The Effect of the Social Mismatch Between Staff Auditors and Client Management on the Collection of Audit Evidence

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ABSTRACT

This study provides both survey and experimental evidence to consider how the interaction between staff-level auditors and client management may affect the auditors' perceptions and influence their decisions regarding the collection of audit evidence. During fieldwork, staff-level auditors have extensive interaction with client management. Survey evidence suggests that these staff-level auditors are often "mismatched" with client management, in terms of their experience, age, and accounting knowledge. Further, survey respondents indicate that their clients have, at times, purposefully tried to reduce the extent to which staff interact with them. Experimental results indicate that staff-level auditors reduce the extent to which they collect evidence due to the avoidance of these interactions. Further, client's *intent* to intimidate the young auditor was not necessary to create this result (i.e., mismatch alone was sufficient). Finally, the use of e-mail communication with client management helped to mitigate the reduction in evidence collected caused by the avoidance of in-person interactions. Interestingly, when not collecting all the evidence, several staff auditors documented their findings in such a way as to reduce the likelihood that reviewing auditors would identify a problem. These findings have implications for education and professional training programs, as well as the supervision of staff-level auditors.

I. INTRODUCTION

This study examines how attributes of the personal interactions between staff-level auditors and highly experienced client management may result in the auditor feeling intimidated, affecting their decisions to collect and document evidence. While there has been a great deal of research examining the relationship between auditors and their clients (see Nelson and Tan (2006) for an extensive review of this literature), prior research has not considered the unique dynamic between generally young and inexperienced staff-level auditors and client management who are typically older with more knowledge and experience. This particular relationship is noteworthy for its potential to create a mismatch between individuals as well as for the frequency of interactions (e.g., our evidence indicates that staff auditors interact with client management more than partners or managers do). Further, given staff-level auditors are the primary source of the majority of auditor workpaper compilation, it is important to evaluate how this potential mismatch may influence the content of the workpapers.

Beyond simple age differences, a critical characteristic of this relationship is that staff-level auditors typically have less professional experience and accounting knowledge than client management. This difference in professional experience and knowledge can result in the staff-level auditor feeling "overmatched" and potentially perceiving the client to be "intimidating." Further, audit firms are mindful of the invasiveness of the audit process and attempt to minimize disruptions to the client's daily operations (Van Son and Winters 1982; Wells 2002). This perception of auditor intrusion may cause young staff to find it difficult to interrupt the work of "busy" client management to ask questions related to the audit.

It is important to note that it is the staff-level auditor's *perception* of intimidation that will influence his/her decisions, not simply the audit client's *intent* to intimidate. That is, client management may use intimidation tactics as an explicit strategy (e.g., Antar 2007), or it may be an unintended consequence of the mismatch between the inexperienced auditor and the experienced

client. For either reason, staff-level auditors may, in some situations, choose not to meet with management in order to eliminate a social predicament that could be caused by this interaction in order to preserve a positive social image (Schlenker 1980; Tetlock 1985). Sometimes auditors are able to gather evidence from other sources in order to complete testwork. However, there are circumstances that require the auditor to meet with the client to gather necessary information. If auditors decide to limit their interaction with management, it is likely that the auditor will reduce the amount of audit evidence collected. If appropriate audit evidence is not gathered, then the quality of the audit documentation and potentially the audit conclusions will be impaired.

We first gather survey evidence to determine: (1) the climate surrounding the interactions between staff-level auditors and client management; (2) auditors' perceptions of client management; and (3) whether staff-level auditors encounter intimidating situations with audit clients. Evidence collected indicates that staff-level auditors have substantial interactions with management, perceive management to be much more experienced and knowledgeable than themselves, and often encounter intimidating situations with audit clients. For example, 86 percent of the respondents met with management at least three to five days per week during a typical week of fieldwork, of which 43 percent claimed to have met with client management every day. Moreover, 100 percent of the responding auditors have been in meetings with the client in which the auditor perceives the client's "tone or attitude seemed to indicate that he/she was becoming annoyed with [the auditor's] interruptions of his/her work." Additionally, nearly 81 percent of respondents claimed to have been in meetings with client management in which the auditor felt that "[the client] was purposely trying to give the impression that [the auditor was] bothering him/her."

