23
3.1 Introduction.....	23
3.2 Research design .....	23
3.2.1 Quantitative data analysis .....	23
3.2.2 Qualitative data analysis .....	24
3.3 Descriptivestudy and Case study.....	24
3.4 Population Designs .....	25
3.5 Sample design.....	26
3.6 Data collection instruments.....	26
3.7 Primary Data .....	26
3.8 Secondary sources of data.....	28
3.9 Validity and Reliability.....	28
3.10 Data analysis .....	30
CHAPTER 4: DATA PRESENATION AND ANALYSIS .....	31
4.1 Introduction.....	31
4.2 Questionnaire analysis .....	31
4.3 Interview analysis .....	32
4.4 Effects of Budget overruns on the audit firm and its relationship with the Clients.....	33
4.5 Do Clients affect your ability to complete audit assignments on time .....	34
4.6 Are time budgets being prepared before execution of audit assignments .....	36
4.6 Can audit procedures be used to improve audit efficiency.....	38
4.7 Do staffing issues in terms of numbers and experience have impact on audit duration.....	41



4.8 What are the factors considered in preparing your audit time budgets.....	42
4.9 To identify the Causes of Budgetoveruns.....	46
4.10 Summary.....	49
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS.....	50
5.1 Introduction.....	50
5.2 Summary of the study.....	50
5.3 Research findings.....	50
5.4 Conclusions.....	51
5.5 Recommendations.....	52
5.6 Areas of further Study.....	53
5.7 Chapter summary.....	53
REFERENCE LIST.....	54
Appendix 1- Cover letter.....	56
Appendix 11-Questionnaire.....	57
References.....	54
Appendix: 1.....	56
Appendix: 11.....	57
Appendix: 111.....	60

## List of tables

Table 1.1: Audit time budget summaries.....	3
Table 2.1: Budget summaries.....	18
Table 3.1: Target population.....	25
Table 3.2: Results of pilot testing.....	29
Table 4.1: Responses to questionnaire.....	32
Table 4.2: Responses to interviews.....	32
Table 4.3: Do clients affect your ability to complete audit assignments on time.....	34
Table 4.4: Responses by various audit staff on whether time budgets are prepared.....	37
Table 4.5: Number of responses as to whether audit procedures can improve audit efficiency....	39
Table 4.6: Responses as to whether staffing issues have impact the audit duration.....	41
Table 4.7: Sizes of the Clients ... ..	42

## LIST OF FIGURES

Figure 1.1: Conceptual framework diagram .....	5
Figure 4.1: Respondents of the opinion that budget overruns lead to loss of clients and dissatisfaction.....	33
Figure 4.2: Do clients affect you ability to complete audit assignments on time.....	35
Figure 4.3: Bar graph showing whether or not time budgets are prepared.....	37
Figure 4.4: Respondents of opinion that audit procedures improve audit efficiency or not.....	39
Figure 4.5: Do staffing issues in terms of expereince and numbers impact on audit duration....	41
Figure 4.6: Factors considered in preparing time budgets.....	43
Figure 4.7: Causes of budget overruns cited by the different number of respondents(%) .....	44

## LIST OF APPENDICES

APPENDIX :1.....	56
APPENDIX :11 .....	57
APPENDIX :111 .....	60

## **CHAPTER 1: INTRODUCTION**

### **1.1 INTRODUCTION**

This chapter serves on to introduce the research problem and what the researcher aims to achieve at the end of the research. It looks at the background of the study, the statement of the problem, research objectives, sub-research questions, significance of the study, delimitations, limitations and the definition of terms.

### **1.2 Background of the study**

The provision of audit assignments on minimum time is one of the major qualitative attributes considered by clients as more time spent on the client by the auditors than expected creates a burden to the client in terms of costs and it may delay the publication of the audited accounts. Imagine when auditors are requested to perform an external audit for a certain client on which they both agree with the client to be performed for two weeks but however the auditors fail to complete the task within the stipulated time and finally complete the assignment in four weeks? It is of importance to mention that before commencement of any audit assignment a time budget summary is prepared. According to Gupta (2005) asserts that a time budget, summarises hours budgeted for various audit assignments or procedures to be performed by the auditors. Ramos (2006) argues that there are certain factors that are considered in preparation of time budgets which include the preliminary assessment of control risk, audit materiality levels, prior year's time budgets and its relationship to actual time and key audit areas.

In most instances the auditors usually fail to meet the budgeted time which results in budget overruns in the execution of audits due to many factors/circumstances.

One of the factors noted by the study was lack of cooperation by the client in providing the required information on time during the audit, for example an observation was made during the audit for TN Harlequin in Harare which took more time to complete, more than expected. This was mainly facilitated by the client's staff who failed to provide the supporting documents on time to support the selected expenses resulting in delay for the completion of the audit on time because of the lack of cooperation and commitment by client.

The change of materiality template during the audit also seemed to be the cause of budget overruns because the change of materiality levels would result in reperformance of work as it would sometimes increase the sample size on work to be redone. The issue of different preferences by the auditors in charge (AIC) and managers in relation to how their working papers should be presented creates confusion to the audit assistants and leads to more time being spent on the client.

It is also of importance to mention that budget overruns seemed to have also been caused by the fact that audit assistants are not given the opportunity to attend the engagement team discussion (ETD) to discuss with other members of the audit team and furthermore some auditors in charge (AIC) are reluctant in explaining to the audit assistants the operations of the client and also crucial issues which should be paid attention to before any audit assignment, as a result this will affect the time to complete the work assigned to them by the auditor in charge (AIC) since he or she will have to understand the flow of transactions relating to the specific client. For example an observation was made when we attended the audit for Cormaton insurance in 2012 it took the study a lot of time to complete the audit for various sections he had been assigned to work on since he was unaware of the system and operations of the insurance company.

Time is always of concern to the clients on when the auditors will complete an audit assignment because during the audit the client staff would have to sacrifice more of their business time responding to auditors at the same time they will also have to perform their normal duties at work as a result this can create more work to them especially when their businesses are at peak however it does not mean that the auditors should carry their work hurriedly without exercising professional due care. The following table reflects the budgeted time against the actual time taken to complete an audit assignment for various clients:

**Table 1.1: Audit Time budget Summaries**

Client name	Year	Budgeted time (hours )	Actual time (hours)	Variance (hours)	Budgeted fees (\$)	Actual fees (\$)	Variance fees (\$)
MRCH	2012	360 hrs	480 hrs	-120	6,000	8,000	(2,000)
ZETDC-Bulawayo	2013	432 hrs	576hrs	-144	15,200	20,000	(4,800)
Kwenda High school	2013	108hrs	156hrs	- 48	2,268	3,276	(1,008)
Cormaton Insurance	2012	140hrs	280hrs	-140	3,996	4,500	(504)
TN Harlequin	2012	405hrs	516hrs	-111	9,045	10,148	(1,103)

**Source: BDO Zimbabwe 2012-2013 Audit Budget Summaries**

### **1.3The statement of the problem**

Time management is of great essence when providing professional services that mainly includes the audit of financial statements. The audit staff is required to spend a reasonable time in obtaining audit evidence and assurance. But however in some instances there is failure to meet the time budget agreed between the auditor and the Client. The concern of the study is to investigate the causes of budget overruns in execution of audit assignments. The researcher also seeks to highlight and reveal the most efficient and effective means to reduce budget overruns in the execution of audit assignments.

### **1.4 Research objectives**

- ❖ To Compare and contrast the different audit procedures.
- ❖ To determine the factors that are considered in preparing audit time budgets
- ❖ To identify how staffing issues in terms of numbers and experience of audit staff impact on the audit duration.
- ❖ To determine the causes of budget overruns in execution of audit assignments
- ❖ To find out whether clients affect the auditor's ability to meet set time budgets

## **1.5 Research questions**

- ❖ How can audit procedures be used to improve audit efficiency?
- ❖ What factors are considered when preparing time budget summaries?
- ❖ How do staffing issues in terms of numbers and experience of audit staff impact on the audit duration?
- ❖ What are the causes of budget overruns in execution of audit assignments?
- ❖ To what extent can clients affect the auditor's ability to complete audit assignments on time?

## **1.6 Significance of the study**

The research will create awareness or attention on the causes of the budget overruns in the execution of audit assignments and how to mitigate them.

### **Scholars:**

The researcher will lay a foundation on other researchers in the auditing field, having clearly established the causes of budget overruns in the execution of audit assignments.

### **To the researcher:**

Apart from gaining knowledge on time management in the execution of audit assignments, the study is in a bid to fulfill the requirements of Bachelor of Accounting Honours Degree and will enable the researcher to embrace the practicality of things learnt.

### **To BDO Zimbabwe:**

The researcher will provide a useful assessment of how they can effectively reduce budget overruns in the execution of audit assignments.

### **Midlands State University:**

The researcher will provide literature to the university Library. It also enhances strong ties and long-lasting relationship between the University and BDO Zimbabwe by ensuring continual recruitment of students from the institution.

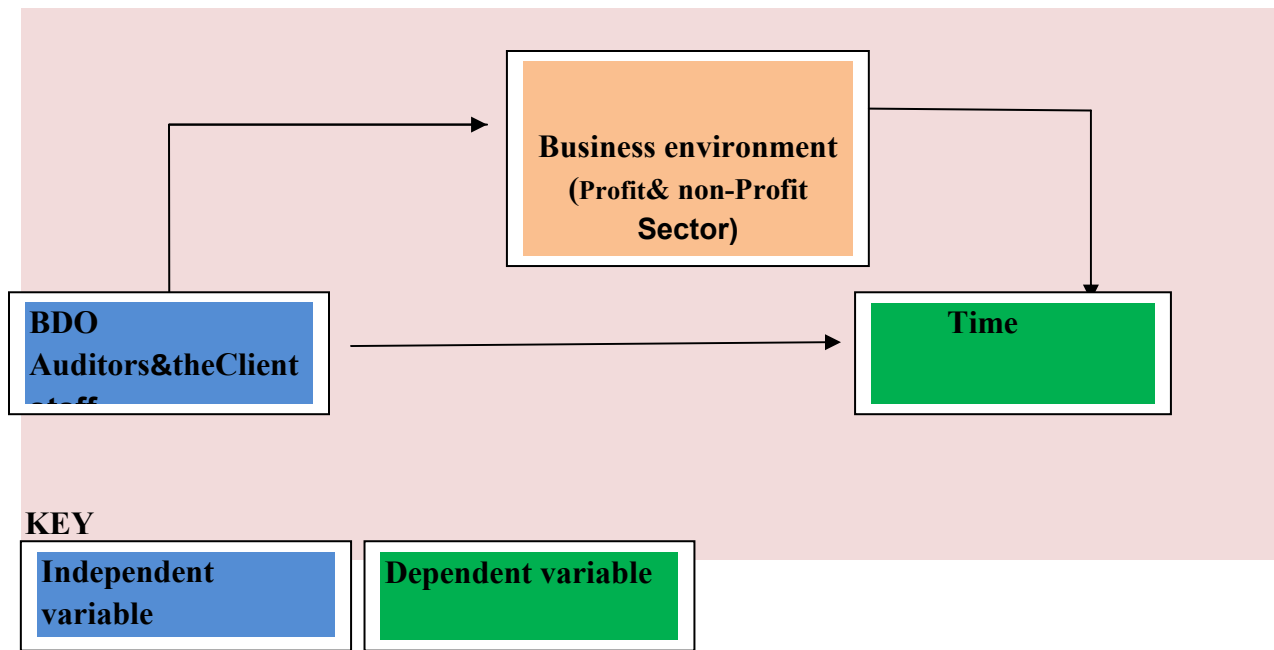


### 1.7 Delimitations of the study

The study is limited to the execution of audit assignments carried out by BDO Zimbabwe Chartered accountants of Zimbabwe in Harare. The research will cover only the period from 2012 to 2013.

