

ADVANCES IN ACCOUNTING BEHAVIORAL RESEARCH

Edited by Khondkar E. Karim

ADVANCES IN ACCOUNTING
BEHAVIORAL RESEARCH

VOLUME 28

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EDITED BY

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INVESTOR IN PEOPLE

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INVESTIGATING THE EFFECT OF AUDIT EVIDENCE WEIGHTING ON AUDITOR OBJECTIVITY

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ABSTRACT

The purpose of this study is to examine if evidence weighting has any effect on auditor's judgment and its relationship with advocacy attitudes. We collected data from 181 practicing auditors employed in audit institutions certified by Tehran Stock Exchange in Iran. Our structural equation analysis on these data show that auditor's advocacy attitudes and client identification are related to evidence weighting which in turn affects auditor's judgment. Auditors with higher (lower) advocacy attitudes and client identification overweight client-favorable (client-unfavorable) evidence leading to more (less) acquiescence to client-preferred position. This is tempered by auditor's experience and professional identification. Specifically, we show that auditor advocacy impacts auditor judgment directly as well as indirectly through auditor's evidence weighting process. The findings of the present study add to the literature on auditor judgment and decision-making and highlight the possible benefits of awareness training to tackle the effects of advocacy attitudes on judgments and evidence weighting.

Keywords: Advocacy attitudes; evidence weighting; auditor's client acquiescence; client identification; professional identification; auditor objectivity

INTRODUCTION

The prerequisite for audit reliability is the existence of impartial attitudes. In each testing and reporting process that requires judgment, the need for an independent mental attitude is necessary. Close relationships between auditors and their clients is recognized as one of the threats to auditor independence and auditor objectivity (ISB, 2000), which could impact auditor's professional skepticism. Auditing standards require a neutral perspective on professional skepticism (Auditing Standard 1015.07-.08; PCAOB, 2016a), which implies no presumption of trust or distrust in client.

Since audit evidence is the foundation for the audit opinion, the value of audit is determined based on the neutrality of the process of collecting and evaluating evidence. Neutrality is also defined as a notion free from bias and conflict of interests (The American Institute of Certified Public Accountants, 2006). From such a perspective, trust or distrust in management is not presumed (Pennington et al., 2017). There is an alternate perspective which suggests that there should be a presumption of distrust in management which may be appropriate in high-risk audits (Glover & Prawitt, 2013; Quadackers et al., 2014). However, in low- or moderate-risk audits, a presumptive doubt mind-set may be inefficient because of unnecessary audit procedures leading to additional costs for companies and their stakeholders. This has the potential to tarnish auditor client relationship and create reputational problems for firms.

Auditor identification or familiarity with their clients is an additional threat to auditor independence (Bamber & Iyer, 2007; Bauer, 2015). This is based on social identity theory. According to social identity theory, individuals classify themselves into multiple social groups, such as occupation, organization, nationality, and gender (Ashforth & Mael, 1989; Turner, 1987) and internalize the group's norms and values. Adoption of a particular identity affects the way individuals interpret information and make decisions (Lembke & Wilson, 1998).

If the auditor's mindset is biased, it will affect the quantity and quality of evidence collected, assessment of evidence, judgment of auditor, and will even affect the consequent search strategy used for obtaining audit evidence in support of auditor's judgment. Auditor's overemphasis on evidence supporting claims by the management or excessive concentration on evidence contrary to them, biased search strategy adopted by auditors, and asymmetric weighting of evidence for and against clients during audits are some of the threats to auditor objectivity (Pennington et al., 2017).

Auditing represents a multistage process composed of initial judgment (planning stage), audit evidence searches, weighting of audit evidence, and final judgment and decision-making. Each stage also consists of several substages. For example, audit evidence search strategy includes searching for evidence either against or in favor of clients. Another dimension is the volume of evidence searched; in other words, auditors search for little evidence, or they do a too conservative search. Evidence search strategy can be accordingly examined based on time spent on searching for evidence. The weighting of evidence for or against clients is correspondingly one of the auditing stages, demanding professional

judgment by the auditors. Auditors' attitudes toward clients can further affect all these stages.