We next collected experimental evidence to consider whether staff-level auditors limit their interactions with the audit client when faced with an older experienced and even explicitly intimidating client. In the experiment, the auditor's choice to limit his/her interaction with the audit client results in

a failure to gather audit evidence needed to enhance audit quality. Participants[1] completed an audit task in which they interacted with the controller of the audit client to gather additional information. Based on these interactions, the auditors could then decide whether to request additional audit evidence from the controller or to conclude without obtaining additional information. Finally, auditors were given the opportunity to use e-mail as an alternative form of communication to determine if a less socially demanding communication mode might mitigate the influences of this social predicament.

Participants were assigned to one of three treatment groups and a control group. The first two groups interacted with an experienced and older person (experimental confederate) acting as the controller of the audit client. For the first group, the controller behaved in an intimidating manner while for the second group he behaved in a neutral (non-intimidating) manner. The third group interacted with a classmate serving in the role of controller (similar age and experience). Finally, a control group interacted with a simulated controller (the audit client interaction occurred via narrative form on computer). After having the opportunity to meet with the client in person, participants were given the opportunity to instead communicate with the client via e-mail (resulting in a repeated measure: communication mode). Results indicate that participants meeting with "client management" who had similar age and experience were much more likely to request additional evidence in a meeting with the client than either of the groups meeting with the older and more experienced client management. However, there was no difference in evidence requested between the two groups of participants dealing with the more experienced management. That is, it did not matter if the more experienced controller was explicitly acting in an intimidating manner or not, participants were equally reluctant to interrupt the controller to request additional evidence. Finally, participants in the treatment group interacting with someone of similar age and experience did not differ significantly from the

[1] Given the interactive requirements of this experiment, participants were masters students with internship work experience (one busy season). This group is an appropriate convenience sample as they had limited work experience as does the population for which they proxy -- first/second year staff. It is worth noting that over 50 percent of these students had already accepted positions at the firms for which they interned.

control group (no social interaction). These results indicate that staff-level auditors' decisions to request audit evidence from the client are driven by their reluctance to interrupt the experienced, knowledgeable, and older client management.

When given a different form of communication (i.e., e-mail), participants were more likely to request additional evidence. However, this effect if primarily occurring in the treatment groups where the controller was more experienced, thus moderating (but not mitigating) the reduction in evidence collection caused by avoiding live, face-to-face interaction. While the less socially demanding electronic communication partially mitigates the effects described in this paper, it should be noted that prior research has indicated that such forms of communication can result in a greater likelihood of message misinterpretation (Kock 2005) and are generally less preferred in audit tasks involving risk (e.g., Nöteberg et al. 2003; Brazel et al. 2004; Agoglia et al. 2009). Further, recent comments suggest that firms are becoming increasingly concerned with younger staff's preference for electronic communication over face-to-face interaction with their clients (Nellen et al. 2009; Reutter 2010; Wilson and Rember 2010).

This study is somewhat unique in its design in that the dependent variable is an actual choice rather than a behavioral intention. Participants were put in an audit context where the manipulated variables were designed to create a social situation that could affect their choice to collect audit evidence. While the audit and the accounts receivable confirmation where known to be fictional, the social predicament created which influenced the participants' choice was real. Results of the additional analysis show that a control group (where the audit client was described) completing a more traditional, scenario based, condition resulted in different choices than the treatment groups. These findings suggest that future audit research may benefit from the creation of actual social interactions to consider the many potential influences resulting from the very social nature of a typical audit.

The remainder of this paper is organized as follows. The next section provides a background review of the relevant literature and results of the preliminary survey. Section III provides hypothesis development. Section IV is a general outline as to the research method and approach of the experimental study. Section V provides results of the study, and the final section includes discussion and concluding remarks.

II. BACKGROUND LITERATURE & SURVEY RESULTS

Staff Auditor Work Environment

Of direct interest to this study is the disparity between the counterparts responsible for a substantial amount of the audit evidence collected during the audit. A typical staff auditor is relatively young (i.e., age 21-24), has fairly recently graduated college and may not yet be a CPA. On the other hand, members of the client management are typically older and more experienced, particularly controllers who are quite knowledgeable and experienced. These individual differences create an interesting dynamic within most audits.

