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Structure and Professional Judgement in Audit Planning

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Abstract *Auditor´s professional judgement is often discussed. The aim of this paper is to see how structure affects auditor's professional judgement in audit planning. The empirical analysis is based on qualitative interviews with seven auditors with different experience. The study shows that there is not a trend toward less structure in audit firms, rather more. It is clear that auditor´s professional judgements are affected by the degree of structure and structure occurs in most of auditors' work. The study shows that structure and professional judgements are not two separate things; instead they support each other. Even if auditors have access to structure when planning an audit they need to make professional judgements, especially when identify risks and decide materiality.*

Introduction

Auditors working methods have been subject to changes during the last 25 years (Fogarty and Rigsby 2010). There has been a substantial growth in information technology in the audit process for several years, especially in Big Five firms (Now Big Four) in order to improve their efficiency (Manson, McCartney and Sherer 2001). Paperless audit is becoming more common as audit clients change to paperless systems and audit systems are developed to allow auditors to complete most of their tasks online (Bierstaker, Burnaby and Thibodeau, 2001). At the same time, a transfer from system and transactions auditing to risk-based auditing has led to that audit firms focus more at their clients' areas with a higher risk. The use of risk-based auditing together with

the increase of IT creates more routine procedures in the auditing process (Manson et al. 2001). Currently auditors use a quantitative method which emerged in the 1990s at the same time as the auditors started to work with risk auditing (Fogarty and Rigsby 2010).

Doost (1999) explains that even if IT-systems may give audit firms an advantage, some risks will arise from the fast evaluation of IT, which also has to be considered. Not only the hardware develops quickly, but also the software, software which auditors use in their work. Software is a part of a prepared structure created by IT programmers, which can make it hard for auditors to understand how different parts in the programs connect which each other or why it works in certain ways.

The auditing process has been regarded either as very structured and mechanical or as a judgemental, client dependent process (Smith, Fiedler, Brown and Kestel, 2001). Smith et al. (2001) continue to describe that there is a trend towards a more systematic work in auditing decision making.

Öhman (2005) writes that auditors are criticized for their inability to fulfill their obligations against investors and other stakeholders. A reason for that may be that the auditors do not focus on complex audit objects. Öhman (2005) continues to explain that the auditors themselves think that they are not competent when it comes to auditing those complex issues. Marton (2011) writes that every situation is unique and every case must be adapted and cannot be standardized. In the past accounting questions were resolved with the auditor's judgements and in discussions between auditors, different opinions led to an answer. The international harmonization today requires a central unit which coordinates interpretations in the accounting. At the same time the auditor must make professional judgements which can be more difficult nowadays.

Auditors around the world have access to international standards published by the International Federation of Accountants (IFAC), which is the worldwide organization for the accounting profession. IFAC

publishes different International Standards on Auditing (ISA) and one essential part in these standards is the auditor's professional judgement. In for example ISA 200 paragraph 16 we can read: "*The auditor shall exercise professional judgement in planning and performing an audit of financial statements*" (IFAC Handbook 2010 p. 78).

Professional judgement is necessary to provide a correct audit process. Interpretations of ethical requirements and informed decisions must be made during the audit process. Those interpretations and decisions cannot be made without relevant knowledge and experience of the facts and circumstances. Professional judgement is expected from auditors with high training, knowledge and experience which means that he or she has the competence to achieve reasonable judgements (IFAC Handbook 2010).

Auditors are obliged to make professional judgements in auditing processes when performing the audit. Our paper investigates how and when auditors make professional judgements in the first stage of an audit engagement, the planning stage, and how the degree of structure in the planning affects those judgements.

Theoretical Framework

Information Technology in the audit process

Bierstaker et al. (2001) claim that on-line audit systems are becoming more common and that they will be the primary audit tools for auditors, who will gather audit evidence electronically. This progress, towards a more technical supported audit, can free the auditors from many routine tasks and allow them to focus more on judgements, which is required for the specific client. It can also reduce the number of unnecessary procedures performed (Cushing and Loebbecke, 1986; Bierstaker et al. 2001). More focus could be put into understanding the client´s business and assessing different risks (Bierstaker et al. 2001). Manson et al.

(2001) write that the use of risk-based auditing together with the increase in IT creates more routine procedures in the audit.

Doost (1999) claims that instead of that users learn and understand how to manage parts of their work for real, they only have to take specific information from the whole into their IT-systems to receive processed information. The problem is that it might create a risk if the auditor does not know how it works for real and simply rely on that output from programs are correct.