### 1.8 Theoretical/Conceptual Frame work

Figure 1.1: Conceptual Frame work Diagram



The above Conceptual frame work reflects the relationship between Variables which are independent variables (BDO auditors and the Client staff) and the dependent variables (time) in this case which represent time taken to complete audit assignments. The diagram highlights that BDO auditors and the client have some impact in determining the time taken to complete audit assignments. According to the study the budget overruns are as a result of BDO auditors and to some extent are caused by the clients.

### 1.9 Limitations

BDO Zimbabwe chartered accountants might deny the researcher an opportunity to disclose much of the audit information as it regards it as confidential. Fortunately the researcher was

privileged to have been part of the audit staff during his year of industrial as an audit assistant so he had much insight into most of the aspects. The other constraints include the following:

- ❖ Financial resources-this is the major constraint to the research project will be the cost of the transport to BDO Zimbabwe Chartered accountants in Harare to seek relevant information,mailing,internet,stationary,typing and printing.
- ❖ Corporate confidentiality –the confidentiality policy may restrict the researcher in accessing information. However, will use the information gathered while he was on industrial attachment in the organisation.
- ❖ Time constraints on the part of the researcher as the researcher have to balance this research with other academic studies. However the researcher will have to work overtime to fully cover the project.

### **Definition of Key Terms and Acronyms**

**BDO:**Binder, Djiker and Otte

**APT:**Audit process Tool

**ZETDC:** Zimbabwe Electricity Transmission Distribution Company

**ETD:** Engagement team discussion

**MRCH:**Matthew Rusike Children's Home

**ZMDC:** Zimbabwe Mining Development Corporation

**YETT:**Youth Empowerment andTransformationTrust

**Financialstatements:** This refers to the statement of profit or loss and other comprehensive income, Statements of cash flows, Statement of financial position and explanatory notes as per the requirements of Generally Accepted Accounting (GAAP) and International accounting standards (IAS).

**Budget overruns:** It is a situation that arises as a result of failure to meet set time budgets leading to excess hours being incurred.

**External auditors:** an independent party not involved in the management of the client's affairs who are appointed to verify on behalf of the shareholders the truth and fairness of the reports issued by management.

**Client:** the company or organisation being provided with services by the audit firm.

### **1.10 Chapter Summary**

This Chapter highlighted the background to the research problem, research questions and objectives of the research. It also revealed the significance of the study. Chapter 2 will focus on the literature review.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter focuses on time budgets, as well as their importance in the field of auditing. It also focuses on the definition, background and the causes of budget overruns as well as their resultant effect or impact on the client and the auditing firm citing relevant examples from the study and other authors. The major thrust of this chapter is to provide support to or against the study under consideration.

### **2.2 Time budgets and their importance in the auditing field**

Time is considered as a major component that has a significant influence in the conduct of audit assignments. Pickett (2010) suggests that time is the most crucial factor that must be controlled by audit management which requires budgets to be authorized for set audit assignments, time sheets accurately recording hours spent on various audit assignments, regular reports on hours charged and effective management action. According to [www.slideshare.net/wahibid](http://www.slideshare.net/wahibid) (Accessed 21 March 2014, 2:30 pm) the time budget is the key factor on any audit that acts as a major control over the audit assignment and is of concern and importance to the audit management.

It is of paramount importance to mention that audit time budgets are established and agreed upon between the external auditors and the client before the commencement of any audit work. Gupta (2005) suggest that a time budget summarises hours that are budgeted for various audit assignments.

According to BDO audit manual (2006) time budgets serve as an important tool that assists the audit management such as the partner, manager and auditor in Charge (AIC) to plan and allocate audit work for audit assistants. The engagement manager determines the time necessary to complete the set job and agree the time with the Client. It is of great essence that time is an important factor that should be agreed upon between the Client and the auditors before the commencement of any audit work since the audit fees will be based on time taken to complete an audit assignment. BDO audit manual (2006) also suggests that time budgets serve as a key tool that ensures efficient performance of audit assignments and successful control of the engagement by audit management. Sweeney and Piercel (2006) argues that formal cost control is exercised

by using time budgets and that a time budget achievement has been found to be a primary criterion for evaluating performance.

Time budgets facilitate the performance of work on an agreed time basis there by reducing wastage of time in completing tasks. During a customer care seminar attended at Jameson Hotel in 2013, Mr. Ngoni Kudenga the managing partner at BDO Zimbabwe addressed that we should consider time as a major factor and that we should work effectively to ensure that audit assignments are completed on time. BDO audit manual (2006) stipulates that audit time budgets act as guide to the audit assistants in which they are expected to complete or finish specific procedures relating to a particular engagement.

It is therefore important to establish a time budget to ensure that time is not wasted on execution of audit assignments as it also represent a cost to the client. On the same breath the auditors should not perform their audit work hurriedly without paying attention to risk areas and should also obtain sufficient appropriate evidence to be able to draw reasonable conclusions on which to base their audit opinion according to ISA 500(Audit evidence).

### **2.3 Factors considered in preparing audit time budget summaries**

Gupta (2005) suggests that a time budget summarises hours which are budgeted for the various audit assignments or procedures to be performed by the auditors. According to Ramos (2006) a time budget indicates time assigned to each aspect of the audit work and level of staff which will be required to specific audit tasks. In establishing audit time budgets it is important for the audit management to consider certain factors which might affect time. Ramos (2006) argues that there are certain factors that are considered in preparing time budgets which are preliminary assessment of control risk, audit materiality levels, prior year time's budget and its relationship to actual time and key audit areas.

#### **Prior year's time budget and its relationship to actual time:**

This may be used as benchmark to set the current year's budget which helps or assist the audit management to avoid over or under budgeting of hours. The audit management may consider the previous time budget in relation to its actual time which may aid them in estimating a reliable

currenttime budget. If the budget is based on last year time budget this may act as means to ensure that the hours budgeted for are not over budgeted or under budgeted for.

### **Preliminary assessment of control risk/Risks associated with client:**

Control risk is the risk that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by the entity's internal control this is according to Dauber et al (2009). According to Gray and Manson (2008) time budgets are directly dependent on the auditor's assessment of risk. The risk evaluation will determine the extent of substantive procedures to be performed.

According to ISA 315(Identifying and assessing the risks of material misstatement through understanding the entity and its environment) control risk is defined as the risk that could occur in an account balance or in a class of transactions and that could be material individually or when aggregated with misstatements in other balances or classes.

ISA 315(Identifying and assessing the risks through understanding the entity and its environment) also cites that preliminary assessment of control risk is the process of evaluating the effectiveness and suitability of an entity's accounting and internal control systems in preventing or detecting and correcting material misstatement.

Dauber et al (2009) cites that preliminary assessment of control risk is the auditor's expectation that the controls will neither prevent or detect material misstatements and correct them after they have occurred. Ainapure and Ainapure (2009)suggest that, preliminary assessment is done by the auditor through understanding the entity's information system, related controls and the control environment.

According to Dauber et al (2009) the auditor may assess control risk as high or low. The auditorsmay use subjective expressions such as high, moderate, or low to assess control risk or in numerical terms for example 60% or 70%.When control risk is assessed as high the assessment should beclearly documented and substantive tests should be performed. When the risk is assessed as high this implies that the entity's accounting system and related controls are not effective in preventing or detecting material misstatements.

The implication of high control risk will therefore imply that auditors should perform more substantive procedures so as to gather sufficient appropriate evidence to ensure that they may reach an appropriate conclusion. Therefore the performance of more substantive procedures means more work to be performed which will have an effect on time since more time will be required. It is of importance to mention that the time budget should be designed to provide sufficient time for audit risk to be reduced to an acceptable low level.

Ainapure and Ainapure (2009) argues that the control risk should be assessed as high unless the auditor is able to identify relevant internal controls which are likely to prevent or detect and correct a material misstatement.

### **Key audit areas:**

It is of importance that external auditors should identify key audit areas. The key audit areas might include areas that are of significance to the assigned job or areas that requires special attention because of risks addressed. For example the study noted that during the audit of assets the major key area was that the client should have an up to date asset register disclosing all the entity's assets and that a correct valuation it was therefore necessary for the auditors to recompute the values.

This implies that the more the number of key audit areas to be looked at in an audit assignment the more the time required, to be budgeted for since they will require special attention and the implementation of additional substantive procedures.

### **New or Existing client:**

If the client is new to the external auditors it might require more time to be budgeted for in order for the auditors to fully appreciate an understanding of the client's operations and its control environment as a result auditors may take some time to complete an audit other than when the client has been audited before the auditors will be now familiar and conversant with its operations and aware of risk areas we should be paid attention to. For example at BDO Zimbabwe they use the APT (audit process tool) which is a tool used by all BDO firms worldwide.

It generates electronic client files known as client audit work space(CAW),therefore if a client was once audited they can easily get a better understanding of the client by referring back to the previous working paper. Therefore less time may be budgeted for existing clients than for new clients.

### **Audit Materiality levels:**

According to the BDO audit manual (2006) materiality refers to the size or nature of a misstatement that in the light of the surrounding circumstances makes it possible that the judgment of a reasonable user of financial statements would have been changed as of the result of misstatement. According to ISA 320(Materiality in planning and performing an audit) materiality involves the exercise of professional judgment.

Bagshaw (2013) cites that materiality is based on what could influence users and it affects sample sizes and the assessment of misstatements. Materiality affects the nature and extent of auditing and the amount of work to be performed this is according to Bagshaw (2013).When auditors decides to use low materiality levels this results in more work to be done on account balances and transactions therefore more time will be required to be budgeted for than when materiality is high since materiality has an influence on sample size. Auditors may decide to use low materiality levels if for example they are of the opinion that there are significant risks within the entity's control environment.

Accordingto Sweeney and Pierce (2006) audit management should allocate adequate time for the execution of audit assignments because if they allocate a tight budget the audit staff may sometimes respond to time pressures by engaging in gaming behavior such as manipulation of records in order to meet the budgeted time.

### **Size of the entity:**

It is of concern in determining time budgets because it has a significant influence on time. Generally large clients usually have voluminous transactions and economic events which usually requires a substantial period of time to complete an assigned job than small clients. For example an observation was made when big Clients such as ZETDC (Zimbabwe electricity transmission and Distribution Company) were budgeted for almost 3 weeks of completion for yearend audits.



Whilst clients such as Jairos Jiri rehabilitation centre, Plan international just to mention but a few are considered to be small to medium clients and are therefore allocated almost one week to complete an audit. It is therefore worth mentioning that the size of entity has an impact on time to complete an audit assignment such as yearend audits

#### **2.4 The definition and explanation of budget overruns**

Budget overruns are excess hours charged to jobs more than the budgeted time. Budget overruns are as result of the actual hours being greater than the budgeted hours required to perform audit assignments. It is a situation whereby the audit firm agrees on a certain time budget with the client but fails to meet the set time. In carrying out audits the external auditors work in their best capabilities to ensure that they meet the set time agreed between them and the client but however certain factors or circumstances may hinder the completion of audit assignments on time this according to the BDO audit manual(2006).

This causes dissatisfaction to clients who priorities time since audit fees are usually based on time. But however it is important to mention that the auditors should however not perform their audit work hurriedly without exercising caution since their final opinion will be relied upon by various users of financial statements to make economic decisions. An observation was made during the audit of various clients that there was failure in some instances to meet set time to assigned jobs resulting in budget overruns. Ettredge et al as cited in Reckers (2006) argues that subsequent year budgets are increased in response to significant prior year budget overruns, resulting in improved budget accuracy overtime.