Another related aspect of audit fieldwork is the potentially frictional nature of the professional relationship between the auditor and client management due, in part, to the invasiveness of the annual audit fieldwork to the company's regular daily operations (Van Son and Winters, 1982; Wells, 2002). During fieldwork, auditors meet with management to request information; to obtain an understanding of the business and specific processes; and to obtain clarification and explanations for audit testwork findings. Such requests and discussions deduct from the time management has to perform regular duties.[2]

[2] In addition to these interruptions, the auditor's presence is also intrusive to the operations. For some of the largest public companies, auditors may have a presence at the client's offices year-round, but even in a mid-sized company, the year-end audit fieldwork can last for several weeks.

Management Behavior

To cope with the invasiveness of the audit, the client may employ various impression management tactics. Impression Management describes a behavior engaged in for the purpose of controlling or manipulating the impressions formed by others (Tedeschi and Reiss 1981; Sosik et al. 2002). One such tactic, intimidation, represents strategic behavior aimed at convincing others to "do as the strategist wishes through implicit or explicit threats and warnings" (Tiedens 2001, p. 87).[3] Yukl and Falbe (1990) included intimidation in a broader category of influence tactics, more frequently used on subordinates as it involves pressuring a less powerful individual into a desired behavior or action (see also Keltner et al. 2003).

This discussion suggests that characteristics of the audit work environment, as well as the behavior of client management, have the potential to affect the behavior of audit staff. However, if staff auditors do not perceive these environmental features, they will be unaffected. Thus, we conduct a survey to first attempt to better understand this environment and particularly the staff auditors' perception of the environment to develop expectations of how such characteristics may affect workpaper and ultimately audit quality.

Survey of Staff-level Audit Professionals

Participants

An electronic survey was sent to staff-level audit professionals with up to two years of audit experience.[4] Thirty staff-level auditors participated in the survey.[5] Participants were 60.7 percent

[3] Impression management strategies are categorized into five categories: ingratiation, self promotion, exemplification, supplication, and intimidation (Jones and Pittman 1982). A manager's choice of which impression management technique to use is influenced by the other person(s) involved, the manager him/herself, and the situation in which both parties interact (Gardner and Martinko 1988).

[4] Contact information for the staff-level auditors to whom the surveys were sent was obtained through a local university's accounting professional advisory board. Thirty-four staff-level auditors were contacted via e-mail to request participation in the survey. Some of the e-mails may have been undeliverable due to inaccurate e-mail addresses or due to spam filters; consequently we do not have an exact response rate. However, at least 88 percent of staff-level auditors who were contacted responded to the request.

female and 39.3 percent male. Respondents had an average work experience of approximately fifteen months. Work experience averaged approximately five different audit engagements for these staff-level auditors. Of the respondents, 50 percent worked for international firms, 21 percent for national or large regional firms, and 29 percent for local firms.

Staff Auditor Work Environment

Most interaction between the staff-level auditor and client management takes place during audit fieldwork. Survey participants have had significant interactions with audit clients. Approximately 86 percent of the participants stated that they interacted with client management three or more days during a typical week of fieldwork. And, audit staff spend most of their time (85 percent) performing audit fieldwork (non-tabulated). Staff-level auditors reported that of the audit team's interaction with the client, approximately 30 percent is done at the non-supervisory staff-level. While the senior staff-level auditors had the most interaction with the client, according to respondents (mean = 35.86 percent), the staff-level auditors had the second highest percentage (mean = 29.66 percent), interacting with the client more than managers or partners (mean = 20.69 percent and 13.79 percent, respectively). Further, the young audit staff participants had significant interaction with high level members of client management (e.g., 25 percent of their meetings with the controller and 41 percent of their time with manager/director level employees). Though based on the staff-level's observations, the results provide evidence that while the audit fieldwork is being conducted, staff-level auditors have a significant amount of interaction with the audit client.

Staff-level auditors responding to the survey also perceived themselves to be unequal to client management in several areas. In three separate questions, participants were asked if members of client management had more (1) accounting knowledge, (2) professional accounting experience, and (3)

[5] Twenty-eight of the thirty participants finished the survey. Two participants did not complete the survey. However, for the questions that these two participants answered, the results are included in the analysis. Tables indicate the number of responses included in the analysis.

industry-specific knowledge. Based on a scale from 1 (client *never* has more knowledge/experience) to 11 (client *always* has more knowledge/experience), it appears that staff-level auditors often perceive members of client management as having more accounting knowledge (mean = 7.35), professional accounting experience (8.19), and industry-specific knowledge (mean = 9.69) than themselves.