Auditors have not been able to keep up with the fast technical development (Doost 1999). Those who create the program understand better how it works than auditors who are actually using it. Doost (1999) concludes that the audit profession has to be protected otherwise there will be others who will do their work better.

Audit managers are under constant pressure to improve the efficiency as much as possible. Audit managers can improve the efficiency by increasing the understanding and the use of computer assisted audit tools, especially audit software (Braun and Davis 2003).

Decision aids can enhance audit judgement but never replace it. Decision aids are based on past practices and should not be considered reliable (Sullivan 1984).

The trend in the auditing profession

Cushing and Loebbecke (1986), Dirsmith and McAllister (1982) and Smith et al. (2001) write about a trend among audit firms where they are moving towards a more structured approach. An explanation of the increase in structure may be that the structure is used as a defense against lawsuits, growing competition in the audit profession and a high staff turnover (Dirsmith and McAllister 1982). The audit branch is also going towards a more systematic working process, as a result of the increased use of quantitative methods and their well documented procedures (Smith et al. 2001).

To define the judgemental process, IFAC's definition can be used:

> *Professional judgement - The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement* (IFAC Handbook 2010, p.26).

A definition of structure, on the other hand, is found in Cushing and Loebbecke´s (1986) article:

> *A structured audit methodology is a systematic approach to auditing characterized by a prescribed, logical sequence of procedures, decisions, and documentation steps, and by a comprehensive and integrated set of audit policies and tools designed to assist the auditor in conducting the audit* (Cushing and Loebbecke 1986, p. 45-46).

The audit method

Cushing and Loebbecke (1986) write that a structured audit method is systematic, though it is a process with a logical series of steps to follow (Cushing and Loebbecke 1986). MacLullich (2001) shares Cushing and Loebbecke´s (1986) thoughts and writes that the audit method is characterized by a structure into series of steps and components which are planning, decisions and components, and it is these predetermined steps that must be completed. Auditors work with structure in forms of established standards and checklists which may exclude the judgement (MacLullich 2001). Smith et al. (2001) have noticed that there is a dramatic difference between the degrees of systematical work in firms auditing methodologies (Smith et al. 2001). Auditors within unstructured firms may use the judgement to make necessary changes inside the audit program and for example add or delete steps depending on the case. Higher use of judgement in the audit process makes that auditors in unstructured firms develop a deeper understanding of how all the steps are working and the relationship between them, how to

understand evidence from other tests and possible errors in the reports (Myers 1997).

With the structured firms they are instead relying on predetermined audit programs, analytical models (Myers 1997), statistical sampling and structured internal control (Schroeder et al. 1996; Kinney 1986), which lead to a prescribed audit plan. They also use formal rules for integrating audit test results (Kinney 1986). They are using an oppressed audit program to perform substantive audits and are not obliged to make changes inside the audit program. Instead they go through preprinted steps to gather all information for completing the task (Myers 1997). Structure may be a disadvantage if all the steps it creates have to be followed each time, even if some steps might not be necessary for the specific mission (Cushing and Loebbecke 1986). Myers (1997) writes that auditors probably do not participate in the deeper level of understanding because of the use of preprinted steps.

Structured auditors may ignore relevant information that does not exist in their audit program because they do not make their own structure, instead they follow standardized questionnaires (Myers 1997). Structured audit firms rely on audit evidences they receive from their templates and not on their professional judgement, which lead to more errors are made in those firms. The authors say that more research needs to do a finding (Schroeder et al. 1996).

If auditors review too much their clients have to pay a higher fee if the audit firms do not charged themselves with the extra hours worked. The level of competition in the audit profession prevents that auditors overauditing. In absence of specific and quantitative guidance Sullivan (1984) thinks that auditors both audit too much and audit too little. Overauditing and underauditing does not offset each other. This is the case in both structured and unstructured firms and it is not solved by an increase in level of structure in audit process. An unstructured approach at least allows the auditor to consider the information (Sullivan 1984).

Auditors in unstructured firms tend to use their professional judgement to find evidences they need to perform the audit (Schroeder et al. 1996; Kinney 1986), while auditors in structured firms look for information which fits in their audit decision tools (Schroeder et al. 1996). Schroeder et al. (1996) write that mechanical, more structured firms tend to require statistical sampling methods. Statistical methods are not necessary for unstructured firms and it is only used in some situations (Kinney 1986). Whatever method that is used, it will affect the result of the audit (Schroeder 1996).