#### **2.5 Causes of budget overruns in execution of audit assignments**

Budget overruns are as result of failure by auditors to complete audit work assigned to them within a stipulated time. The failure by the external auditors to meet set time to complete certain audit assignments such as yearend or interim audits is as result of certain factors or circumstances. Some of the factors which affect the completion of audit assignments are beyond the auditor's control. Budget overruns may be as a result of the following factors:

### **Budgets not set properly:**

According to Buchheit et al as cited in Reckers (2006) argue that when budgets are not set properly, auditors can experience an excess or shortage of required staff on individual audit assignments resulting in an opportunity cost to the firm. If there is shortage of the required personnel for an audit assignment this might lead to more work being carried out by few personnel as a result the auditors might fail to meet the set time resulting in a budget overrun. According to [www.internalauditorsonline.org](http://www.internalauditorsonline.org) (Accessed 21 March 2014, 4:30 pm) also suggests that an audit firm may allocate an inadequate number of hours for auditors to complete specified audit procedures which results in budget overruns. Pickett (2010) suggests that if budgets are not set properly they ultimately lead to budgets overruns.

### **Performance of additional work requested by the Client:**

The Client may ask for additional work during an audit assignment which had not initially been budgeted for this will resultantly affect the time to complete the work this is according to Pickett (2010). This is because the work would have not been included in the audit time budget.

For example an observation was made when the researcher attended a yearend audit during an audit for (ZSDA) Zimbabwe Sugarcane Development Association in Chiredzi. Initially the engagement was to audit the association for the year ending 31 December 2012 but when the audit began the Client suggested that we also audit the years ending 2009, 2010 and 2011, this arrangement had not initially been budgeted for and it significantly affected the time of completion resulting in a budget overrun.

### **Weak Client's internal controls/Risks associated with client:**

Another factor according to Buchheit et al as cited in Reckers (2006) is as a result of weak client's internal controls. This leads to budget overruns because if client's internal controls are weak this implies that the auditor will have to increase sample size implying that more work will have to be done, more additional substantive procedures will be performed resulting in more time to complete the assigned audit assignments thereby resulting in a budget overrun. If the client's internal controls are weak this implies that the risk associated with the client will be high.

Pickett (2006) also noted that failure to meet budgeted time by auditors arises because of:

**Inefficiency of the auditors:**

Auditors may be inefficient in performing their work which will resultantly affect the time of completion. An audit team staffed to perform a particular task for a certain client may lack adequate knowledge and skills to perform the work assigned. This will ultimately affect their speed in performing certain assignments.

**Excessive or Lack of intervention by the audit manager:**

Excessive intervention by the audit manager may cause auditors to fail to complete audit assignments on time this is because their excess intervention may cause frustration and confusion amongst the audit team and this might lead errors or mistakes which will need time to rectify. It is also of importance to mention that lack of intervention by the audit manager may lead to redo of work especially if the work is being carried out by the audit team inappropriately because a reasonable intervention by audit manager may help the audit team to take the correct direction before completion of audit work other when the manager does not intervene to ensure that work is being carried out properly.

**Lack of or update of the client's documentation of its internal controls**

According to Puncel (2007) the absence of the client's documentation of its internal controls ultimately means that the auditor will spend more time performing risk assessment procedures to gain an adequate understanding of the entity's controls which will resultantly affect the time of completion for an audit assignment.

**CAUSES OF BUDGET OVERRUNS AS NOTED BY THE STUDY**

One of the factors also noted by the study was lack of co-operation by the Clients during the execution of various audit assignments. There was lack of co-operation by the clients in providing the required information on time during the execution of audit work. For example an observation was made during the yearend audit for TN Harlequin, Harare in 2012 which took more time to complete more than expected.

This was mainly caused by the client staff who failed to provide the required information on time due to lack of co-operation. For example they could not supply the required supporting documents (invoices and payments) on time to support the selected expenses this was the major area that resulted in the delay to complete the audit assignments resulting in a budget overrun. The yearend audit for TN Harlequin was supposed to be completed in 405 hours but was later completed in 516 hours resulting in a budget overrun with a negative variance of 111 hours.

The researcher also noted that the budget overruns were also as a result of lack of the client's documentation relating to its internal controls this then would mean that the auditors would spend a lot of time performing risk assessment procedures in order to gain a better understanding of the client's internal controls.

Another cause noted was the change of the materiality template during the audit work, which also led to budget overruns. The change in materiality template had to some extent lead to increase in sample size on transactions and balances resulting in more work to be done. The reperformance of more work would need some extra time which had not initially budgeted for before the commencement of the audit work thereby leading to a budget overrun as the budgeted time would be exceeded by the actual time taken to complete the audit work.

The different preferences by the auditors in charge (AIC) and audit managers were also a noted cause of failure to meet the budgeted time. The audit managers and auditors in charge (AIC) have their own different preferences in relation to the presentation of the audit working papers which are attached on the APT (audit process tool). The different preferences by the audit staff creates confusion and leads to reperformance of work as they will raise more review points during the review of the audit work leading to more time being spent on the client as they will have to rectify highlighted areas which need to be revisited.

Another noted important cause was the mere fact that the audit assistants are not given an opportunity to attend the engagements team discussion (ETD). BDO audit manual (2006) argues that an engagement team discussion ordinarily includes an exchange of ideas among engagement team members about how and where they believe the entity's financial statements may be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting and how assets of the entity could be misappropriated.

However the audit assistants do not attend the engagement team discussion to discuss the key audit areas and matters which might require special attention as they might affect the overall opinion of the audit assignment and yet the execution part of the audit process is mostly carried out by the audit assistants.

Another noted cause of failure to meet set time to complete audit assignments is because some auditors in charge (AIC) are reluctant to explain to the audit assistants the operations of the client so as to aid them in their understanding of the client's operations and also the key audit areas which should be paid attention to before the commencement of an audit as a result this affects the time the audit assistants will take to complete the assigned audit work.

When audit procedures are being carried out for different clients in different sectors for example in mining and insurance the approach might be different because of the nature of the industry hence the audit assistants might take a while to understand the flow of the transactions since the auditors in charge are reluctant in explaining to them which will consequently lead to more time being spent by the audit assistants to finish the work. For example at Cormaton insurance company in 2012 it took the study a lot of time to complete an audit for the sections assigned since there was need to firstly appreciate and understand the nature of transactions and operations of the insurance company which were not clarified and explained by the auditor in charge. The diagram below illustrates the budget time and the actual time taken to complete audit assignments for various Clients which resulted in a budget overrun due to failure to meet the set time:

**Table 2.1: Budget summaries**

Client name	Year	Budgeted time (hours)	Actual time (hours)	Variance (hours)	Budgeted fees (\$)	Actual fees (\$)	Variance fees (\$)
MRCH	2012	360 hrs	480 hrs	-120	6,000	8,000	(2,000)
ZETDC-Bulawayo	2013	432 hrs	576hrs	-144	15,200	20,000	(4,800)
Kwenda High school	2013	108hrs	156hrs	- 48	2,268	3,276	(1,008)
Cormaton Insurance	2012	140hrs	280hrs	-140	3,996	4,500	(504)
TN Harlequin	2012	405hrs	516hrs	-111	9,045	10,148	(1,103)

**Source: BDO Zimbabwe 2012-2013 Audit Budget Summaries**

These were some of the clients observed during the period 2012 to 2013 that experienced budget overruns. The budget overruns are reported to the audit management so as to ensure how best they can do so as to avoid budget overruns in the next audits which may create client dissatisfaction.

## **2.6 Effects of staffing issues in terms of numbers and experience on the audit duration**

According to Rittenberg et al (2011) the auditing firm should ensure that the staff performing the assigned audit work have sufficient experience and are appropriately supervised by audit partners and managers. According to Koletar (2010) an audit engagement generally comprises of one audit partner, one senior manager, two or more managers and a number of audit staff which might include the auditor in charge and the audit assistants. The audit partners and managers should provide audit junior staff with the necessary skills and knowledge through adequate training and development.

Staffing has an impact on the audit duration hence it is of concern that audit management should ensure that its audit staff have the necessary skills and knowledge to perform their audit work effectively and efficiently on time there by avoiding long durations to complete audit assignments. For example an observation was made at BDO Zimbabwe that those who are selected to lead an audit team as Auditors in charge (AIC) in the carrying out of audit

assignments were those who were above level 1 that is only those between level 2 to level 10 because they would have acquired some necessary skills, knowledge and experience and therefore can assist the audit assistants who will be part of the team to perform their work efficiently and effectively on time.

## **2.7 Importance of audit procedures in improving audit efficiency.**

Rachchh et al (2010) defines audit procedures as the ways and means an auditor implements to carry out various audit assignments. The auditors may discuss elements of his overall audit plan and specific audit procedures with the client to improve, the efficiency of the audit and to coordinate audit procedures with work of the client' staff this is according to Gupta (2005)

The audit procedures can be divided into Substantive procedures and test of controls. Jackson and Stent (2010) suggest that test of controls are performed to obtain evidence on whether controls are operating in the manner intended by management that is to prevent, detect or correct material misstatements. The test of controls assists the auditor to determine the risk associated with the client this will in turn help the auditor to determine the time to spend substantiating the balances and totals. For example if the auditor performs test of controls on the client's accounting systems and finds out that they are sound they may spend less time substantiating the balances and totals. However if the system is not sound the auditor will spend more time substantiating on the account balances and totals so as to gather sufficient appropriate audit evidence thereby improving audit efficiency.

According to Dauber et al (2008) substantive procedures are performed to detect material misstatements at the relevant assertion level and provide appropriate audit evidence. In designing the substantive procedures the auditor considers

- the significance of the risk
- the likelihood that a material misstatement will occur, the characteristics of the class of transactions, account balances or disclosure involved
- the nature of the specific controls used by the entity and in particular whether they are manual or automated this is according to Puttick et al (2007).

Analytical procedures involves making comparisons and evaluating relationship among both financial and non-financial data to determine whether account balances appear reasonable this is according to Puncel (2007).ISA 520(Analytical procedures) defines analytical procedures as the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationship that are inconsistent with other relevant information or deviate from predicted amounts. According to BDO audit manual (2006) analytical procedures may represent an effective and efficient source of audit evidence. If auditors gain reasonable assurance from performing analytical procedures therefore the extent of evidence required from other substantive procedures may be reduced. Analytical procedures assist the auditor to gain reasonableness of an account balance or total by comparing with the previous year this improves the auditor's efficiency.

For example if the auditor compares the current trade receivable account balance to that of the previous year and finds out that there is a major variance this brings an attention to the auditor to investigate such a variance this might be represent significant risk related to trade receivables. Imagine if the trade receivable balance for the year 2013 is \$120,000 and for the year 2014 is \$1000, 000 this brings attention to the auditor and he or she might discuss with the client and investigate why there is such variance as the trade receivable balance could have been overstated by the inclusion of fictitious debtors thereby improving audit efficiency.

## **2.8 Effects of budget overruns on the client and the auditing firm**

When external auditors fail to meet the budgeted time initially agreed between them and the client this imposes some negative effects on the Client and also on the auditors. Time represent a cost to the client since auditors charge their fees based on time therefore it is of much concern to the Clients. Buchheit et al as cited in Reckers (2006) argues that if time budgets are used to determine audit fees for instance in a fixed engagement or to provide fee estimates (in a variable engagement) then failure by, auditors to meet set time budgets may affect the client's budgeted profits which ultimately leads to client dissatisfaction .The Client may end up paying up more audit fees than the expected audit fees and as result clients will be dissatisfied.



Another effect to note is that when auditors take more time to complete audit assignments for example if they take a longer time to complete a yearend audit this might delay the publication of audited financial statements.

An observation was also made during audit assignments at various clients, that during year end audits the Client staff would have to forego most of their business time in order to fully respond to auditors, therefore failure by auditors to complete their audit work on time affects the client's business time. Budget overruns may also result in opportunity cost to the firm for example this may result in unbilled fees.