Pennington et al. (2017) investigated whether an auditor's advocacy attitudes influence bias in the search for audit evidence. Advocacy attitude, as delineated by Haynes et al. (1998) and Pinsker et al. (2009), refers to an auditor's inclination to either support or not support the most advantageous client position when guidelines are unclear. These attitudes can vary from minimal (lack of allegiance to the client) to substantial (strong allegiance to the client), and they hold the potential to shape an auditor's initial judgment, thereby potentially skewing future search strategies and affecting audit decisions.

Pennington et al. (2017) found that advocacy attitudes affect both initial judgments and subsequent search strategies of auditors. For example, auditors with lower advocacy attitudes exhibit a stronger tendency to search for additional evidence against a client-favorable position and then search for confirmatory evidence. They posit that client advocacy is an important factor contributing to the proper weighting of evidence. However, they did not study the relationship between client advocacy and evidence weighting.

Apart from advocacy attitudes, another factor which could impact the proper weighting of evidence is client identification. Based on social identity theory, Bamber and Iyer (2007) suggested that auditors identify with their clients and that this identification reduces auditor objectivity in such a way that an identifying auditor tends to acquiescence to the client's preferred accounting position. This notion of client identification and its impact on auditor objectivity has been extended to other settings such as internal auditors (Stefaniak et al., 2012) and to non-Big 4 accounting firms (Svanberg & Öhman, 2015). It will be interesting to examine if auditors' identification with the clients affect their evidence weighting process.

Hence, the main objectives of our study are: (1) to investigate the effect of auditor's advocacy attitudes on evidence weighting and (2) to examine the role of evidence weighting in the relationship between auditor's advocacy attitudes and auditor's judgment. A secondary objective is to examine the relationship between auditor's client identification and evidence weighting.

We posit that high advocacy attitudes and higher levels of client identification cause auditors to overweight a client-favorable position. This would lead to more aggressive evidence weighting and bias in judgment and eventually affect the effectiveness and quality of audit adversely. Conversely, auditors may overweight evidence against a client if they have low advocacy attitudes and lower levels of client identification. This perspective leads to inefficient auditing and imposes unnecessary costs on stakeholders resulting in damages to clients' reputation and credit (Hurt et al., 2013; Nelson, 2009). On the other hand, auditors with neutral attitudes equally weight both pieces of evidence resulting in less bias in auditor judgment. Following Bamber and Iyer (2007), we include professional identification and audit experience as factors that might mitigate the impact of client identification on auditor judgment.

Our primary contribution is to show that both auditor's advocacy attitudes and client identification affect auditor's judgment through the process of evidence

weighting. In this respect, [Bonner \(2008\)](#) argues that understanding process variables and their effects is of utmost importance since one of the objectives of these types of studies is to enhance decision-making and judgment quality. [Bobek et al. \(2010\)](#) reported that client-specific advocacy influenced process variables such as evidence weighting and decision-making outcomes such as the recommendation of tax advice. The results of the study also indicated that tax professionals may have difficulty separating their advocacy and evidence evaluation roles.

We performed a structural equation analysis using Smart PLS ([Hair et al., 2014](#)) on data collected from 181 auditors in Iran. We find that auditor's advocacy attitudes and client identification are related to evidence weighting which in turn affects auditor's judgment. In particular, auditors with higher (lower) advocacy attitudes and client identification overweight client-favorable (client-unfavorable) evidence leading to more (less) acquiescence to client-preferred position. This is tempered by auditor's experience and professional identification. Specifically, auditors with higher (lower) levels of professional identification and more (less) experience reported less (more) acquiescence to client-preferred position.