Structure appears to contribute to increased efficiency in ordinary situations

Maclullich (2001) says that statistical models cannot measure all aspects, but Myers (1997) found positive evidences for the structured approach. Structured decision methods can help auditors to focus on relevant information. Structured aids are designed for this purpose and will help auditors to be more effective. Efficiency will also improve when structure reduces the time for developing and organizing different strategies for audit problems (Myers 1997). Structure tends to be more successful in simple and stable environments, while the less structured approach seems to be more successful in complex and dynamic environments (Dirsmith and McAllister 1982). Pricing for audit performed by firms with a structured working method is also lower in average than audit performed by less structured firms (Myers 1997).

Myers (1997) refers to a study on the effects of audit program structure and performance and this study revealed that audit program structure increases audit effectiveness. Even experienced auditors within a firm with structured guidance in an analytic risk task performed considerably better than auditors without structured guidance. The evidence above was discovered in typical audit situations, like locating errors in inventory lists. Auditors from structured audit firms seem to indicate a higher effectiveness in the audit than auditors from unstructured firms, at least in typical audit situations. Inexperienced auditors from

structured firms are also expected to show a higher effectiveness in typical audit situations than inexperienced auditors from unstructured firms (Myers 1997).

Structure in form of standardization and routines are likely to create procedures which should fit into every case but all assignments do not fit in to these forms of structure (MacLullich 2001). In Myers (1997) own study she has seen that experienced auditors from unstructured firms perform significantly better than experienced auditors from structured firms in uncommon audit situations. Cushing and Loebbecke (1986) explain that structure may lead to inefficient auditing processes when the auditors have to solve problems that they are not used to. But structure could possibly make some auditors less efficient in all fields. Whenever there is a lot of structured work the auditor may be mechanical in his or her thinking. A mechanical thinking can lead to that an auditor looses the professional judgement, when it is needed. Auditors may feel that a lot of their responsibly is taken away by the audit structure and that they do not have the opportunity to use their own judgement. Some highly competent auditors may leave their jobs for this reason to a more challenging one (Cushing and Loebbecke 1986). Myers (1997) result supports the theory that auditors from unstructured audit firms develop a deeper understanding than auditors from structured firms.

Even though Myers (1997) saw that unstructured firms develop a deeper understanding, Cushing and Lobbecke (1986) have seen some advantages with structure. An advantage gained by structure in the auditing is the ability remain competitive while audit firms grow bigger and the audit clients chose their auditor more wisely. Structure is also a tool to help follow an increasing regulation and legislation in the audit branch. The authors have also identified trends towards more complex data processing and increased complexity in the economic environment, where structure could be helpful.

Structured firms look at previously known factors while unstructured see each case as unique

Structured firms may think that auditing performed by different people should be performed in exactly the same way and in the end give the same result whoever made the audit. Audit firms that are less structured tend to use a lower degree of structure while performing an auditing and give a bigger scope to individual auditors' professional judgement (Schroeder et al. 1996;Kinney 1986). Further Smith et al. (2001) mean that firms which are working a lot systematicaly tend to focus their audit on parts which are familiar, concrete and relatively structured. Those are parts which can be seen as quantitative (Smith et al. 2001). Structured auditors focus on quantitative data and tend to ignore anything that cannot be quantified (Sullivan 1984). Audit firms which are working a lot systematical, may in both their planning and conduct of their audit reduce the importance in assessment of qualitative information (Smith et al. 2001; Sullivan 1984). This qualitative evidence can and should affect audit judgements and efficient audit cannot be performed if qualitative information is ignored. A structured audit approach that is based completely on quantitative information is likely to produce deficient audits. An audit structured completely on quantitative algorithms cannot give the level of reliability necessary to comply with generally accepted auditing standards (Sullivan 1984). However, structure can help to ensure that GAASs (General Accepted Audit Standards) are followed in the working processes (Cushing and Loebbecke 1986).

On the other hand, firms which work less systematical tend to have a more balanced focus on both quantitative and qualitative parts in their auditing of evidences. A lower degree of systematical work requires more judgemental considerations from the individual auditor (Smith et al. 2001). Auditors in unstructured firms seem to work with every case separately and are encouraged to deal with problems where individual judgement is important (Myers 1997). In unstructured firms many

decisions are delegated to a lower audit level compared to decisions in structured firms (Dirsmith and McAllister 1982) (Myers 1997).

Structure and Judgement is not separated things

MacLullich (2001) presents a view on structure and judgement where structure sets a limit for auditors' judgements. The structured approach is a framework for judgement which both enables and limits the individual effort, which in turn affects the judgement. The structure decides which judgements that should be made and in which order. Standards and procedures assume that auditors make judgements when evaluating a client's situation and applying detailed rules. Structure and judgement must not be seen as separate things, rather structure can be considered as guidance and a benchmark and then the final decisions are made by the individual auditor. It is the judgement that makes an opinion if the structure reflects the truth in financial statements (MacLullich 2001).

