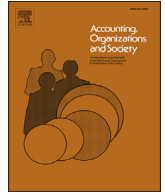




Contents lists available at ScienceDirect

Accounting, Organizations and Society

journal homepage: www.elsevier.com/locate/aos

Neutral and presumptive doubt perspectives of professional skepticism and auditor job outcomes

Jeffrey R. Cohen ^{a,*}, Derek W. Dalton ^b, Nancy L. Harp ^b

^a Boston College, Carroll School of Management, Chestnut Hill, MA 02147, USA

^b Clemson University, College of Business and Behavioral Science, Clemson, SC 29634, USA

ARTICLE INFO

Article history:

Received 25 November 2015

Received in revised form

11 August 2017

Accepted 15 August 2017

Available online xxx

Keywords:

Professional skepticism

Perceived partner support

Organizational citizenship behavior

Turnover intentions

ABSTRACT

This study examines the impact of auditor traits that measure the two predominant perspectives of professional skepticism (i.e., the neutral perspective and the presumptive doubt perspective) on critical job outcomes within the audit profession (i.e., organizational citizenship behaviors and turnover intentions). Using a sample of 176 auditors, we find that the neutral perspective of professional skepticism has a positive effect on the career trajectory of audit professionals (e.g., lower turnover intentions) through higher levels of perceived partner support for professional skepticism whereas the presumptive doubt perspective of professional skepticism has a negative effect on the career trajectory of audit professionals (e.g., higher turnover intentions) through lower levels of perceived partner support for professional skepticism. These results present a troubling dilemma for the auditing profession. That is, while presumptive doubt skeptics potentially improve audit quality (Hurt, Brown-Liburd, Earley, & Krishnamoorthy, 2013; Quadackers, Groot, & Wright, 2014), we find that presumptive doubt skeptics report lower levels of organizational citizenship behaviors and are less likely to remain within the auditing profession. Implications for research and practice are discussed.

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1. Introduction

The significance of professional skepticism (hereafter, “PS”) is emphasized throughout the auditing standards (e.g., AICPA, 1988; 1992, 1997a, 1997b, 2002, 2006; PCAOB, 2004; 2008a); however, auditing firms continue to be criticized for exercising insufficient levels of PS (e.g., Franzel, 2013; PCAOB, 2007; 2012, 2013). Given the importance of PS in the auditing profession, research has begun to investigate auditors' personality traits with respect to PS (e.g., Hurt, Brown-Liburd, Earley, & Krishnamoorthy, 2013; Quadackers, Groot, & Wright, 2014; Rose, 2007). Prior literature documents two general perspectives of PS: neutrality and presumptive doubt (Nelson, 2009). Neutrality represents an auditor's mindset that critically evaluates evidence but assumes no bias in management's assertions *ex ante*, whereas the presumptive doubt mindset assumes some level of dishonesty or bias in management's assertions. The neutral perspective appears to be the primary perspective underlying most of the auditing standards whereas the presumptive doubt perspective appears to be more visible within auditing

standards concerning fraud (e.g., Nelson, 2009; Quadackers et al., 2014).

The primary objective of this study is to examine the following research question: What is the impact of auditor traits that measure the two prevailing perspectives of PS on critical job outcomes within the audit profession, such as organizational citizenship behaviors and turnover intentions? Organizational citizenship behaviors are voluntary behaviors that go beyond formal job requirements which benefit the overall functioning of the organization, such as assisting coworkers, defending the organization, and offering ideas to improve organizational processes (Dalton, Cohen, Harp, & McMillan, 2014; Lavelle, Rupp, & Brockner, 2007). The audit profession relies heavily upon pro-social, team-based work (e.g., Agoglia, Hatfield, & Brazel, 2009; Carpenter, 2007); consequently, auditing professionals are expected to engage in positive organizational citizenship behaviors that assist the overall audit function (e.g., Agoglia et al., 2009; Carpenter, 2007; Dalton et al., 2014). Therefore, understanding how auditor traits that measure PS affect organizational citizenship behaviors is particularly salient within the audit profession. Examining auditor turnover intentions is also important since the retention and promotion of skeptical auditors is critical for fraud detection, audit quality, and

* Corresponding author.

E-mail address: cohen@bc.edu (J.R. Cohen).

the overall sustainability of the audit profession (e.g., CAQ, 2010; Hurtt et al., 2013; PCAOB, 2008b; 2011; Westermann, Cohen, & Trompeter, 2017). Further, this study responds to Hurtt et al.'s (2013) call for future research examining the impact of trait skepticism on auditor career outcomes that potentially affect audit quality.

As a second objective of the paper, we examine the role that perceived partner support for PS plays within the relationship between auditor PS and job outcomes. Auditing standards (e.g., SAS No. 99), PCAOB guidance (e.g., PCAOB, 2012), and academic evidence (Carpenter & Reimers, 2013) indicate that the “tone at the top” set by an audit partner's emphasis on PS is a critical factor that can promote or inhibit skeptical judgments and actions. For example, high partner emphasis on PS (as opposed to high emphasis on efficiency) makes fraud investigations more effective when fraud risk is high (Carpenter & Reimers, 2013). Strong partner support for PS also is needed to remove barriers to skeptical actions, including the barrier encountered when audit staff anticipate (correctly) that they will be penalized when additional audit procedures necessary to achieve appropriate levels of PS do not identify additional misstatements (Brazel, Jackson, Schaefer, & Stewart, 2016). Perceived partner support for PS (or lack thereof) is a fruitful area for audit firms (and regulators) to understand and enhance in order to improve audit quality. Therefore, we examine auditors' perceptions about partner support for PS in order to provide insights about the current state of the profession's “tone at the top” regarding PS. Further, our study compares perceived partner support for the two dominant perspectives of PS and documents new benefits (consequences) of higher (lower) perceived partner support.