However as far as auditors might want to complete audit assignments on time sometimes this imposes pressure on them. According to Sweeney and Pierce (2006) auditors may respond to time pressures by engaging in other behaviors collectively referred to as quality threatening behaviors such as premature sign-off and manipulation of sample size in order to reduce work to be performed. In as much as auditors try to complete audit assignments within a short space of time especially during peak periods where a majority of clients require their audit services they face pressure which according to [www.textroad.com](http://www.textroad.com) (Accessed 23 March, 2014, 13:00 pm) leads to dysfunctional behavior, job satisfaction, ill health, and poor performance in carrying out the audit workthere by compromising audit quality.

In some instances as the auditors try hard to complete an audit assignment they end up in budget related pressures. According to POB as cited in Reckers (2006) suggest that further budget related pressures may lead to job satisfaction and turnover of audit staff.

## **2.9 Overall of implications of the literature**

Budget overruns are as result of factors emanating from the client forces and actions of external auditors. All parties that are the Client and the external auditors have a significance influence on time. It is therefore necessary that the audit management staff and the client should all play an important role so as to ensure that audit assignments are completed on time in order to avoid budget overruns.

The cause of budget overruns can not only be blamed or pin-pointed on auditors but to some extent the client staff have some impact on time such as lack of co-operation by the client staff during audit assignments.

At this juncture it is worth mentioning that auditors should not perform their audit work hurriedly in order to meet set budgets without complying to applicable laws and regulations such as the international standards on auditing (ISA). The auditors are required to perform their audit work efficiently and effectively and to gather sufficient appropriate evidence so as to enable them to reach a conclusion on which to base an appropriate opinion. However the auditors have also a responsibility to complete audit assignments on time as it also represent a cost to the client but at the same should not compromise audit quality

## **2.10 Chapter Summary**

This chapter has reviewed facts and some work from other authoritative sources and observation drawn by the study that provides guidance and understanding to the research problem. Different authors have given their opinions and views to the subject in question. The next chapter focuses on the research methodology that includes methods of data collection, presentation and analysis formats used.

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter gives a detailed explanation of the research methods and techniques used in collecting data and information. It covers areas such as the research design, target population, sample design; primary and secondary sources and data collection instruments. It also makes an analysis of the sources of data, validity and reliability of data collection instruments as well as the data analysis.

### 3.2 Research design

According to Singh and Bajpai (2008) a research design is essentially a statement of the object of the enquiry and the strategies for gathering the evidences, analysing the evidences and reporting the findings. [www.boundless.com](http://www.boundless.com) (Accessed 30 March 2014, 1:30 pm) cites that a research design defines the study type, research question, hypothesis, variables and data collection methods. A research design is the point where questions raised in the theoretical or policy debates are converted into feasible research projects and research programmes that provide answers to these questions this is according to Hakim (2012). According to Singh and Bajpai (2008) a research design is a mapping strategy which is based on sampling techniques.

According to Kumar (2008) suggest that the function of the research design is to provide for the collection of sufficient and appropriate evidence with less amount of effort, time and money. Singh and Bajpai (2008) suggest that a good research design should be free from bias so that the results can be interpreted reliably. According to Singh and Bajpai (2008) a research design should be carried out before getting the project commences and comprises of certain components which include research method or research strategy, sampling design, choice of the research tools and choice of statistical techniques.

#### 3.2.1 Quantitative data analysis

Quantitative data analysis is the examination of data to identify and confirm relationships this is according to Bamberger (2000).

Quantitative data is measurements in which numbers are used to directly represent the properties of particular fact or situation this is, according to Bamberger (2000). [www.shmoop.com](http://www.shmoop.com) (Accessed 27 March 2014, 3:30 pm) cites that quantitative data is information that can be measured and expressed with numbers. Bamberger (2000) argues that quantitative data is information usually collected and recorded either in numbers or in the form of precoded categories.

### **3.2.2 Qualitative data analysis**

Qualitative data is information that is frequently recorded in the form of descriptive textual reports with little or no categorization this is according to Bamberger (2000). [www.socialresearchmethods.net](http://www.socialresearchmethods.net) (Accessed 28 March 2014, 5:30 pm) cites that qualitative data includes virtually any information that can be captured that is not numerical in nature and the major categories or types include in-depth interviews, direct observation and written documents.

### **3.3 Descriptive study and Case studies**

The research design was based on a descriptive study as well as the case study.

#### **Justification and explanation for the Descriptive research:**

According to [www.ori.hhs.gov/education.com](http://www.ori.hhs.gov/education.com) (Accessed 29 March 2014, 6:30 pm) the descriptive study is one in which information is collected without changing or manipulating the environment. The descriptive study can involve a one-time interaction with groups of people (cross-sectional study) or a study might follow individuals' overtime (longitudinal study) this is according to [www.deanmcdonnel.hubpages.com](http://www.deanmcdonnel.hubpages.com) (Accessed 29 March 2014, 7:40 pm).

The researcher used a descriptive research design because it was the best method that demonstrated relationships and the world as it exists. The descriptive also made it simple to gather findings by way of personal interviews and questionnaires.

#### **Case study:**

According to Woodside (2010) the key objective of a case study is to achieve a better and improved understanding of processes and other concept variables such as participant's self

perceptions of their own thinking processes, intentions and contextual influences. The research was based from the study’s previous experience with BDO Zimbabwe. The case study provides a better understanding and relevant data as the study was associated with the entity.

### 3.4 Population Designs

According to Singh and Bajpai (2008) population is the entire mass of observation which is the parent group from which a sample is to be extracted or will be based. According to Singh and Bajpai (2008) population means the characteristics of a specific group. For example university lecturers of Midlands state university who have some specific features (teaching experience, male and female, academic qualification, teaching attitudes, teaching aptitude just to mention but a few.

The population used the research comprised of the employees of BDO Zimbabwe.

The diagram below illustrates the population of BDO Zimbabwe:

**Table 3.1 Target population**

<b>POPULATION:</b>			
<b>BDO audit staff</b>	<b>Total Population</b>	<b>Sample Size</b>	<b>Sample %</b>
Audit Partners	5	1	20
Audit managers	4	2	50
IT manager	1	1	100
Financial and management advisory manager	1	1	100
IT assistant staff	2	2	100
Audit clerks	40	22	55
Audit supervisors	10	5	50
Audit assistants	15	10	67
<b>TOTAL</b>	<b>79</b>	<b>44</b>	<b>57</b>

### **3.5 Sample design**

Singh and Bajpai (2008) assert that a sampling design means the combined procedure of selection and estimation. Khan (2011) suggests that it is a specific plan to obtain a sample from a given population. According to [www.investopedia.com](http://www.investopedia.com) (Accessed 29 March 2014, 5:15 pm) sampling is a process used in statistical analysis in which predetermined number of observations will be taken from a large population. According to Singh (2008) sampling involves the selection of individuals from a given population in such a way that every individual has the equal chance of being included or taken into the sample. The sample chosen included audit partners, managers, audit supervisors, IT manager, IT assistants and audit assistants. Singh and Bajpai (2008) suggest that the study of the whole population cannot be possible and it is also impracticable therefore sampling reduces cost, time and other factors which are usually occur in the situation of studying the whole population.

### **3.6 Data collection instruments**

The study collected information using both primary and secondary sources in gathering the required information.

### **3.7 Primary Data**

According to Kumar (2008) primary data refers to data collected at first hand either by the researcher or by someone else for the purpose of the study. Khan (2011) argues that information given or collected by individuals and groups also constitute primary data. Kumar (2008) suggests that, primary data collected by some other persons may become the secondary data for another. The following instruments were used by the researcher to gather primary data:

#### **Questionnaire:**

It is a method of obtaining data about respondents by asking them rather than by observing and sampling their behavior, this is according to Khan (2011). There are two common types of questionnaires that the researcher used to gather data at BDO Zimbabwe which were the open ended and closed ended (structure). In a close form type the respondents were required to fetch very short restricted responses by ticking in the alternative or suggested answers. In an open type form the respondents were required to respond descriptively and therefore this form takes more

time than a closed type. According to Khan (2011) a questionnaire should have the following characteristics:

- Construction of the questionnaire should be appropriate, relevant and direct to the problem and reflect quality.
- It should be as precise as possible and to the point so that the respondents should not get bored.
- It should be properly phrased in easiest way with no ambiguity
- It should have a very positive approach
- It must possess exhaustive alternative
- It should be in order in a logical arrangement
- It must avoid personal and embarrassing question
- It should not have calculations

The questionnaire had some advantages to the researcher in that they facilitated the collection of large amounts of information from various respondents within a short of period time and also in a cost effective way. They were also analysed more scientifically and objectively than other forms of research.

### **Personal interviews:**

According to Panneeselvam (2004) a personal interview is a method of data collection which employs the interaction of the interviewer and the interviewee. The components of the personal interview are the researcher; the interviewee and the interview environment this is according to Panneeselvam (2004). The following were the advantages of using interviews to the researcher which were also cited by Mangals et al (2013).

### **Advantages of interviewing:**

- there was improved communication between the researcher and interviewee since there was close face to face interaction
- the researcher had the full opportunity to ask questions by taking the respondent in proper confidence

- It facilitated the most secret confidential and personal data to be obtained through such individual and personal contact.

However the researcher faced some challenges in conducting interviews in that it was a timeous exercise and some respondents were very busy and could not be interviewed properly.

### **3.8 Secondary sources of data**

According to Kumar (2008:57) Secondary data refers to information extracted from original and from which promulgating authority is different from the controlled data collection at first hand. The secondary sources may include government publications, text books and newspapers. The following were the advantages of secondary data to the researcher which were also cited by Kumar (2008).

#### **Advantages of Secondary sources:**

- It was used as basis for comparison with primary data that the study had first collected
- It was helpful because familiarity with such data indicated the deficiencies and gaps hence the study made the primary data collection more specific and more relevant to the researcher's study
- It was more cost effective as the cost of collecting original data was saved

### **3.9 Validity and Reliability**

According to [www.deanmcdonnel.hubpages.com](http://www.deanmcdonnel.hubpages.com) (Accessed 29 March 2014, 4:18 pm) reliability is a term used to describe the consistency of a measure. [www.deanmcdonnel.hubpages.com](http://www.deanmcdonnel.hubpages.com) (Accessed 27 March 2014, 6: 30 pm) also defines validity as a term given to the degree to which a study accurately reflects or assesses the specific concept that the study is attempting to measure. To ensure reliability and validity of the data collected the researcher used the multi-method approach for data collection so as to enable the study to gather sufficient appropriate data. The study also ensured that the questions were specific and clear through conducting a pilot test.



**Pilot testing:**

In order to ensure reliability in the gathering of data the researcher performed a pilot test by sending questionnaires to a sample of the target population in which the researcher selected an audit manager, audit supervisor, audit assistant and an audit clerk at BDO Zimbabwe in order to find out whether the questions designed were not ambiguous, clearly understandable and to ensure that the questions are in a logical arrangement with no personal or embarrassing words. The researcher also selected 5 students in the final year of completion from the Department of accounting at Midlands state university who were also given questionnaires and the interview guide questions to find out if the questions designed were appropriate in gathering the relevant information to the research.

**Results of Pilot testing:****Table 3.2: Resulting of pilot testing**

<b>Sample</b>	<b>Number of Questions</b>	<b>Number of Questions approved</b>
<b>Audit manager</b>	8	7
<b>Audit Supervisor</b>	8	8
<b>Audit assistant</b>	8	8
<b>Audit Clerk</b>	8	6
<b>Student 1</b>	8	8
<b>Student 2</b>	8	8
<b>Student 3</b>	8	7
<b>Student 4</b>	8	8
<b>Student 5</b>	8	8

The questions that were not approved were corrected so as to make them clear and understandable so as to ensure that there is no ambiguity in them.