Also Cushing and Loebbecke (1986), (Kinney 1986) and Schroeder et al. (1996) are on the same track as MacLullich (2001). Schroeder et al. (1996) and Cushing and Loebbecke (1986) write about differences in structure among different audit firms, which are categorized as professional and mechanical firms. Cushing and Loebbecke (1986) and Kinney (1986) use structured and unstructured terms in their classification. Schroeder et al. (1996), Kinney (1986) and Cushing and Loebbecke (1986) emphasize that those categories are not each other's opposites. They explain that there are not just two parts, structured and unstructured, instead there are firms which can be categorized between those different parts. Those firms which are categorized in the middle can be seen as semi-structured or partially structured firms.

The mechanical organization is mainly structured by technical skills to standardize auditors work and increase efficiency in the firms. They are also based on commitments to gain legitimacy and conform to legislation as well (Schroeder et al. 1996).

Professional firms tend to be more unstructured and are in comparison to the mechanical firms more based on complex and ambiguous goals. They are also based on their ability to deal with problems depending on the case, and not to handle all problems in the same way. Auditors in those firms tend to demand more independence (Schroeder et al. 1996).

Schroeder et al. (1996) point out that audit firms which have been called *"professional"*, are firms which work less with structure than those which have been called *"mechanical"*. The first of them, are not as dependent by templates as mechanical audit firms are.

Auditors' socialization affects the judgement

McLullich (2001) writes that a necessary and informal process within audit firms is the introduction with a series of learning experiences with norms and procedures on how an audit will be made. It takes up to three years before an individual becomes familiar with the internal structures and it is in the first two or three years auditors processes with norms, procedures and perspectives. This socialization process disturbs the auditors in their first years of employment when the auditors learn to use judgement in a more structured and ritualized way.

Structure does not come from the individual auditors. It emerges from ongoing processes with tailoring audit processes and changes of the existing knowledge. This will lead to non-reflective learning because these tailored audit processes will be accepted as norms instead of being verified. As a result decisions and power are transferred from the individual auditor to those who structure their roles and work. A risk with this transfer is that the individual auditor's judgement can be lost directly during the first years of work (MacLullich 2001).

In absence of rules or ambiguity the auditor must rely on emotional resources to reach conclusions. For obtaining critical awareness and subjective reasoning in audit judgement, auditor education and internal training should take place in a less prescribed way in the first years the

of audit practice (McLullich 2001). Cushing and Loebbecke (1986) do not share McLullich's (2001) thoughts and think that structure can make it easier for trainees to understand how tasks are solved although they are following logical steps.

Planning stage and materiality

As a first step auditors must start to understand the client's organizations and its environment (Dirsmith and McAllister 1982). Cushing and Loebbecke (1986) describe that structured firms put a lot of emphasis on the audit planning, to understand the client's business, identify critical audit areas and divide the work. The authors say that there are also differences between firms which have been categorized into the same group in their division. In the group of highly structured audit firms there was for example a clear difference in the use of checklists that are used to guide the auditors through all necessary steps. Unstructured firms are categorized into that part for different reasons, for example that their audit tools do not cover an entire audit process.

John Mullarkey (1984) who advocates the structured approach thinks that structure is neither overly rigid nor lacking in direction and trust. It provides a disciplined approach based on risk assessment to determine the audit effort. Structured firms start to understand the company´s business when they plan the audit which is vital for doing a focused audit. In the planning phase they decide on which part audit attention should be. Location, size, control systems and of course what the company produces are factors that influence the planning. In next stage they focus on internal controls. If their reliance on internal controls will be significant they go further and test and evaluate the system. The big companies have bigger need for a well-developed control system compared to the smaller companies. When auditing smaller companies it becomes more necessary to test transactions rather than the control system (Mullarkey 1984).

While unstructured firms do not add internal control systems in their audit planning, structured firms tend to rely on evidences that they are used to control (Schroeder et al. 1996). Therefore unstructured firms have more acceptances for different looking audit planning and reports (Schroeder et al. 1996; Kinney 1986).

Donald Eugene Tidrick (1987) found that there are no differences among senior managers and partners when they make judgements about materiality, maybe because of that they are viewed as a homogenous group. Tidrick's (1987) empirical research focused on the former big eight (Now Big Four) with the conception that they are a very homogeneous group, which he found was not the case at least in his study about judgements of materiality in the planning phase. The differences in audit technologies are one factor which may influence auditor's judgements and must be considered in studies about the big audit firms. These differences between the big audit firms which are supposed to be homogenous makes it hard for standard setting bodies when establishing specific materiality guidelines. Planning stage judgements are primarily based on quantitative considerations and the evaluation judgements are more influenced by qualitative considerations (Tidrick 1987).