We predict that perceptions of partner support for PS will vary based on the extent to which an auditor's inherent “trait” PS represents either the neutral perspective of PS or the presumptive doubt perspective of PS (Nelson, 2009). We argue that presumptive doubt skeptics¹ inherent distrust of management and assumption of bias will lead them to encounter more situations in which their inherent PS causes them to collect additional evidence. If this evidence does not result in additional misstatements, research indicates that the additional work will be viewed as an inefficient use of time that is penalized by the firm during the evaluation process (Brazel et al., 2016). Given the competing pressures faced by audit partners (e.g., litigation and reputation risk vs. engagement profitability and client satisfaction) we predict that partners, on average, are less likely to support the presumptive doubt perspective that may result in more client conflicts and additional testing that does not necessarily result in detecting additional misstatements. In contrast, we argue that neutral skeptics' inherent personality traits are likely to enable them to achieve a level of PS that closely matches the PS supported by partners attempting to balance competing incentives. In short, we expect that presumptive doubt skeptics will perceive *lower* partner support for PS, while neutral skeptics will perceive *higher* partner support for PS.

We next predict that perceptions of partner support for PS have implications for auditor job outcomes. Using organizational support theory (Eisenberger, Cummings, Armeli, & Lynch, 1997; Rhodes & Eisenberger, 2002) and social exchange theory (Rhodes & Eisenberger, 2002; Riggie, Edmondson, & Hansen, 2009) as theoretical support, we predict that perceived partner support for PS will be positively associated with perceived organizational support, which, in turn, will lead to higher organizational

citizenship behaviors (OCBs) and lower turnover intentions. Thus, by extension, we argue that auditors who are more predisposed toward the neutral perspective of PS will report higher OCB and lower turnover intentions, whereas auditors who are more predisposed toward the presumptive doubt perspective of PS will report lower OCB and higher turnover intentions.

In addition to partner support for PS, the PCAOB (2012) outlines several additional means by which firms can support PS, such as promotion policies that support PS, performance evaluation systems that support PS, and scheduling/budgeting support for PS. In supplemental analysis, we examine whether these additional factors can provide additional insights regarding the relationships in our theoretical model.

Using a survey of 176 auditing professionals employed in public accounting firms, we find results consistent with expectations. Our study makes three primary contributions. First, our study presents the first empirical evidence concerning the relationship between the two prevailing perspectives of PS and organizational citizenship behaviors and turnover intentions within the auditing profession. While Quadackers et al. (2014) find that the presumptive doubt perspective is *more* predictive of skeptical judgments and actions, especially in higher risk settings, our findings indicate that the individuals who are *most* closely associated with skeptical judgments and decisions (i.e., presumptive doubt skeptics) are *less* likely to engage in OCBs and are *less* likely to remain employed within their respective audit firms. In contrast, we find that auditors who are higher in neutral PS are associated with higher levels of OCB and lower levels of turnover intentions. In short, our findings present a potentially troubling dilemma for the auditing profession. Specifically, presumptive doubt skeptics, who are more likely to provide skeptical decisions in higher risk settings (Quadackers et al., 2014), are less likely to engage in organizational citizenship behaviors and are more likely to leave the audit profession.

Second, our findings provide evidence regarding the underlying mechanisms by which the two prevailing perspectives of PS influence organizational citizenship behaviors and turnover intentions. Specifically, our findings indicate that neutral skeptics report higher levels of organizational citizenship behaviors and lower turnover intentions because they perceive more partner support for PS. Likewise, presumptive doubt skeptics report lower levels of organizational citizenship behaviors and higher turnover intentions because they perceive less partner support for PS and less scheduling and budgeting support for PS. These results indicate that perceived partner support for PS is a key mediating variable that helps explain the relationships between PS and auditor job outcomes.

Finally, our supplemental analysis regarding the PCAOB factors that support (or inhibit) firm-wide PS provide several implications for audit quality and firm audit risk. First, we find that auditors at both large (i.e., Big 4) and small (i.e., regional and local) firms perceive that demanding schedules and tight audit budgets are the primary organizational factors impeding the exercise of sufficient levels of PS within the audit profession. Furthermore, we document several findings regarding large audit firms that are particularly troubling. Specifically, we find that auditors at larger firms (i.e., Big 4 and national non-Big 4 firms), as compared to auditors at smaller firms (i.e., local and regional firms), report lower levels of perceived partner support for PS and lower levels of scheduling/budgeting support for PS. Further, auditors at larger firms are more likely to report that their firms' performance evaluation systems do not provide incentives that promote skeptical judgments and decisions. These findings are discussed further in the conclusion.

The remainder of our paper is organized as follows: The following section discusses prior research and develops

¹ Throughout the paper, we describe auditors who report relatively high levels of neutral PS as neutral skeptics and auditors who report relatively high levels of presumptive doubt PS as presumptive doubt skeptics.

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