### **3.10 Data analysis**

The data collected through the use of personal interviews and questionnaire will be analysed through the use of qualitative methods and the results will be presented in the next chapter.

### **3.11 Chapter summary**

This chapter focused on the research design as the basis before the commencement of data collection, methods and sources of collecting data as well as the merits of the data collection instruments.

## **CHAPTER 4: DATA PRESENTATION AND ANALYSIS**

### **4.1 Introduction**

This chapter reflects, presents and gives a detailed analysis of findings obtained and gathered during the collection of data. The data collection instruments were used to gather primary data through the use of questionnaire and interview questions. The data collected or gathered will be presented using tables, graphs and pie charts as well as other relevant diagrams. Focus will be on primary data as well as secondary sources as some information was acquired from desk research. The information and data gathered was in relation to the objectives of the research ultimately addressing the sub research questions of the research.

### **4.2 Questionnaire analysis**

According to Marsden and Wright (2010) response rate is the proportion of people, who responded out of those who could have responded. Peffermann and Rao (2009) assert that a response rate is a ratio of number of respondents to the number of eligible units. According to [www.utexas.edu/academic.com](http://www.utexas.edu/academic.com) (Accessed 23 April 2014, 1:00 pm) the response rate is the proportion of respondents who responded out of those who could have responded. The response rate was desirable as the researcher managed to achieve a 90% respondent rate. Dick et al (2013) suggests that a response rate above 55% is desirable.

Witlatch (2000) suggests that a response rate is usually expressed as a percentage of the number of people who return or respond to a survey and he also argues that in general a response rate of between 70% to 80 % is considered good. Basically The researcher designed 44 questionnaires based on sample size but managed to get back 40 questionnaires on time from the total respondents of 44. Only four of the respondents did not reply back these are one IT assistant staff, one audit Clerk, financial and management advisory manager and the IT manager. The table below shows the detailed questionnaire response rate:

**Table 4.1: Response to Questionnaire**

<b>Respondent</b>	<b>Questionnaire sent</b>	<b>Replies</b>	<b>Response rate</b>
Audit partner	1	1	100%
Audit manager	2	2	100%
IT manager	1	0	0%
Financial and management advisory manager	1	0	0%
Audit clerks	22	21	95.4%
IT assistant staff	2	1	50%
Audit supervisors	5	5	100%
Audit assistants	10	10	100%
<b>TOTAL</b>	<b>44</b>	<b>40</b>	<b>91%</b>

**4.3 Interview analysis**

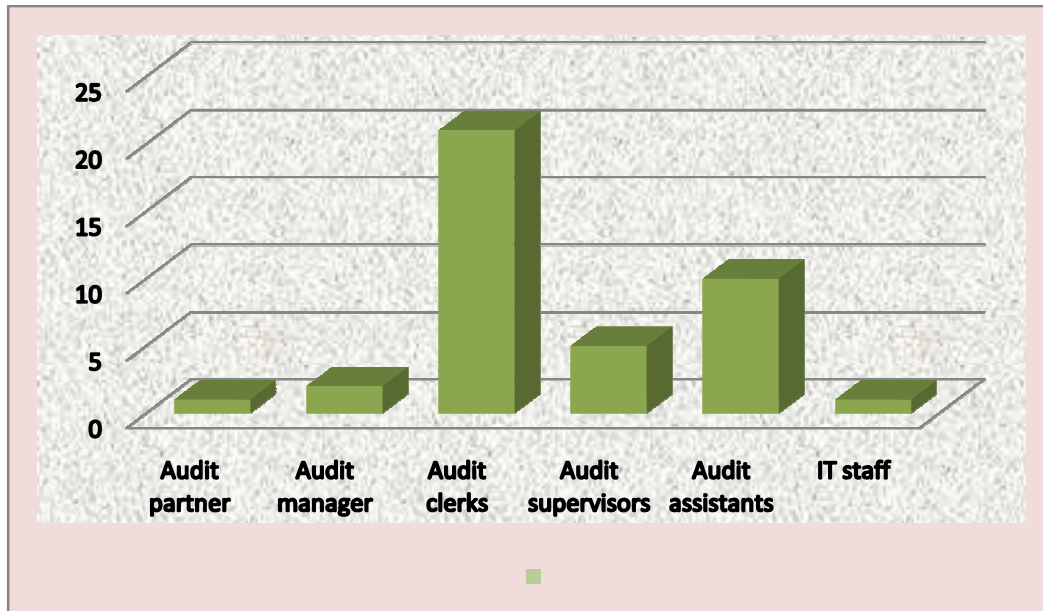
The response rate was generally very good considering that interviews tend to be long and usually take time. The researcher planned to interview 12 personnel from the audit office but he managed to interview 10 audit staff but the researcher is of the opinion that the findings brought an enrichment and significant relevance to the study.

**Table 4.2: Response to Interviews**

<b>Respondent</b>	<b>Number of staff to be interviewed</b>	<b>Successful interviews(Responses)</b>	<b>Response rate</b>
Audit manager	2	2	100%
Audit assistants	1	1	100%
Audit clerks	9	7	78%
<b>TOTAL</b>	<b>12</b>	<b>10</b>	<b>83%</b>

#### 4.4 Effects of Budget overruns on the audit firm and its relationship with the Clients

This objective sought to establish the effects of budget overruns on the audit firm and their relationship with their clients. The budget overruns will resultantly lead to increase in audit fees which would not have been budgeted for by the client ultimately leading to client dissatisfaction and loss of clients. Gupta (2005) cites that budget overruns have led to loss of clients to the audit firm.



**Figure 4.1: The number of audit staff of the opinion that budget overruns leads to loss of clients to the audit firm and client dissatisfaction**

All respondents (100%) have shown that they are of the opinion that the budget overruns which is as a result of failure to meet set time budgets strongly leads to loss of clients to the audit firm and that it creates client dissatisfaction.

#### **Corresponding interview question**

What are the consequences of failing to meet set budgets on your firm and your relationship with the clients?

## Response

The audit management and staff have positively expressed that the budget overruns lead to loss of clients and client dissatisfaction. Sweeney and Pierce (2006) suggests that budget overruns are extremely dissatisfactory to the clients and result in loss of time to the clients. The respondents have highlighted that the client's dissatisfaction was merely as a result of increase in unbudgeted audit fees and loss of time since during the audit the clients are supposed to cooperate and attend to the auditors.

## Analysis

All the audit staff indicated that the budget overruns lead to loss of clients and client's dissatisfaction.

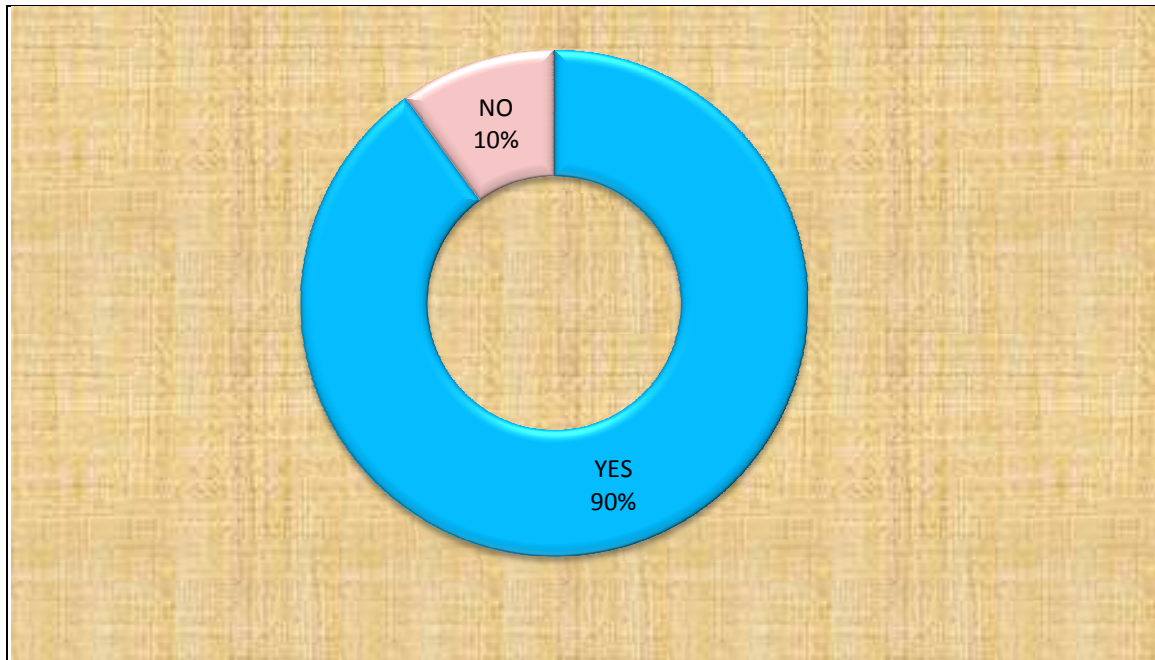
### 4.5 Do Clients affect your ability to complete audit assignments on time?

This question sought to find out from the respondents on whether the clients affect the auditor's ability in meeting set time to complete audit assignments requested by a client. The responses were recorded in Table 4.3 and Fig 4.3.

**Table 4.3: Reflection of the respondents who said YES or NO on the above question**

Respondents	Yes	No
40	36	4

The table above illustrates that 36 respondents were of the opinion that clients do affect the auditor's ability to complete audit assignments whilst 4 were of the idea that the clients do not affect the auditor's ability to complete audit assignments on time.



**Figure4.2: Do Clients affect your ability to complete audit assignments on time?**

The above diagram shows that 90% of the respondents who said (YES) were of the idea that clients do affect the auditor’s ability to complete audit assignments whilst 10% of the respondents were of the opinion that clients do not affect the auditor’s ability to complete audit assignments (NO).

**Corresponding Interview question**

To what extent has your clients contributed to budget overruns?

**Responses**

90% of the respondents said (YES) to the fact that the clients do affect the auditor’s ability to complete audit assignments on time in a number of different ways. Some of the ways suggested were that clients do not cooperate during the time auditors are performing their work. Dauber et al (2009) cites that clients have an impact on budget overruns as most of them fail to cooperate properly during an audit assignment. According to Ainapure et al (2009) argues that failure to cooperate by the clients significantly affects the time of completion for various audit assignments undertaken by auditors. The respondents suggested that most clients normally delay in providing the required information or documents requested by the external auditors. Some suggested that

most of the clients did not adequately prepare for audit assignments even if audit checklists were sent to them providing information on what will be required by the auditors in their execution of their duties. Some of the audit staff also argued that client's attitude towards auditors also affected the auditor's ability to complete work on time this was attributed to their unwillingness to work properly with auditors.

The 10% respondents were of the opinion that clients do not necessarily affect the auditors' ability to complete audit work on time. Buchheit et al cited in Reckers (2006) suggest that client staff always feel in secure when auditors are around and therefore try in as much as ways as they can to ensure that auditors complete their assignment and go .The respondents argued that the presence of the auditors at the client's premises makes the working environment for the client staff tense and therefore client staff usually cooperate with the auditors so that the auditors may finish work as soon as possible.

They also suggested that when auditors are performing their audit assignments the client staff usually sacrifice their time of performing their daily duties so that they can attend to the auditors which reduces their time to concentrate on daily business activity. Therefore clients try in as much effort as they can so that the auditors can complete their work and enable them to perform their normal duties on a full time basis. They also suggested that the auditors are also reluctant in that they do not make adequate follow ups on the client to ensure that client has understood what will be required in order to avoid wastage of time.

### **Analysis**

To a larger extent it seems that the clients do affect the auditor's ability in some ways. Although they may be other factors other than the actions of the client that may affect the auditor's ability to complete audit assignments.

#### **4.6 Are time budgets being prepared before execution of audit assignments?**

This question sought to determine whether time budgets are prepared before the execution of audit assignments the responses were recorded in Table 4.4 and Fig 4.3.