Tidrick (1987) found that structured firms have higher thresholds and greater variability than the unstructured firms. The result with the thresholds was not surprising because structured firms work with firm-wide guidelines and that allow them to have higher materiality thresholds. However structured firms did not have lower variability than unstructured firms which Tidrick (1987) thought because unstructured firms are not provided with these detailed guidelines like the structured firms. Morris and Nichols (1988) have also found variability in auditor materiality judgements. Differences in judgement consensus were found between former Big Eight firms and they also noticed a positive association between audit judgement consensus and the degree of audit firm structure. Morris and Nichols (1988) think that audit structure may influence audit judgement.

ISA 320 deals with materiality and this standard is used in both the planning and performing an audit of financial statement. This standard states that judgements about materiality are affected by the size or nature of a misstatement or a combination of both. It is the auditor´s professional judgement that determines the materiality and it is affected by the auditor's perception of the financial information needs of users of the financial statements. When planning the auditing, the auditor makes judgements about the size of misstatements that will be considered material. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement (ISA 320).

Method

For gathering empirical evidence we have interviewed seven auditors. We prepared a semi-structured questionnaire with opened questions. We also prepared possible follow-up questions which we used depending on what the auditors answered. We think that qualitative data together with follow-up questions gave us more detailed answers from the auditors than if we had solely used a quantitative method.

Three out of seven auditors are approved auditors and the other four are auditor assistants. We made this separation because we wanted to see if experienced auditors differ in any way in their views compared to assistants. We thought that assistants would maybe be more outspoken than the experienced auditors, which we later discovered was not the case. The experiences of the auditors vary as table 1 beneath shows have they have been working in the business field from three to 35 years.

Table 1, Auditors experience

Auditor	Experience in years	Title
A	14	Approved
B	3	Assistant
C	6	Approved
D	4	Assistant
E	35	Approved
F	3	Assistant
G	3	Assistant

The interviewed auditors come from four different audit firms, three firms from the Big Four and one from a smaller audit firm. Our expectations were to have at least on firm outside Big Four for possible differences between big and small audit firms.

All auditors received our interview questions at least two days before our visit, which we think has led to deeper answers. Neither the auditors nor the firms are mentioned in our article which we clarified for all respondents before we started. Anonymity was important and a naturally choice for us; without this we are sure that the answers would not have been truthful.

Empirical analysis

An attributive trend towards more structure

Already in 1982, Dirsmith and McAllister (1982) wrote about a trend towards more structure in the audit branch. Afterwards also Cushing and Loebbecke (1986) and Smith et al. (2001) have written about a trend towards more structure. Three out of the seven interviewed auditors, A, E and F directly said that they have seen and still see that structure increases in their working methods. Auditor E has actually been in the audit business field since before Dirsmith and McAllister (1982) wrote about the trend. E said that there is a lot more regulations and that the audit branch is more monitored today. Auditor A and F agree with E's thoughts and both said that there are more regulations today, that is so even though auditor F only had short career so far. They explain that the increasing in regulations leads to more mandatory steps in the auditing and, therefore, the structure has also increasing. Auditor A also said that there is a lot more IT in the work in comparison to when he/she began his career.

Auditor B partially sees a trend towards more structure. B explains this and says that there has not been much more incoming structure since the start of his/her career, but there is a lot of changes going on with the structure that already exist. Those changes in for example IT-programs can be seen as an increase in structure.

Three auditors, C, D and G actually said that they have not seen any trend towards more structure. There is a possibility that those auditors were not thinking about regulations as structure, which all of the auditors that confirmed a trend towards more structure pointed out. Auditor C said precisely like B and F that the present structure goes through changes, but in contrast to the other two, C does not see those changes as an increase of structure. Auditor F explained that many of the changes are made because of new regulation; those regulations add new mandatory steps in their IT-programs which are built to follow current regulation. If auditor C had that in mind while answering the questions is impossible for us to say. Auditor G said that the audit business field already is extremely structured in the working process and he/she could, therefore, not see a trend towards more structure.

Auditor D said that there is a trend towards more judgement and less structure and mathematic calculations in the auditing working processes. Auditor D may experience that because of his/her short experience in the business field and, therefore, the auditor's judgement has evolved a lot during the last years. Probably auditor D feels that there is a good possibility to make judgements to a wider extent than before in his/her career and, therefore, he/she sees less structure in the working processes.

