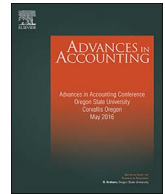




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## An analysis of the relation between resilience and reduced audit quality within the role stress paradigm

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### ABSTRACT

This study examines the relation between individual resilience levels and reduced audit quality practices (RAQP) within the context of an expanded role stress model. The premise for this investigation is that while role stressors, stress arousal, and burnout may enhance the likelihood of RAQP, resilience has the potential to directly and indirectly reduce RAQP. This reduction in RAQP is hypothesized to be a consequence of resilience serving as an attenuating influence on the other factors. The sample consisted of 258 auditors from seven of the 10 largest US accounting firms in 2015. The expanded role stress model includes resilience, role conflict, role ambiguity, and role overload as exogenous antecedents, stress arousal and burnout as mediators, and RAQP as the dependent variable. Our findings show that higher levels of resilience are associated with lower reported levels of RAQP, as well as decreases in both stress arousal and burnout tendencies. The data also indicate that reduced audit quality practices still represent a serious issue for the profession, but also identify ways by which firms may be able to reduce their occurrence. Emanating from these findings, we suggest future research to investigate viable intervention strategies designed to counteract the damaging effects of stress before they manifest in negative consequences to the individual and the firm.

### 1. Introduction

Independent auditors have a responsibility to examine a firm's financial statements and offer an opinion regarding whether those statements fairly represent, in all material respects, that company's financial position as of a particular date. Thus, auditors serve as "critical gatekeepers in the financial reporting process," and play an essential role in the effective functioning of the capital markets around the world (SEC, 2013). Consequently, anything that has the potential to degrade the quality of financial audits is of concern to management, investors, regulators, the audit firm itself, and any other stakeholder who may rely on these opinions (Herrbach, 2001). Auditor involvement in reduced audit quality practices (RAQP) has that potential. It is our contention that, *ceteris paribus*, the higher one's level of resilience, i.e., the ability to persevere under stressful conditions, the less likely that person will engage in these dysfunctional audit behaviors. Thus, the objective of this study is to test the proposition that one's resilience level is associated with a change in the propensity to engage in RAQP.

Our primary motivation is to determine if highly resilient individuals report lower levels of dysfunctional audit behaviors – taking into account the simultaneous influence of role stressors and other identifiable factors. Highly resilient individuals are those who have the skill

and capacity to bounce back and remain productive in the face of adversity. We premise this assertion on the notion that resilience is a learned characteristic, one that can be enhanced through workplace interventions. This tactic has heretofore escaped significant attention in the accounting stress literature and by those charged with bettering the public accounting work environment.

Methodologically, we test an expanded role stress model that included established measures of resilience and role stressors as exogenous antecedents, stress arousal and burnout as mediators, and RAQP as the dependent variable. We gather the data for each of the measures using recall survey instruments as described in the [Methods section](#) below. Using structural equations modeling procedures we find resilience to have significant direct negative relations with stress arousal, burnout, and RAQP, as well as a significant indirect negative relation with RAQP though its associations with arousal and burnout.

The balance of this paper is organized as follows. The following section provides an in-depth review of the constructs examined in this study. [Section 3](#) presents the theoretical model and provides the rationale for each hypothesis tested. Next, we discuss the methods employed to test the hypothesized associations among the constructs, followed by a detailed examination of the results. We then consider the implications of our findings with respect to the primary motivation of

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the study. The concluding sections delineate the limitations of the study followed by conclusions focused on the auditing work environment.

## 2. Background

### 2.1. Reduced audit quality practices (RAQP)

Audit quality may be thought of as the probability that an auditor will discover, report and eliminate any material misstatements that may appear in the client's financial reports (DeAngelo, 1981; Davidson & Neu, 1993). RAQP are intentional actions that compromise the quality of the audit by decreasing the quality or extent of evidence gathering (Malone & Roberts, 1996), thereby increasing the risk of an inappropriate audit opinion (Coram, Glavovic, Ng, & Woodliff, 2008). Acts associated with RAQP are of concern to the profession because they appear to be systemic, with prior research indicating that more than half of auditors admit to engaging in at least one of the aberrant behaviors (Donnelly, Quirin, & O'Bryan, 2003; Raghunathan, 1991; Coram, Glavovic, Ng, & Woodliff, 2003).

A number of RAQP behaviors have been identified and include: accepting weak client explanations, failing to properly research an item, making superficial reviews of documents, prematurely signing-off on audit steps, and reducing audit work below an acceptable level. A considerable stream of research has evolved investigating these dysfunctional audit behaviors, and much of it has shown a link between these behaviors and “pressure” as perceived by the auditor. These pressures include time budget pressure, fee pressure, pressure to under-report the time spent on audit procedures, and deadline pressure (e.g., Agoglia, Hatfield, & Lambert, 2015; Coram et al., 2008; Otley & Pierce, 1996; Kelley & Margheim, 1990; Herda & Martin, 2016). At a fundamental level, these pressures arise as a result of the tension between a need to provide a quality investigation and the costs necessary to do so.