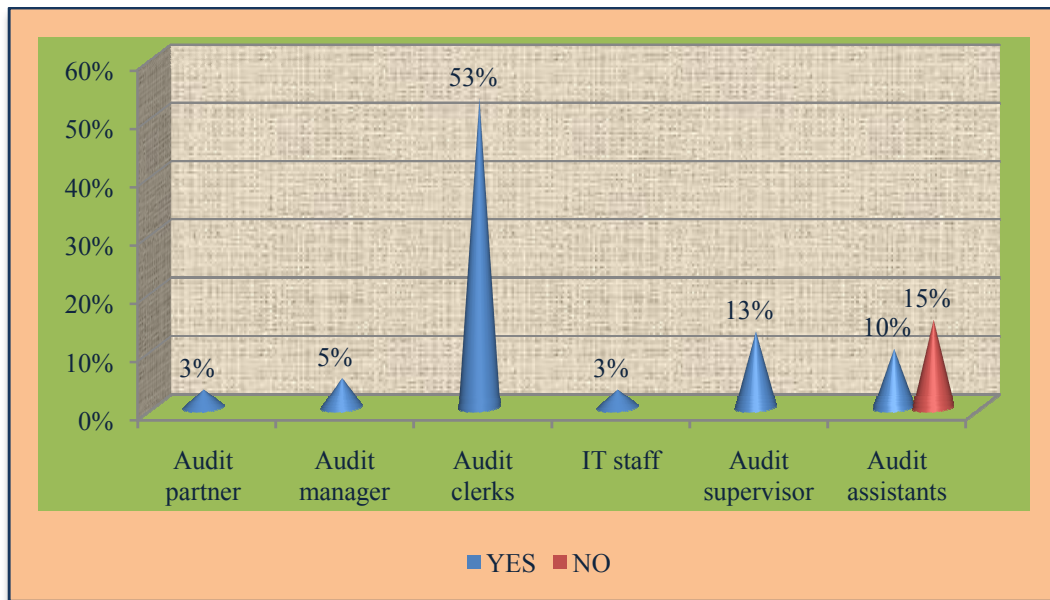


**Table 4.4: Responses by various audit staff on whether time budgets are prepared**

RESPONES	Audit partner	Audit manager	Audit clerks	IT staff	Audit supervisors	Audit assistants	Total
YES	1	2	21	1	5	4	34
NO	0	0	0	0	0	6	6

From the above table a total of 34 respondents were of the idea that time budgets are prepared prior to commencement of an audit assignment this total comprised of all audit managers, audit manager, audit clerk, IT staff, audit supervisors and only 4 audit assistants were not of the idea that the time budgets were being prepared before the commencement of any audit work.

**ARE TIME BUDGETS PREPARED BEFORE ANY AUDIT WORK**



**FIG 4.3: Bar graph showing whether or not time budgets are prepared**

A total of 85% of the respondents said YES (agreed) that the time budgets are prepared before execution of audit assignments. The respondents who said (YES) comprised of the entire selected audit partner, audit managers, audit clerks, IT staff, audit supervisors and only 15% of the audit assistants said (NO). According to Buchheit et al (2006) time budgets are prepared before the commencement of any audit work to be performed upon agreement with the client.

## **Responses**

85% of the respondents argued that time budgets are prepared prior to commencement of any audit assignments requested by the clients. 15% was attributable to audit assistants who are normally students on industrial attachment who have less than a year at the audit firm and therefore some of them were not aware or did not know whether the time budgets were formulated before commencement of any audit work since they were not involved in any time budgets formulation. Only 4 out of 10 audit assistants who were of the opinion that time budgets are prepared argued that it was only because of information they had heard from the most senior people in the audit office that time budgets are prepared before execution of audit assignments, since they are not involved in budget formulation. The budget formulation is only done or formulated by the top audit staff for example the audit partner, audit manager and the audit clerks.

## **Analysis**

The audit management which comprise of the most senior people and personnel who have worked in the audit firm for a longtime are very aware that time budgets are prepared before commencement of any audit work for a specific client since they directly are involved in budget formulation.

Whereas some audit assistants are not aware whether time budgets are prepared before the execution of audit assignments since they are not involved in the budget formulation.

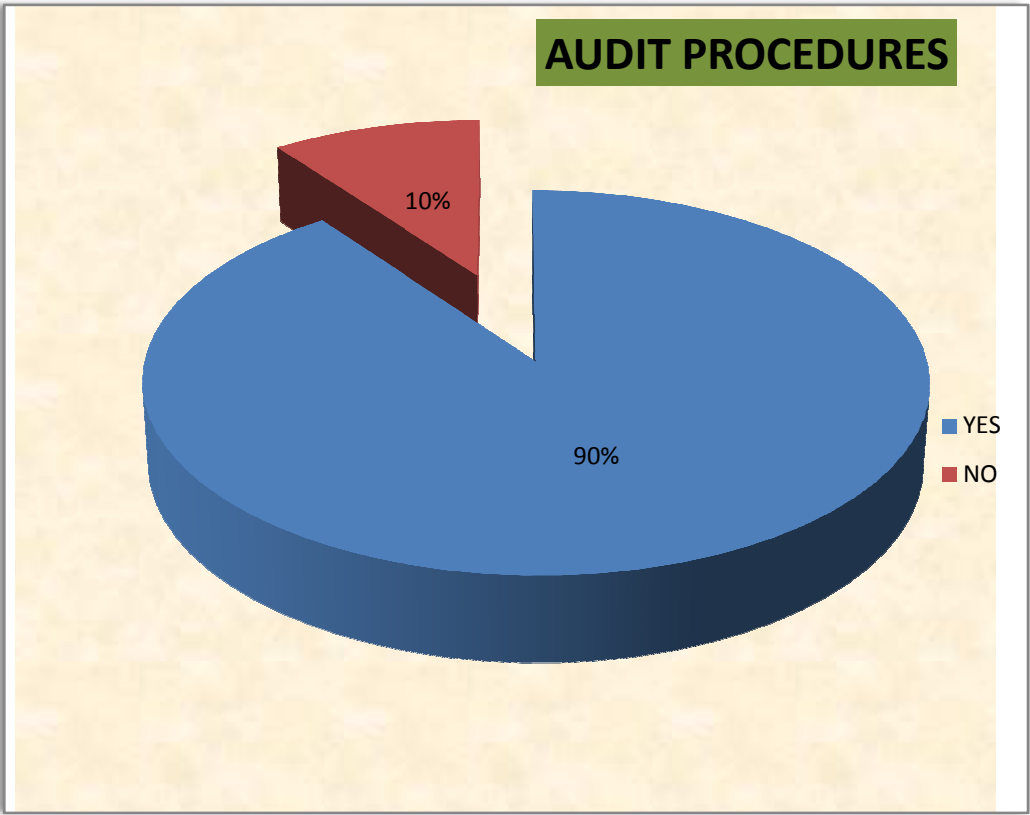
### **4.6 Can audit procedures be used to improve audit efficiency?**

This question aims to determine if audit procedures can aid the audit firm in improving audit efficiency. It responds to the research objective cited in chapter 1. The response were recorded in the table and shown in the pie chart.

**Table 4.5: Number of responses as to whether audit procedures can improve audit efficiency**

RESPONES	Audit partner	Audit manager	Audit clerks	IT staff	Audit supervisors	Audit assistants	Total
Yes	1	2	20	1	3	9	36
NO	0	0	1	0	2	1	4
<b>TOTAL</b>							<b>40</b>

The above table illustrates that a total of 36 respondents were of the opinion that audit procedures can help improve audit efficiency while only 4 of the respondents were of the idea that they do not improve audit efficiency.



**FIG 4.4: Respondents who were of the opinion that audit procedures improve audit efficiency (YES) and those who did not agree (NO).**

90% of the respondents were of the opinion that audit procedures can improve audit efficiency while 10% were not of the idea that audit procedures improve audit efficiency.

### **Corresponding Interview question**

#### **To what extent can audit procedures improve on audit efficiency?**

Generally most of the interviewees expressed their opinion that audit procedures can improve audit efficiency. They suggested that to a larger extent the audit procedures assists the auditor to gather sufficient and appropriate evidence that enables them to draw conclusions on which to base their overall opinion. Dauber et al (2008) suggest that the substantive procedures enable the auditor to detect material misstatements at the relevant assertion level and provide the requisite audit evidence They argued that for every audit assignment that an auditor has to undertake or perform they should be means or ways that should be carried out in order to ensure audit efficiency hence the need for audit procedures. Rachh et al (2010) argues that the audit procedures are the ways and the means an auditor adopts to carry out various audit assignments.

The respondents also suggested that audit procedures helps the auditor to determine risk associated with a specific client for example through test of controls the auditor them to determine the time to spend substantiating the balances and totals. As a result this will consequently lead to improved audit efficiency.

However 10% of the respondents were of the opinion that they do not necessarily improve audit efficiency. They suggested that audit procedures may be performed in inappropriate way or incorrect procedures may be used or implemented and this will ultimately affect the results and therefore compromise audit efficiency. This is further revealed by Jackson and Stent(2010) who argues that detection risk is a function of the effectiveness of an audit procedure and its application by the auditor may arise because the auditor selects an inappropriate audit procedure, misapplies it or misinterpret the results of the test. They also cited that auditors may also misinterpret results or their findings which then affects their overall opinion therefore compromising audit efficiency.

## Analysis

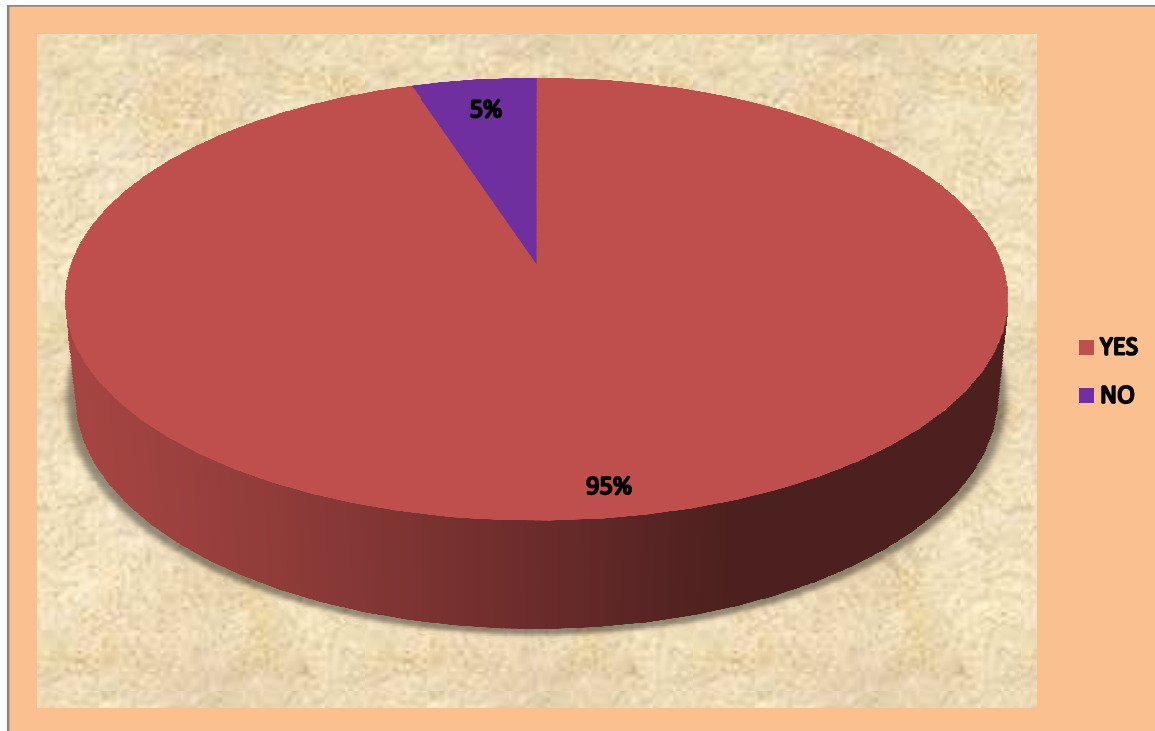
To a larger extent audit procedures can improve audit efficiency but however appropriate procedures should be performed for various audit assignments that are requested by clients and the results or findings gathered should be interpreted correctly.