The findings of the present study add to the literature on auditor judgment and decision-making. Specifically, we show that auditor advocacy impacts auditor judgment directly as well as indirectly through auditor's evidence weighting process. Prior research has primarily shown client identification affecting auditor judgment directly. We extend that research by showing that client identification also affects the process of audit evidence weighting. Evaluation of audit evidence is an important step in the audit process. Any bias at this stage can impact the quality of audit. Recognizing and mitigating the threat posed by client advocacy and client identification at all stages of the audit is very important. Our findings highlight the possible benefits of awareness training to tackle the effects of advocacy attitudes on auditor judgments and evidence weighting.

The next section presents the theoretical framework and hypotheses. This is followed by the research method and the results of the analyses. Discussions and conclusions are presented in the final section.

THEORETICAL FRAMEWORK

Relationship Between Advocacy Attitudes and Auditor's Judgment

Objectivity is a mental attitude which refers to freedom from any prejudice and bias. This means that two individuals with the same level of expertise achieve similar results when dealing with the same facts and circumstances. Auditor's judgment plays an important role in assessing the adequacy of evidence, effectiveness of controls, and reasonableness of account balances. Auditor's objectivity requires a neutral attitude in evaluating available auditing evidence and in exercising auditor's professional judgment. Objectivity also requires the auditor to adopt a rigorous and robust strategy and, in some cases, demands readiness to

oppose judgments and views of directors ([Auditing Practices Board \(APB\), Ethical Standard 1, 2011](#)).

Some of the most important threats to auditor objectivity are self-interest threat, client management threat, advocacy threat, familiarity (or trust) threat, self-review threat, and intimidation threat ([ISB, 2000](#)). Advocacy attitudes result when an auditor takes a viewpoint compatible with that of client management when dealing with controversial subjects over which there is not a consensus ([Auditing Practices Board \(APB\), Ethical Standard 1, 2011](#)).

Advocacy is a state of mind that makes auditor to have a primary sense of loyalty toward clients; however, the extent of loyalty varies ([Mason & Levy, 2001](#)). Advocacy attitudes imply that the auditor's general tendency is toward advocacy or lack of advocacy for client-preferred treatment in ambiguous conditions ([Pinsker et al., 2009](#)). Moreover, previous research demonstrates that when client priorities are explicitly expressed and there is sufficient freedom of action within the framework of accounting standards, auditors may be influenced by the information that is in the interest of the client ([Jenkins & Haynes, 2003](#)). Therefore, these results can be attributed to a single agent labeled as client advocacy ([Pennington et al., 2017](#)). In general, the domain of auditors' advocacy attitudes can be divided into three categories: low-level, neutral, and high-level. [Pennington et al. \(2017\)](#) argue that auditors with low-level advocacy attitudes tend to have mental tendencies against the client-favorable position. This type of orientation leads to higher costs and inefficiency of the audit, although probably fewer errors would result in ambiguous conditions due to conservatism in their decisions. Low-level advocacy attitude is considered to be equal to skeptical advocacy attitude.

Neutral advocacy attitudes imply that auditors have no mental tendencies either for or against the client-favored position and, consequently, have no bias at different stages of the audit process. On the other hand, high-level advocacy attitudes make auditors' mental tendencies to be in line with the clients' preferences, leading to aggressive and risky judgments.

[Bobek et al. \(2010\)](#) also believe that client-specific advocacy can shape several steps in judgment and decision-making processes. For example, advocacy levels can affect the confirmation bias. Typically, as tax professionals overweight evidence containing information from the client-preferred position, the tax professional's level of advocacy can affect the review process ([Hatfield, 2001](#)). Additionally, advocacy can also influence evidence search behavior ([Cloyd & Spilker, 1999](#)).

