



# The impact of commitment and moral reasoning on auditors' responses to social influence pressure

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## Abstract

This paper reports the results of an experiment examining whether social influence pressures within the accounting firm affect auditors' willingness to sign-off on financial statements that are materially misstated. We also evaluate the effects of organizational commitment, professional commitment, and moral development as three variables that may impact individual responses to social influence pressure. A sample of 171 auditors from one international firm participated in a between-subjects experiment with obedience pressure from superiors and conformity pressure from peers as the social influence pressure treatments. The results indicate that obedience pressure significantly increased auditors' willingness to sign-off on an account balance that was materially misstated, although conformity pressure did not. The findings also supported the predictions for organizational commitment. However, the predicted effects for professional commitment and moral development did not emerge. © 2001 Elsevier Science Ltd. All rights reserved.

## 1. Introduction

This study empirically examines the effects of social influence pressures on auditor decisions. Specifically, we evaluate the effects of inappropriate obedience and conformity pressures generated from within the accounting firm on auditors' decisions to sign-off on financial statements that are materially misstated. We also examine whether organizational commitment, professional commitment, and moral development affect auditors' decisions under social influence pressure.

Research in this area is motivated by the large body of evidence suggesting that auditor dysfunctional behavior can be attributed to a wide variety of pressures (e.g., DeZoort & Lord, 1997; Ponemon, 1990, 1992a, b; Tsui & Gul, 1996; Windsor & Ashkanasy, 1995). Increasingly, the accounting literature recognizes and reflects the importance of evaluating the impact of pressures generated from within the accounting organization on auditor attitudes, intentions, and behavior. This stream of research has important implications for auditor professionalism (Grey, 1998), the auditor socialization process (Fogarty, 1992; Ponemon, 1992a), and professional control within the organization (Abernethy & Stoelwinder, 1995; Dirsmith & Covalleski, 1985).

Considerations of organizational and environmental pressures have focused in part on how audit professionals respond to inappropriate social influence pressure generated from within the accounting

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firm. Specifically, the extant literature provides evidence that auditors are susceptible to inappropriate social influence pressure from superiors (e.g. DeZoort & Lord, 1994) and peers (e.g., Ponemon, 1992b) within the accounting firm. Collectively, these research interests recognize that “being a professional operates in a series of rich, albeit sometimes paradoxical and problematic, ways to regulate and reproduce social relations within the firm” (Grey, 1998, p. 584). However, social influence pressures as sources of auditor and audit conflict remain relatively unaddressed in accounting.

Current professional standards in the USA provide clear guidance for auditors who feel pressured by colleagues to act inappropriately. For example, Statement on Auditing Standard (SAS) No. 22, *Planning and Supervision*, provides auditors with specific guidance when there are differences of opinion on an audit (AICPA, 1997). In particular, SAS 22 states that auditors:

should be aware of the procedures to be followed when differences of opinion concerning accounting and auditing issues exist among firm personnel involved in the audit. Such procedures should enable an assistant to document his disagreement with the conclusions reached if, after appropriate consultation, he believes it necessary to disassociate himself from the resolution of the matter (AU Section 311.14; AICPA, 1997, p. 245).

The AICPA Professional Code of Conduct also provides direct guidance for auditors when they encounter inappropriate pressure from colleagues within the accounting firm. For example, Rule 102, *Integrity and Objectivity*, explicitly prohibits members from subordinating their judgment to others, including colleagues within the accounting firm (ET section 102.01; AICPA, 1997). Interpretation 102-4, *Subordination of Judgment by a Member*, provides detailed guidance for auditors in such conflict situations by stating that “if a member and his or her supervisor have a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the member should take steps to ensure that the situation does not con-

stitute a subordination of judgment” (AICPA, 1997, p. 4442).

For example, the Code first recommends that auditors consider whether a superior’s position is appropriate and does not materially misrepresent the facts. If subordinate auditors believe that a superior’s position materially misrepresents the facts, they should make the concern known to a higher level of management within the firm and consider developing a trail of documentation (e.g. understanding of the facts, accounting principles involved, parties involved in the discussion). Finally, the Code advises auditors in situations where appropriate action is not taken to consider discontinuing work at the firm and whether third parties (e.g. regulatory authorities) should be notified. In all cases, auditors are instructed to “be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts” (Interpretation 102-3; AICPA, 1997, p. 4442).

Despite this clear guidance in the area of professional disagreements, auditors face many confounding pressures that probably affect their ability to take a stand in conflict situations. For example, even if auditors clearly understand their professional responsibilities, they may choose to act unethically to ensure a positive performance evaluation or to simply be viewed as a team player. Auditors also may act unethically in social influence pressure situations because of an overall sense of futility. The Securities and Exchange Commission (SEC) has ruled that “an independent accountant cannot excuse his failure to comply with GAAS because of a sense of futility. . . such failure cannot be excused by pointing to pressure, whether from clients or partners” (SEC, 1993).<sup>2</sup>

In addition to evaluating auditors’ susceptibility to pressures generated from within the accounting

<sup>2</sup> This SEC case involved an audit partner who instructed an audit manager to sign-off on workpapers that the manager believed contained material misstatements (SEC, 1993; Rankin, 1993). The manager ultimately obeyed the partner and signed-off, despite resisting the pressure initially and understanding firm procedures allowing auditors to “disassociate” themselves from audits when disagreements prevail. The SEC ruled that such obedience is not acceptable and suspended the partner and manager from practice before the SEC for 5 years and 18 months respectively.

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