### 4.7 Do staffing issues in terms of numbers and experience have impact on audit duration?

**Table 4.6: Responses as to whether staffing issues have impact on the audit duration**

Respondents	Yes	No
40	38	2

The table above indicates that 38 respondents acknowledged that staffing issues in terms of numbers and experience have an impact on the audit duration while 2 respondents were of the opinion that staffing issues in terms of numbers and experience do not impact on the audit duration. The results are also depicted below using a pie chart.



**FIG 4.5: Do staffing issues impact on audit duration?**

95% of the respondents were of the opinion that staffing issues in terms of numbers and experience affects the duration of the audit.

#### 4.8 What are the factors considered in preparing your audit time budgets?

The aim of this question is to determine the factors that are considered by the audit firm in preparing audit time budgets.

#### Responses to the Questionnaire

The factors considered in budget formulation which were cited by the various respondents include factors such as the size of the client. Peffermann and Rao (2009) suggest that the size of a client is a crucial factor which should be taken into account when formulating time budgets. All respondents cited this factor with expression that it is of significance because basically large clients require more time than small clients. The client size ranges from small, medium to large clients. The following data was provided by the audit management with regards to budgeted hours allocated to various clients depending on their Size.

**Table 4.7 SIZES OF THE CLIENTS**

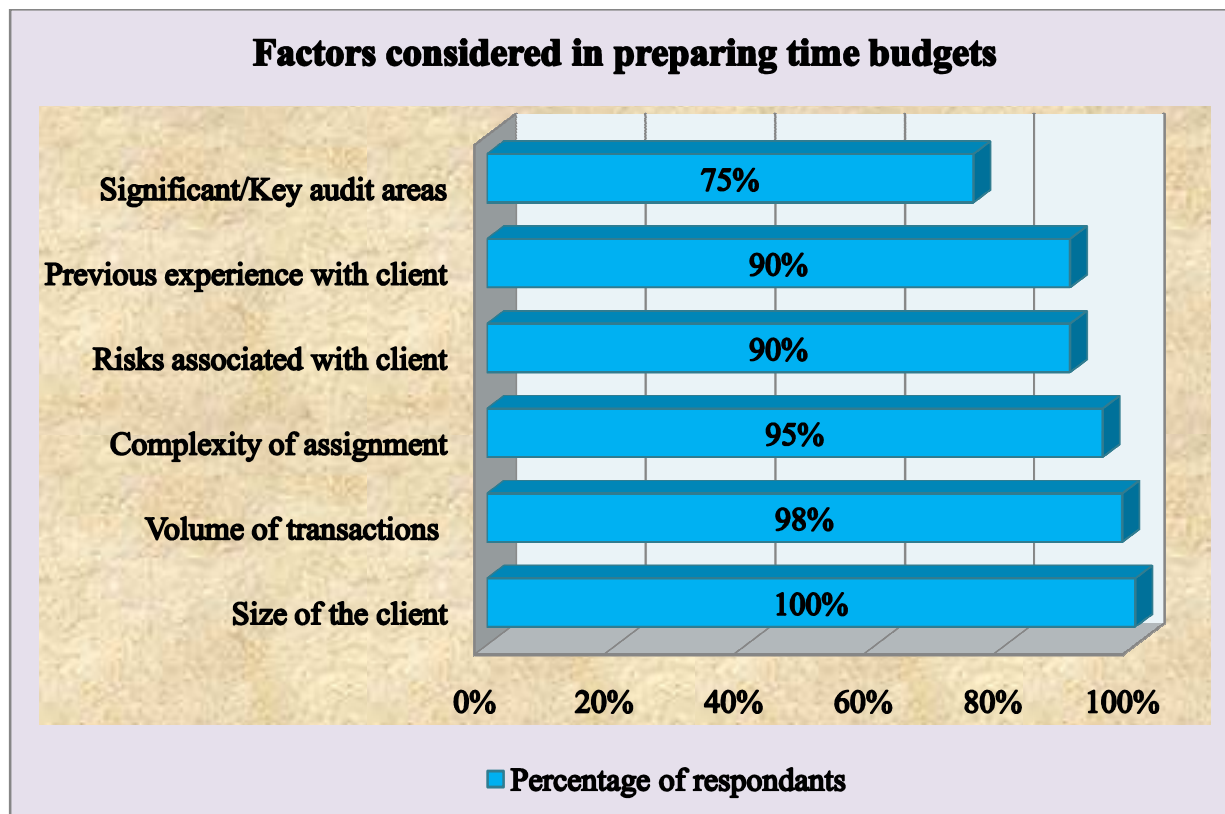
SIZE	CLIENT NAME	BUDGETED HOURS
Large	ZETDC	432
Large	ZMDC	440
Large	Capital Bank	430
Medium	Plan international	250
Medium	YEET	270
Small	Jairos Jiri centre	108
Small	Kwenda High School	120

**Clients time budget plan schedule: 2013**

The above diagram reflects an example of clients according to their size against their budgeted hours. From the information gathered above clients are allocated budget hours according to their size that is depending on their size. Gray and Manson (2008) suggest that various sizes of clients require different time allocation. For example large clients are allocated more budget hours than small to medium clients. All respondents (100%) cited this factor which indicates that it is of significance factor when preparing time budgets for various clients. Some of the factors that were cited include the following complexity of the assignment, volume of transactions, time budgets relating to the previous year, previous experience with the client, key audit areas, risks associated with the client. The following table reflects the number of respondents against the factors they stated or cited.

**Table 4.8: Factors considered in preparing audit time budgets as per number of respondents**

Factor stated or cited	Number of respondents	% of respondents
Size of the entity	40	100%
Volume of transactions	39	98%
Complexity of audit work	38	95%
Risks associated with the client	36	90%
Previous experience with the client	36	90%
Significant/Key audit areas	30	75%



**Figure 4.6: Factors to be considered in preparing time budgets**

**Corresponding interview question**

**What are the factors considered in preparing your audit time budgets?**

**Response:**

Generally the interviewees indicated a number of factors that are considered in preparation of audit time budgets. The reason why the researcher could not get a 100% response from all the factors stated by other respondents was due to the fact that some audit assistants were not conversant with other factors considered in time budget formulation. Since they are never involved in the budget formulation. From the 10 interviews conducted by the researcher a number of factors considered in budgetformulation were suggested. The following factors were suggested by the various respondents which include the size of the entity, volume of transactions, complexity of the assignment, risks associated with the client, previous experience with the client and Significant or key audit areas. According to Ramos(2006) the factors considered in time budget formulation include the audit materiality levels, prior year's time budgets and its



relationship to actual time and the key audit areas .The respondents argued that these factors are very crucial in budget formulation as they would in turn affect the duration of an audit. They also suggested if one is to carry out an audit efficiently and effectively one has to establish for example the risks associated with the client for instance when one has to audit a financial institution there is more risk for that specific client for example FBC Holdings(First building society) since they are involved directly in the business of financial services therefore there is more risk because of large number of cash transactions which are carried out on a daily basis than when one is to audit for example a farm for instance TN Livestock trust.

This therefore implies that more time must be allocated to clients that are more risky than those that have less risk. Gray and Manson (2008) also suggests that time budgets are directly dependent on the auditor's evaluation risk. Ainapure and Ainapure (2009) suggests that when risk is assessed as high this implies that more time will be needed to perform more substantive tests.

Some interviewees also suggested that it is important to determine the complexity of the transactions or assignment to be carried out. They argued that more time should be allocated to complex assignments so as to ensure that the assignment is carried out properly in order to avoid making an inappropriate opinion. They also argued that the previous experience with a client was also factor that may be considered for example for clients that they have some previous experience (existing clients) with can be allocated less time than new clients since they are in position to understand the entity and its environment quickly.[www.business.highbeam.com](http://www.business.highbeam.com) (Accessed 29 April 2014, 6:00 pm) also argues that new audit clients may need more time because of the time needed to learn the client's systems. They also explained that key or significant audit areas should be considered in time budget formulation since they would impact on the audit duration and audit efficiency.

## **Analysis**

The factors cited and suggested by the various were almost similar since they are involved directly in the budget formulation except for the audit assistants who are not involved in budget formulation.

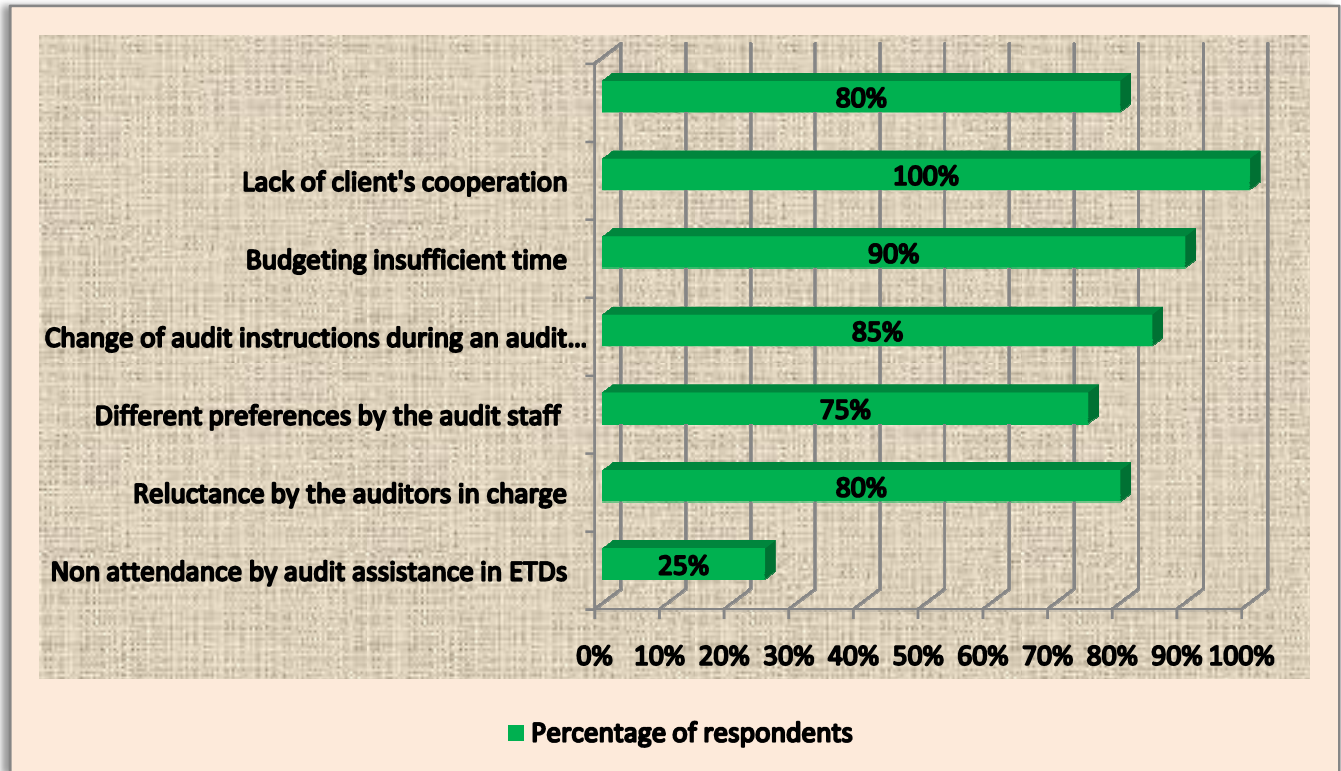
#### 4.9 To identify the Causes of Budgetoverruns

The aim of this objective is to determine the causes of budget overruns during execution of audit assignments. The following table reflects the total number of respondents to the factors they cited.