RAQP have been shown to be a source of concern for many years with several studies reporting a high incidence of auditors admitting to engaging in one or more of these behaviors. For example, Coram et al. (2003) found that 63% of auditors admitted to engaging in RAQP, while Raghunathan (1991) reported that 55% of study participants had engaged in premature sign-off of audit evidence, and Otley and Pierce (1996) found that 88% of respondents reported committing at least one of these undesirable acts. Moreover, Kelley and Margheim (1990) noted that 33% of their sample had accepted weak client explanations and 31% had reduced the amount of work performed on an audit step. Otley and Pierce (1996) found that 89% of auditors in their sample admitted to engaging in RAQP at some point in their career, while Willet and Page (1996) reported that 70% of those included in their analysis had done so.

Other research has evaluated the personal and professional characteristics of the auditor (e.g., self-esteem, locus of control, Type A personality, organizational commitment, intent to stay, need for achievement, experience, professional commitment) when seeking the underlying factors that may motivate RAQP. These researchers (e.g., Donnelly et al., 2003; Malone & Roberts, 1996; Paino, Smith, & Ismail, 2012; Herda & Martin, 2016) provide evidence that individual-level differences can also play a role in predicting RAQP.

### 2.2. Auditor stress and RAQP

By definition, public accounting is a stressful profession (Gaertner & Ruhe, 1981; Weick, 1983), and this demanding environment has been demonstrated to exert a negative influence on job performance (e.g., Choo, 1995; Choo & Tan, 1997; Senatra, 1980;

Fogarty, Singh, Rhoads, & Moore, 2000; Smith, Davy, & Everly, 2007; Persellin, Schmidt, & Wilkins, 2015; Glover, Hansen, & Seidel, 2016). Auditors face stress from the quantity of work (i.e., role overload) they must do, and the limited time allotted to complete it (Center for Audit Quality - CAQ, 2014; Public Company Accounting Oversight Board - PCAOB, 2014). For example, Glover et al. (2016, 2) found that “auditors completing procedures at or near the required filing deadline may compromise audit quality to meet the filing deadline.” Persellin et al. (2015) examined the extent to which workload affected audit quality with a survey of 776 current and former auditors of various ranks from a mix of small, medium, and large firms. Their results showed that “auditors are working, on average, five hours per week above the threshold at which they believe audit quality begins to deteriorate and often twenty hours above this threshold at the peak of busy season” (Persellin et al., 2015, 1). Specifically, the surveyed auditors reported that during the busy season they worked an average of 10 h above the required 55 h required minimum in place at most firms up to an average high of 80 h per week. The respondents further reported that they believe that audit quality begins to deteriorate (e.g., taking shortcuts, declines in professional skepticism, impairment of auditor judgement, and compromising of audit procedures) at workloads of 60 h per week or more (Persellin et al., 2015).

Furthermore, auditors are often subjected to the pressure that arises from dealing the conflicting demands imposed by supervisors, investors, and clients, i.e., role conflict (Goolsby, 1992; DeZoort & Lord, 1997). Individuals are further exposed to tension when they are subjected to multiple demands on their time. For example, tension can result from time conflicts between job demands and familial obligations and/or personal time commitments, or the implicit pressure to underreport time spent on audit procedures (Jackson, Schwab, & Schuler, 1986; Herda & Martin, 2016). Another oft-cited stressor occurs when there is a lack of clarity about one's role within the organization, or when the employee is faced with two mutually exclusive expectations, i.e., role ambiguity (e.g., Fogarty et al., 2000; Smith et al., 2007; Bamber, Snowball, & Tubbs, 1989; Senatra, 1980). The demands of regulatory compliance and the challenges associated with recruiting and retaining quality personnel further add to the burden. Moreover, according to a survey of large and medium-sized CPA firms administered by the AICPA, seasonality/workload compression, client retention, succession planning, and finding and retaining qualified staff are all areas of concern (AICPA, 2013). These stressors, combined with the onus of compliance with new state and federal regulations, have only served to escalate workplace stress for auditors.

As noted, investigations into RAQP typically do so by evaluating the acts in relation to one or more specific “pressures,” most typically time budget pressure. Time budget pressure arises when the firm allocates an inadequate amount of time relative to the amount of effort required to complete specified audit steps (e.g., Cook & Kelley, 1988; Coram, Glavovic, Ng, & Woodliff, 2004; Otley & Pierce, 1996).

When faced with various job-related pressures, auditors have the choice to respond either functionally or dysfunctionally, subject to internal and external factors unique to the individual and situation (Coram et al., 2008; Donnelly et al., 2003; DeZoort & Lord, 1997). They may consider the “moral intensity” of the act, i.e., they may evaluate the extent to which the act is “wrong”, assess the consequences that may occur as a result of the act, and appraise the relative likelihood of those consequences transpiring (Coram et al., 2008). They may also take into account the control systems in place, such as the need to complete the engagement within the mandated time and cost constraints.

These factors interact with individual-level difference variables

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