The auditors who said that they do not see a trend towards more structure have been in the business field between three and six years, and there is a possibility that it is too short time to see a clear trend. Even though we received very different answers about a possible trend from the auditors we think that there has been and still is a trend towards more structure in the auditing working processes. IT has increased a lot since the start of the careers of the auditors with a long experience in the audit business field. For the auditors with only some years experience there have mostly been changes in present structure and increased regulation which have lead to a more structured working process. Those changes have affected the auditors with longer experience as well.

IT - an important part of auditor's work

Nowadays, IT is a big part of an audit firm's structure and four of the interviewed auditors, A, D, E and F find that they are completely dependent on IT in their work. Auditors C and G think that they are very dependent on IT in their work and only auditor B claims that there is not any dependence of IT in the work.

Braun and Davids (2003) write that audit managers have to improve their firm's efficiency and that they may do this by increasing the employees' understanding and use of computer assisted audit tools. The interviewed auditors agree relatively that auditing without the IT tools they possess would be very inefficient; this is the case also for auditor B who said that his/her work was not dependent on IT.

Doost (1999) explains that auditors have not been able to keep up with the fast development in IT and that has created a risk. Auditors do not know good enough how their IT-programs work or how different parts connect with each other. Four of the interviewed auditors explained that they have competence enough to handle the IT-programs that they use, without any difficulties. Auditor B actually explains that everyone who works at the firm has enough knowledge in their IT-programs.

Also auditors A, E and G claim that they have competence enough, but not in all aspects. G finds that more knowledge in their IT-programs would increase the efficiency a lot. Auditor A and E explain that they have enough knowledge in the parts they use and which help their main tasks. E said that more knowledge would give the possibility to accomplish more, while A wish for more knowledge in those programs which are not used for main tasks.

There is clear reason why all of the interviewed auditors think that their knowledge in their IT-program is at sufficient. The auditors explain that their IT-programs are easy to use; some of the interviewed auditors claim that if they have basic knowledge in auditing are they able to use the programs. Only auditor G claims that the knowledge which is needed to use their IT-programs depends on which programs the specific individual is supposed to use. Some specialists need to have very specific knowledge in some program or in parts of programs. Also auditor G finds that standard IT-programs are easy to use.

Structure and Judgment should not been seen as separate parts

Myers (1997) writes that structured auditors may ignore relevant information because they follow standardized questionnaires and do not make their own structure. Schroeder et al. (1996) also think that structure exclude auditors professional judgements if they rely on evidences from templates. All auditors in our research believe after all that structure creates several advantages. The experienced auditors A and D believe that structure creates efficiency for audit firms. Auditors A and G also think that structure will increase quality in their work. The

apparent main advantage with structure seems to be that auditors can use it as support for their memory. With structure they can avoid missing something in audit processes because structure serves as a template. This seems to be the case especially for auditor assistants because they made clear that structure helps them to perform the audit. Also the experienced auditors agree that structure helps them to not forget anything but they all noticed a potential risk that especially inexperienced auditors do not think outside the structure. Auditors A and D explain that this risk will be reduced when assistants subsequently gain more experience. Auditor D said *"We must have structure in our work, but it shall not take over"* (Auditor D, Our translation).

Already in 1982 Dirsmith and McAllister (1982) wrote that audit firms have a high staff turnover and it could be one explanation to the increase of structure. Auditors A, D and G think that structure creates consensus in the audit and it will make it easier to share information inside the audit team, which is seen as an advantage. If auditors think like A,D and G, that structure creates consensus in the audit, Schroeder et al. (1996) and Kinney (1986) find that they can be classified as structural auditors. Auditor D thinks that there still is a high staff turnover and structure help new team members to easily understand earlier work.

Sullivan (1984) writes that auditors both overaudit and underaudit in absence of specific and quantitative guidance. However this is not solved by a higher degree of structure; instead Sullivan (1984) thinks that the unstructured approach allows auditors to at least consider the information. Two of our interviewed auditors, A and B, share Sullivans (1984) thoughts to some extent. They admit that structure can cause overaudit when inexperienced auditors follow all steps inside the structure even if it is not necessary in every case. Cushing and Loebbecke (1986) find that structure in that case will be a disadvantage for audit firms.

Maybe auditors review these unnecessary steps in uncommon situations which leads to overaudit, which in turn leads to a disadvantage. Structure may be more successful in simple and stable environments (Dirsmith and McAllister (1982), in uncommon situations structure instead will lead to inefficient audit processes (Cushing and Loebbecke 1986).