**Table 4.9: Causes of budget overruns cited by the number of respondents**

<b>Causes cited</b>	<b>Number of respondents</b>	<b>% of respondents</b>
<b>Lack of client's cooperation</b>	40	100%
<b>Budgeting insufficient time</b>	36	90%
<b>Change of audit instructions</b>	34	85%
<b>Different preferences by the audit staff</b>	30	75%
<b>Non attendance by the audit assistance in ETDs</b>	10	25%
<b>Reluctance by the Auditor in charge(AIC)</b>	30	80%
<b>Performance of additional work requested by client</b>	30	80%
<b>Lack of client's documentation of its internal controls</b>	30	80%

**Figure4.7: Causes of budget overruns cited by the different number of respondents (%).**



The above diagram depicts the causes of budget overruns cited by various respondents.

**Corresponding interview question: What are the causes of budget overruns during the execution of audit assignments?**

This question sought to determine the causes of budget overruns during the execution of audit assignments. All respondents were of the opinion that lack of cooperation by the clients was one of the major factors that led to budget overruns as most clients do not cooperate properly during execution of various assignments. They also suggested that in most instances the audit management does not budget properly to cater for sufficient time or sometimes formulates unrealistic budgets which are not possible to meet. Pickett (2010) suggests that when budgets are not properly set this may contribute to excess hours being charged resulting in budget overruns. This is also supported by Buchheit (2006) who suggest that when budgets are not set properly, auditors can experience an excess or shortage of required personnel on individual audit assignments resulting in an opportunity cost to the firm.

Therefore if there is a shortage of the required personnel for an audit assignment this might lead to more work being done by few individual as result the auditors might fail to meet set which result in budget overruns.[www.internalauditorsonline.org](http://www.internalauditorsonline.org) (Accessed 21 March 2014, 4:00 pm) also cite that an audit firm may allocate an inadequate number of hours for auditors to complete specified audit procedures which results in budget overruns.

They also suggested that the change of audit instructions by the audit staff for example by the audit manager during the execution of performing audit work such as change of materiality levels during audit assignments also leads to budget overruns because it results in re-do of work.80% of the respondents argued that the performance of additional work requested by the clients led to budget overruns as they would not have been initially budgeted for. Pickett (2010) suggests that the request by the clients for the auditors to perform additional work not initially budgeted for leads to excess hour being charged which results in budget overruns.

75% of some respondents also suggested that the different preferences by the audit staff for example the audit manager may also lead to budget overruns for example if the audit manager is not comfortable with the presentation of the working papers those the presentation has been accepted by other managers if that presentation does not satisfy him he will raise more review points during the review of the work already done leading to re-do of work consequently leading to more time being spent on the client.

Some of the interviewees especially the audit assistants all argued that the auditors in charge (AIC) were very much reluctant in explaining to the audit assistants some aspects of the audit work and the key audit areas as well as the operations of the client which is very necessary since most of the execution is done by the audit assistants. This affects their understanding to the assigned work and as result will take more time to complete assigned work.

25% of the audit assistants also suggested that non -attendance in engagements team discussions (ETD) makes it difficult to understand what significant areas they supposed to pay special attention to hence tend to take more time on assigned work.

## **Analysis**

It seems that the auditors in some ways contribute to budget overruns in many different ways but the clients themselves are also an agent causing budget overruns in various ways.

### **4.10 Summary**

This chapter presented the research findings in the form of data and information necessary to address the objectives of the research and answer the research question. The next chapter will give recommendations and conclusion based on the research findings.

## **CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter focuses on conclusions and recommendations based on findings gathered by the researcher through data presentation and analysis and also experience with the specified audit firm under study.

### **5.2 Summary of the study**

Chapter one focused on the background of the study in which the researcher highlighted the causes of budget overruns as well as its effects to the client and the audit firm. The basis of the research was established by setting out the objectives, main research question, subresearch question, justification of the study, delimitation and limitation of the study as well as the definition of key terms and acronyms.

The researcher went on to literature review in chapter two in which the researcher highlighted facts and ideas from other authors as well as from a contextual perspective to support the study.

The research methodology were implemented in gathering information necessary in enlightening the relevance of the study under review. The information gathered was acquired through primary data using questionnaires and interviews as well as secondary data for instance the time budget summaries for various clients. The questionnaires were successful with a response rate of 91% and the interviews had a response rate of 83.3%.

### **5.3 Research findings**

The audit firm prepares audit time budgets before commencement of any audit assignments requested and agreed upon by the client that is after accepting the engagement. The factors considered in preparation of time budgets include size of the entity; complexity of the assignment to be performed, prior's year time budgets, risks associated with the client, key audit areas and whether the client is a new or an existing client.

The failure by the audit firm leads to budget overruns which are undesirable to both the audit firm and the client. They lead to loss of clients as they cause dissatisfaction to clients. They lead

to increase in unbudgeted fees to the clients. It also represents a cost to the audit firm as they sell time. They may also delay publications of audited financial statements.

The issue of staffing has an impact on audit duration and therefore the audit firm should ensure that its staff has necessary knowledge and experience to perform audit assignments this can be acquired by various ways such as embarking on training programs.

The budget overruns are as a result of number of factors which are lack of cooperation by the client where by clients might delay in providing the required information on time and also their lack of preparedness for audit assignments. They are also caused due to preparation of unrealistic budgets which fail to allocate sufficient time for various audit assignments. Furthermore they have also been caused by the change of audit instructions during an audit assignments for example change of materiality template this leads to re-do of work. Also the different preferences by the audit staff for example the audit managers creates frustration and re-do of work ultimately leading to more time being spent at the client.

They have also been caused by the mere fact that auditors in charge(AIC) are so reluctant to clearly explain audit instructions as well as some important aspects of the audit to audit assistants yet they perform the execution of the audit work this makes it difficult for them to complete audit work on time. Furthermore the audit assistants are not allowed to attend the engagement team discussion which might make it easier for them to understand what exactly they are supposed to look at and work on.

#### **5.4 Conclusions**

From the analysis of data findings it was concluded that to a larger extent the budget overruns are caused by the external auditors than the clients. Most budget overruns are as result of the external auditors. The researcher concluded that the major causes of budget overruns were failure to prepare realistic budgets, lack of client's cooperation and change of audit instructions during an audit work such as materiality levels which has an impact on sample size.

## 5.5 Recommendations

### Ways to overcome budget overruns

- Buchheit et al as cited in Reckers (2006) recommends that Proper and realistic budgets should be prepared that caters for sufficient time to complete audit assignments in way that auditors have enough time to complete the work requested by the clients. According to [www.nasba.org](http://www.nasba.org) (Accessed 1 May 2014, 11:59 am) the audit management should allocate a reasonable amount of time to complete engagements.  
[www.accounting.financial.tax.com](http://www.accounting.financial.tax.com) (Accessed 21 March 2014, 3:32 am) suggest that for audit management to ensure that they prepare realistic time budgets they can prepare them with reference to the previous time taken to complete the same assignment for the same client especially if it is an existing client.
- An emphasis must be made to the clients before commencement of any audit assignment that they must cooperate throughout the performance of the audit work. Dauber et al (2009) suggests that the auditors should advise the clients staff to cooperate throughout the performance of the audit assignment.
- Auditors in charge (AIC) should clearly explain audit instructions and other important aspects of the audit assignments to audit assistants and not assume that the audit assistants are already conversant with what they are supposed to do.
- Rachchh et al (2010) recommends that Clients should clearly outline all the tasks that they want the external auditors to perform for them prior to performance of the audit assignment so as to avoid performance of additional work not initially budgeted for which will ultimately affect the time of completion.
- Pickett (2006) suggests that to avoid the issue of different preferences by the audit staff the audit management should establish specific standards and procedures which every audit staff should adhere to this will help to reduce the burden of doing the work more than once in order to meet one's procedural standards.
- According to Puncel (2007) the audit firm should encourage the client to create or update its documentation relating to its internal controls so that it reduces the auditors from spending more time performing risk assessment procedures so as to gain an understanding of the client's internal controls.



- Vallabheni (2005) recommends that when many audits are over-budgeted when there is no evidence of progressive reviews by supervisors or audit managers the audit partner should ensure that decisions to revisit time budgets for an audit are made immediately after the preliminary survey. This helps to control audit projects and avoid budget overruns.

### **5.6 Areas of further Study**

The researcher proposed that attention by further researchers be focused on the impact of budget overruns on the auditing firm in relation to its competitors in the auditing environment.

### **5.7 Chapter summary**

This chapter gave a conclusion based on findings obtained by the researcher and relevant recommendations to the research understudy. It has also indicated an area of further study.

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## Appendix 1- Cover letter



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### LETTER OF INTRODUCTION

MIDLANDS STATE UNIVERSITY

Department of Accounting

P Bag 9055 Gweru

30 March 2014

BDO ZIMBABWE

Kudenga House, 3 Baines

Harare

Dear Sir/Madam

### **RE: RESEARCH PROJECT ASSISTANCE**

I'm currently a 4<sup>th</sup> finalist student at the above mentioned institution and I am currently carrying out a research entitled, "**An investigation into causes of the budget overruns in execution of audit assignments**". I'm currently studying towards a Bachelors Honors degree in Accounting.

I would like your assistance by completing this questionnaire attached to this letter .The information you provide will be treated with confidentiality.

Your contribution to this research is greatly appreciated.

Yours faithfully

Signature .....

Bwerinofa Jacob

Appendix 11-Questionnaire



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## RESEARCH PROJECT QUESTIONNAIRE

### QUESTIONNAIRES TO BDO ZIMBABWE

#### SECTION A: BACKGROUND INFORMATION

##### INSTRUCTION

**1. Do not write your name on the questionnaire**

1. What is your gender?

Male

Female

2. Position in the Company .....

3. Years with the Company

Less than 5 years

5- 10 years

More than 10 years


#### **SECTION B: CAUSES OF BUDGET OVERRUNS DURING EXECUTION OF AUDIT ASSIGNMENTS**

4. Are the time budgets being prepared before execution of audit assignments?

Yes

No

5. What factors can be considered in preparing your time budgets?

.....  
.....  
.....  
.....

6. Do clients affect your ability to complete your audit assignments?

Yes

No

7. What may be the possible effects of failing to complete audit assignments on time to your company and your relationship with your clients?

.....  
.....  
.....  
.....  
.....

8. Can audit procedures be used to improve audit efficiency?

Yes

No

9. Do staffing issues in terms of numbers and experience have impact on audit duration?

Yes

No

10. What are the causes of budget overruns during the execution of audit assignments?

.....  
.....  
.....

.....  
.....  
.....

11. What measures can you suggest to help reduce the risk of failing to complete audit work on time resulting in budget overruns?

.....  
.....  
.....  
.....  
.....

**Thank you for your participation!!!**

## Appendix 111-Interview Guide



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### Research Project Interview Guide

#### **INTERVIEW GUIDE TO BDO ZIMBABWE STAFF**

##### **Questions**

1. What are the factors considered in preparing your audit time budgets?
2. What are the causes of budget overruns during the execution of audit assignments?
3. What measures can you suggest to help reduce the risk of failing to complete audit work on time resulting in budget overruns?
4. To what extent has your clients contributed to budget overruns?
5. What are the consequences of failing to meet set budgets on your firm and your relationship?
6. How has your firm contributed to failure to meet set time in performing assigned work?
7. To what extent has audit procedures improved on the audit efficiency?
8. Are your clients satisfied with the current level of professional services?



