

# MASTERCLASS REPORT

## FAR Masterclass Report: Masterclass on Multiple Team Membership

Dennis Veltrop  
Reggy Hooghiemstra

### KEY TAKE-AWAYS

Working in multiple teams: (how) does that work? According to estimates, between 65 and 90 percent of the professionals work in multiple teams simultaneously. This, for example, holds for professionals in health care, in research teams at universities and for knowledge workers in general. This way of working is also common practice within audit firms. But how does simultaneously working in several audit teams affect audit quality? And what factors increase or reduce audit quality?

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## **Working in multiple teams: (how) does that work?**

According to estimates, between 65 and 90 percent of the professionals work in multiple teams simultaneously. This, for example, holds for professionals in health care, in research teams at universities and for knowledge workers in general. This way of working is also common practice within audit firms. But how does simultaneously working in several audit teams affect audit quality? And what factors increase or reduce audit quality?

These topics were extensively discussed during the interactive FAR Masterclass by Reggy Hooghiemstra and Dennis Veltrop, held last February 6, in which more than 30 auditors and academics participated. A summary.



### **The human factor in audit quality**

Research reports and academic studies repeatedly show that people play the most important role in attaining audit quality: no good audit without good people. That sounds simple, but in practice, it is often not known how to make the best use of the available human capital.

It is interesting to see that definitions of audit quality differ, for example, between investors and accountants. Investors, mention as the most important quality factors: well-trained competent professionals, well-planned audits and independent skeptical auditors. Only in the fourth place do they mention 'executing an audit according to the applicable standards', whereas auditors consider that aspect much more important.

In any case, several studies show that 'staffing' (experience and expertise) of auditors delivers the most important contribution to audit quality and that 'understaffing' is the biggest problem (followed by employee turnover and work overload).

Of course, this immediately touches on the question of how working simultaneously in several audit teams can influence audit quality.

### **Behavior that threatens the quality**

Therefore, the first topic that was addressed during the masterclass were quality-threatening behaviors, such as:

- Reduction of work below what is reasonable.
- Superficial review of client documents.
- Acceptance of weak client explanations.
- Failure to research an accounting principle.
- Failure to pursue a questionable item.
- False sign-off.

Typical causes of these quality-threatening behaviors are work pressure and a lack of ethical culture. How do these relate to the so-called 'multiple team membership'?

### **Plus and minus points of 'multiple team membership'**

Multiple team membership is the phenomenon that individuals operate in multiple teams within a certain period. So, they work in more than one team simultaneously, not sequentially. Therefore, it is even possible that an individual will work in several teams in one day.

The participants in the masterclass indicated that they work in 2 to 6 teams themselves. It was interesting to see that the higher the level at which an auditor works within a firm, the more team memberships he or she has.

Most of the pluses and minuses of working in multiple teams that were mentioned by the workshop participants are also apparent from previous research.

The positive aspects (the so-called 'resources') of functioning in multiple teams are:

- Networks of information, experiences and knowledge.
- Learning.
- More efficient work habits/routines.
- Potentially more variety in tasks and social environment.

These advantages make working in multiple teams a good setting for audit firms. Nevertheless, working in teams also requires quite something from team members, as well as the organization. In literature, one speaks of 'demands' or 'claims'. A distinction is made between three types of claims, when it comes to multiple team memberships:

- Task-related demands:
  - Time-schedule conflicts.
  - Switching costs (relocation and coordination).
  - Increased workload and time pressure.
- Social demands:
  - Teams may be less socially coherent.
  - Requires more effort/time to familiarize oneself with one's role in the team.
- Auditors have been shown to make memory-related mistakes:
  - Mix up clients.
  - Do not judge clients independently (review, evidence).

It is therefore important for audit firms to ensure that the above pluses and claims are optimally organized. This optimization depends, among other things, on the composition and the work of the teams on the one hand and the number of teams in which a person participated on the other hand.

### **The optimal amount of team memberships**

Research findings show that the relationship between the number of teams in which someone participates and the team performance resembles an inverted u-shape: performance will first rise and will fall after a certain optimum.

### **Is everyone suited to work in multiple teams?**

Some people are better able to work in teams than others are. Research shows that the people who have a higher probability to be selected in teams:

- Possess more useful skills, characteristics or 'resources'.
- Are 'high performers' (team leaders determine what skills and expertise are required and approach the best people).
- Are experienced employees, with a great deal of knowledge of company-specific standards and procedures.
- Are employees in higher positions, with access to useful (re)sources and decision power/ authority.

A disadvantage for the popular team members is that they can become stressed, since they participate in more teams than average.

### **Relevant attention points**

The audit practice is especially subject to a high workload in the busy season. This increases the likelihood of burnout and fatigue. The work pressure could be a potential cause for the negative inspection results of the supervisory authorities in recent years. Or, as former PCAOB board member Jay Hanson put it during a speech in 2013: 'An overworked and exhausted staff, manager, or partner cannot perform the job investors and audit committees expect.'

Work pressure studies in the United States and in The Netherlands suggest that the audit quality starts to drop significantly, when people work more than 60 hours per week. That is the tipping point where pressure becomes too high, according to the auditors.

Almost all auditors say that too much work pressure is detrimental to the audit quality (as a result of decreasing skepticism and less evidence collection) and to work-life balance and health. Busy season can even lead to emotional exhaustion and depersonalization. Nevertheless, some auditors can cope with work pressure better than others can. Often, more experienced auditors are more stress-resistant than less experienced auditors.

Particularly 'resilience' appears to be an important factor in resisting stress. Therefore, focus on resilience could be a steering mechanism for auditing firms.

Firms can also provide a better work-life balance, a higher salary, more 'rewarding' work, better 'treatment' of employees and adjustments to the working environment (leading to more cooperation and less competition).

Moreover, if auditors can recover better, they can deal with stress better. They can look for sufficient distraction, for example in relaxation, practicing a hobby, et cetera.

### **The most important 'take-aways'**

Working simultaneously in multiple audit teams is like a double-edged sword: it has a positive as well as a negative side. There is a certain point where the negative elements (such as work pressure) start to dominate the positive aspects (learning from other people). This 'turning point' is determined by various factors, such as the duration a person has worked for the organization, how resilient that person is and to what extent he or she can break free from work, outside working hours. Audit firms can respond to this by, among other things, paying attention to monitoring a good work-life balance and by considering the number of teams that an auditor is already in when planning new schedules.

### **Want to know more? Key publications:**

Christensen, B.E., Glover, S.M., Omer, T.C., & Shelley, M.K. (2016). Understanding audit quality: Insights from audit professionals and investors. *Contemporary Accounting Research*, 33(4): 1648-1684.

O'Leary, M. B., Mortensen, M., & Woolley, A.W. (2011). Multiple team membership: A theoretical model of its effects on productivity and learning for individuals and teams. *Academy of Management Review*, 36: 461-478.

Persellin, J.S., Schmidt, J.J., Vandervelde, S.D., & Wilkins, M.S. (2018). Auditor perceptions of audit workloads, audit quality, and the audit profession. Working paper. Available at SSRN: <http://ssrn.com/abstract=2534492>.