When auditors work with a lot of structure they may become mechanical in their thinking and auditors can lose their professional judgement because of it. This means; auditors do not have opportunities to use their own judgement because structure takes away their responsibilities (Cushing and Loebbecke 1986). The experienced auditor C is sure that structure affects their judgements and thinks that auditors would have been more aware without structure; however it would be very inefficient the auditor finds. Even auditor E, an experienced auditor, thinks that judgement is affected by structure. The auditor explained that regulations recently start to focus much on the planning and it will force auditors to think before something happens. The auditor assistant G thinks that judgements are affected but more in a positive way; structure makes auditors aware of risks and on issues that should be considered. The other auditor assistant F noticed some negative aspects with structure and claims that auditors may lose their capacity to think by their own because of structure, they have to think outside the structure.

Structure and professional judgement must not be seen as separate things which two auditors noticed. The auditors B and D told us that structure requires professional judgements and structure is the basis for professional judgements. Remarkable is that auditors B and D work as assistants and their views differ from the experienced auditors' thoughts we wrote about earlier. As they have worked a much shorter time than the experienced auditors, they may not be aware of risks with structure. However, assistants B and D are supported by McLullich (2001) thoughts that structure sets up a limit for the professional judgements. Neither Schroeder et al. (1996) or Cushing and Loebbecke (1986) think that firms can be divided into only structured or unstructured.

Professional judgements is important while planning an audit

Auditors must start to understand client´s organization and environment (Dirsmith and McAllister 1982) and put a lot of emphasize on the planning (Cushing and Loebbecke 1986). Auditors are also going towards risk-based auditing (Manson et al. 2001) and it became clear during our interviews. Every interviewed auditor explained that they start to identify risks in their clients' businesses and try to understand their activities. According to John Mullarkey (1984) this process is a structural approach. To discover risks and to understand clients' businesses Auditor C explains that they begin with a meeting together with their client. One exception seems to be with small clients because auditor G claims that, principally there is no planning when auditing small companies, despite the fact that audit standards requires it. Auditor A further indicates that the planning of smaller companies is often very similar because it is made by young auditors. Maybe because they follow structure in a more detailed way than experienced auditors, but this is only our own thought. One assistant, B, made clear that they follow structure entirely when audit small companies. Maybe they audit smaller companies in a more structural way when it becomes more necessary to test transactions rather than control systems which John Mullarkey (1984) wrote.

When auditors discover risks and understand a client´s business, they start to plan the audit based on what they found, explained Auditor B. Even if Auditor B also declared to us that they use a standardized way when planning an audit, all interviewed auditors made clear that they make changes depending on their clients.

Most of the auditors claim that the planning stage differs if it is a new or a current client. Auditor A explains that they already know much about current clients and how they act. Auditor C claims that they already know the risks and know the competence of client's financial staff. Auditor C continues to explain that they look back at previous years and

risks and usually know where to focus, although they discuss new incidents. A long-term assignment will be less planned compared to a new and bigger according to Auditor E.

All of the interviewed auditors find that it is important to identify risks and arrange meetings with both the client and the former auditor in the beginning of a new assignment. Auditor A explains that:

> *Basically we have to understand the client, understand the company, understand the business; if we do not understand this we cannot judge the risks in the company. If we cannot judge the risks, we do not know what to focus on in our auditing* (Auditor A, Our Translation).

There are many changes in the planning stage which depends on several factors. Out of both Auditor A and Cs answers it appears that auditors start to control client´s internal control systems to see if they are reliable, otherwise they do a substantial review. Auditor B explains closer that if the reliance on client's control systems will be high, auditors go further and test and evaluate the control systems which John Mullarkey (1984) also writes. Four out of seven auditors consider the sector which clients operates in and make changes in the planning. Only two of the auditors mentioned anything about the complexity in the business. Two of the experienced auditors, A and E, discussed going concern and its impact on the planning. If clients seem to have problems with going concern auditors must look closer at their liquidity for example and include it in the planning. Also Auditor D touched on liquidity because changes in society´s economic circumstances affect liquidity which in turn must be considered in the planning. Finally, if clients are well-behaved affects how much the auditors will review according to Auditor F.

Auditors C, D and E declared very clearly that they make professional judgements all the time. It is only the responsible auditor who makes key judgements according to auditors A and C. Auditor A added that the responsible auditor consider information from other auditors in the team when making judgements. Auditor A continue to explain that an

experienced auditor dares to take more risks and know what level they should use when auditing.