Biased attitudes toward clients can even influence staff at all the levels of audit firms. According to [Wilks \(2002\)](#), junior auditors with the knowledge of partner's views (1) evaluate individual evidence items in a manner more consistent with partner's views, and also (2) make going-concern judgments that could be more consistent with partner's view compared to auditors who come to know of the partner's views after evaluating evidence. [Hassase-Yegane et al. \(2014\)](#) found that participants who initially attempted to make judgments and then became aware of partners' contradictory attitudes distorted their reported judgments in line with

partners' attitudes; moreover, participants who became aware of partners' attitudes before delivering judgments were influenced by their partners' attitudes.

Pennington et al. (2017) found that advocacy attitudes affect both auditors' initial objectivity of judgments and their search strategy. Auditors with low advocacy attitudes are more likely to make initial judgments against a client-favorable position and subsequently plan a confirmatory search for additional evidence. Auditors who have more neutral advocacy attitudes exhibit search strategies that are more objective regardless of their initial judgments. Haynes et al. (1998) and Jenkins and Haynes (2003) similarly concluded that auditors may exhibit advocacy behaviors in some conditions. In general, the aforementioned content and research results about advocacy attitudes reveal that such attitudes negatively shape the objectivity of auditor judgment. Following prior research (e.g., Bamber & Iyer, 2007; Pennington et al., 2017), we use auditor's acquiescence to client-preferred treatment as a proxy to measure objectivity of auditor judgment. Hence,

H1. Advocacy attitude of the auditor has a positive effect on auditor's acquiescence to client-preferred treatment.

Relationship Between Advocacy Attitudes and Audit Evidence Weighting

Client advocacy is an important factor in the weighting of evidence and the type of search strategy used by the auditors (Pennington et al., 2017). It has been shown that accountants can be both client advocate and professionally skeptical (Kadous et al., 2008; Pinsker et al., 2009; Schmitt et al., 2014). Using client advocacy continuum, Glover and Prawitt (2013) stated that if auditors have a tendency to support the client-favorable position, the objectivity of their search would be low, they would overweight client-favorable evidence and do a minimal search for obtaining subsequent audit evidence. If auditors have neutral attitudes, their search would be objective and unbiased and they can make initial objective judgments with respect to the weight of the evidence; that is, based on the existing evidence, judgments would be both for and against the client-favorable position and search strategy for subsequent evidence would also be objective and balanced. On the other hand, if auditors are inclined to oppose client-preferred treatment (i.e., low advocacy), the objectivity of their search would be very low, the bias would be observed in their initial judgments, the evidence against the client-favorable position would be overweighted, and a highly conservative searching process for evidence would be used.

Weighting and combining techniques affect judgment quality. One of the problems of weighting is that, sometimes, due to overconfidence and processing restrictions, auditors often do not form complete hypotheses in their minds, so that their initial judgments are based on incomplete information (Fischhof et al., 1978; Mehle et al., 1981). Incorrect weighting and combining of information cues can affect judgment and decision-making quality; therefore, if a positive or negative sign is wrongly assigned to an information cue, judgment and decision-making quality would decrease (Bonner, 2008).

Previous auditing studies have shown that if an auditor gives too much weight to information that is against the client-favorable position, conservative bias will be observed (Ashton & Ashton, 1988, 1990). This leads to unnecessary additional audit procedures and results in tension between the client and the auditor in ensuing negotiations (Nelson, 2009). In general, auditors would be willing to give more weight to information that is against client-favorable positions rather than information confirming client-favorable positions. However, individual differences in auditors cause the formation of an advocacy continuum in auditors that is expected to influence the power and the accuracy of judgments (Pennington et al., 2017).

Based on the recursive model developed by Nelson (2009), evidence and documents that are received are judged, applied, and then reused as the next input of the auditing process. In this regard, one of the risks of objective search is bias in evidence confirmation (Glover & Prawitt, 2013), which means the willingness to give more weight to confirmatory information and the desired results which are adaptable with initial beliefs of individuals.

According to Church (1990), when there is bias in confirming evidence, auditors would probably choose strategies to search for evidence that confirms their basic assumptions.