The most common issue that requires professional judgements are when auditors judge key risks and essentials. Even if auditors insert information and numbers in automatic programs means auditor D that they still always make professional judgements. Auditor G made an interesting statement that auditors stay within the structure because laws and regulations require it.

It also revealed that professional judgement is common when determine materiality means auditor A. Determination of materiality is not a simple mechanical calculation and involves the exercise of professional judgement (ISA 320). Tidrick (1987) writes that the planning stage judgements are primary based on quantitative considerations which partially appear to be the case while six out of seven interviewed auditors use an automatic calculated materiality. Auditor E differs from the others and do not use any automatic calculation and thinks that there is a risk with using automatic templates. Noteworthy is that auditor F who works in the same audit firm as auditor E explained that they have and use an automatic template for materiality.

In this automatic calculation the auditors use different parameters like result after financial items, result before tax, equity and net sales. What the auditors chose to use depends on the client´s business. Auditor C finds that materiality is not so important for smaller companies. These smaller companies are often owner-managed and every thousand crowns are important for them. Both auditors C and F try to understand which needs a third part has. Auditor D explains that they sometimes know which materiality they want and do their choice depending on that.

Even if the auditors use automatic calculations they all underlined that they are not obliged to use the value from it. Auditor A deviates from the template more than 50% of the times and auditor F finds that they often receive an understated materiality from the template. Tidrick (1987) writes that there is no difference between senior managers and partners

when they decide on materiality, but according to auditor F it seem to be different at least between experienced and inexperienced auditors. The experienced auditors often increase the materiality that assistants originally decided explained auditor F. Morris and Nichols (1988) have also found variability in materiality judgements in former Big Eight and noticed a positive correlation between audit judgement consensus and the degree of audit firm structure.

Conclusions

With all the information gathered, we can conclude that there is not a trend toward lesser structure in the audit branch. A lot indicates for a trend towards even more structure, a trend Dirsmith and McAllister (1982) wrote about already in 1982. Since then authors as Cushing and Loebbecke (1986) and Smith et al. (2001) have written about the trend. In the past, this trend has been clearer, as the auditors with long experience claimed that IT has been developing a lot since the beginning of their careers. This has lead to that audit firms had to keep up with the development of IT in the society; for the audit firms that has brought more structure into their working processes.

Nowadays there is a lot of structure in auditors' work processes, but there are many changes going on in the existing structure. There are changes made in existing structure to increase the efficiency, but mainly these are changes in existing structure made as a result of new and increased regulations. Interviewed auditors see increased regulation as an increase of structure, which seems reasonable although more regulations add new mandatory steps. Those mandatory steps are included in audit tools, more specifically in IT-programs and auditors receive a more structured approach.

Structure seems to occur in most of auditors work and it can lead to increased efficiency and support for the memory. It is clear that the use of structure affects auditor´s professional judgements in different ways. It is both positive and negative for auditor's professional judgements.

There are risks that auditors do not think outside the structure, but structure also seems to help auditors to know when to make professional judgements. For us it seems as structure and professional judgements are not separated, which also McLullich (2001) noticed earlier. Instead, structure and professional judgement support each other. Structure seems to be the base and the professional judgement evaluates if the structure is correct.

Nowadays, it can be difficult to divide auditors and audit firms into either structural or unstructural like Dirsmith and McAllister (1982), Mullarkey (1984) and Sullivan (1984) did in the 1980s. Probably, auditors and audit firms today are instead located somewhere between a structural and unstructural approach, which Cushing and Loebbecke (1986) and Kinney (1986) wrote already in 1986 and which Schroeder et al. (1996) later also confirmed could be the case.

A high use of structure seems to be a particular risk for auditor assistants. There is a risk that auditor assistants do not think outside the structure and lose their professional judgement. Structure also contributes to overaudit when auditors follow all steps and do not use their judgement to reduce unnecessary parts; it seem to be most common for inexperienced auditors. Auditor assistants are monitored by experienced auditors who make professional judgements for them. It is first after years of work that assistants are permitted to make their own professional judgements. It is clear that professional judgements increase with experience.

Many professional judgements are made in the planning stage and especially when auditors identify risks and decide on the materiality. Even if automatic calculations are used by auditors, they are not obliged to use the outcome from it. It appears that they use their professional judgement more or less in some way when deciding on materiality. A big part of the planning is to identify risks which later underlying the audit process, which according to Cushing and Loebbecke (1986) and

Mullarkey (1984) is characteristic of a structured firm. Structured approach or not, in order to identify and determine these risks, auditors use their professional judgements and then structure is helpful when they start the actual audit.

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