However, a more neutral attitude can moderate the relationship between initial judgment and evidence search strategy through reducing bias in evidence confirmation. The more the auditors' attitudes are unbiased, the more objective the evidence weighting and the judgments about them will be; thus, leading to the selection of evidence search strategy that is not affected by bias and prejudice during initial judgments (Pennington et al., 2017). Hence,

H2. Auditors' low (high) advocacy attitudes relate to overweight of client unfavorable (favorable) evidence.

Relationship Between Audit Evidence Weighting and Auditor's Judgment

Audit evidence weighting plays an important role in the professional judgment of auditors. Auditors are likely to focus more on aspects of negative information and make judgments because of professional skepticism and the potential for litigation payments (Bonner, 2008). For example, auditors pay more attention to disconfirming evidence than confirming one when assessing the reasons for fluctuations in ratios (McMillan & White, 1993). Joyce and Biddle (1981) and Holt (1987) indicated that auditors make use of base ratios in some cases but to some extent underweight them in their evaluations. Kida (1984) concluded that auditors, for predicting bankruptcy, give less weight to base rates but when calculating ratios indicating bankruptcy, give more weight to base rates. Simnett and Trotman (1989) showed that inappropriate cue weights bring about errors in auditors' prediction of bankruptcy. Salterio (1996) also reported that consistency between pieces of evidence would impact auditor judgment about accounting procedures and that the research unit of audit firms tended to choose evidence that is more in alignment with clients' priorities. Based on the results of these and

other studies, we can conclude that auditors' attitudes have an impact on audit evidence weighting, and, in turn, evidence weighting will influence auditors' judgment and decision-making.

If auditors have a high level of advocacy attitude toward clients, they tend to agree more with client-favorable treatment. One of the things leading to auditor's acquiescence to client-preferred treatment is the weight given to the interest of the client; therefore, it is expected that advocacy attitudes of auditors relate to the weighting of evidence and their agreement with client-preferred treatment. Thus, it is expected that at least a part of the effect of auditors' advocacy attitudes on their judgments will take place through audit evidence weighting.

H3. The effect of auditors' advocacy attitudes on their agreement with client-preferred treatment is partially mediated by audit evidence weighting.

Effect of Client Identification on Audit Evidence Weighting and Auditor's Judgment

Following [Bamber and Iyer \(2007\)](#), we include auditors' identification with their clients, professional identification, and audit experience as factors that may influence auditor's acquiescence to client-preferred treatment. Based on the responses of 252 practicing auditors, [Bamber and Iyer \(2007\)](#) find that auditors do identify with their clients and the likelihood that auditors will acquiesce to the client-preferred treatment increases as they identify more closely with the client, and decreases as they identify more closely with their profession.

[Bauer \(2015\)](#) found similar result for client identity strength using an experiment completed by 93 experienced professional auditors. [Stefaniak et al. \(2012\)](#) conducted a mixed subject experiment where 40 internal auditors and 48 external auditors completed a case involving a hypothetical audit situation in which they evaluated an internal control deficiency. They found employer and client identification to have opposite effects on auditors' judgments. Specifically, they confirmed the earlier finding regarding the relationship between external auditors' client identification and their objectivity.

[Svanberg and Öhman \(2015\)](#) extended this line of research to non-Big 4 firms in Sweden. They confirmed the earlier finding that auditors tend to identify with their clients, and that an auditor who identifies relatively more with a client is more likely to acquiesce to client-preferred treatment. Crucially, they also examined whether the effects of client identification extend to reduced audit quality (RAQ) acts such as: (1) accepting weak client explanations, (2) making superficial reviews of client documents, (3) failing to research an accounting principle, (4) reducing the amount of work performed on an audit step below what is considered reasonable, and (5) signing off an audit-program step without completing the work or noting the omission. The responses of 141 practicing auditors showed evidence of the relationship between auditors' client identification and RAQ acts. Specifically, they found auditors' client identification to have detrimental effect on the frequency of RAQ acts.