Results from the survey also indicate that the audit fieldwork process is perceived by staff-level auditors as invasive to the audit client's daily operations. Of the documents requested from the client, respondents reported that approximately 72 percent of the documentation is requested during audit fieldwork. Participants reported requesting documentation at least once daily during the audit fieldwork (mean = 1.77 times per day). In addition to documentation requests, participants also reported asking the client questions regarding testwork on average approximately 2.5 times per day. While it seems that the average number of interruptions is "few," it is important to note that average is *per person, per day*. If each member of the audit team is interrupting client management approximately four times a day, the invasiveness of the audit may be viewed as quite substantial. Finally, participants perceive that their audit clients fairly often believe that the audit fieldwork is invasive to their daily operations (mean=5.39; 11-point scale from 1- "never" to 11- "always").

Management Behavior

In the survey, participants were provided with five brief scenarios. The focus of this section was to determine if auditors found themselves in certain situations and, if they had, how often. Thus, each scenario was followed by two questions: (1) "Has a similar situation happened to you during an audit?" and (2) "If so, how often does it happen?" For example, one of the scenarios describes a situation where the auditor feels that the client is *intentionally* trying to give him/her the impression

that he is bothered by the auditor's interruptions. Most of the participants had experienced a similar situation (approximately 81 percent), although not on a frequent basis (mean=1.68).[6]

In another scenario, the client explicitly states he will be busy for the next few days and asks the auditor to keep "questions to a bare minimum." Results indicate that most staff-level auditors have experienced a similar situation (73.1 percent of participations) on an "occasional" basis (mean=1.91). This type of explicit request of the auditor demonstrates both the invasiveness of the audit process and management's explicit attempt to try to minimize the interruptions. Such a request is seemingly at odds with the auditor's goal of collecting all evidence necessary to perform a quality audit. Other scenarios provide similar findings indicating that staff auditors' perceptions of their interaction with client management have the potential to create feelings of intimidation (see Table 1).

[Insert Table 1]

III. HYPOTHESES DEVELOPMENT

Arkin and Shepperd (1989) note that a person can often perceive individuals who have an advantage over him/her as "intimidating." Thus, this mismatch of knowledge and experience, coupled with a difference in age, can create an intimidating situation for the staff-level auditor. Results of the survey indicate that staff-level auditors are in fact aware of these differences between themselves and the audit client, and that this mismatch of experience and knowledge (and age) is common during audit fieldwork. Without consideration of the behavior and actions of client management, this difference in professional experience and knowledge alone has the potential for staff-level auditors to perceive interactions with client management as "intimidating." However, beyond the social mismatch, client management may have incentives to try to intentionally intimidate the staff-level auditor, including minimizing staff-level auditors' interruptions and questions during fieldwork.

[6] The Frequency of Experience is a categorical measure asked of participants that responded "yes" to having experienced a similar situation with an audit client. (Question: "If you answered "yes," how often has this happened to you?") The category options were 1=Rarely, 2=Occasionally, 3=Regularly, 4=Frequently, 5=Almost Always.

Intentional Intimidation

The survey findings indicate that the audit setting itself often results in a working relationship in which the staff-level auditor can be intimidated by client management. Gardner (1992) notes that intimidation is often present when the "intimidator" can inflict hardships on the other person.[7] Given intimidation is based on coercive power (Yukl and Falbe 1990; Arkin and Shepperd 1989), Keltner et al. (2003) theorize that within relationships or situations, the individuals with more relative power, such as the audit client, tend to use more assertive, approach-type behaviors. The less powerful individuals, such as staff-level auditors, tend to use inhibited, avoidance-type behaviors. According to Keltner's theory, people in the less powerful position are "more sensitive to the evaluations and potential constraints of others" (Keltner 2003, p. 269). Additionally, people with relatively low power are less inclined to act, compared to those with relative high power (Galinsky et al. 2003; Anderson and Berdahl 2002). One reason for this inaction is that individuals with relatively low power are more influenced by situational pressures, compared to those with high power (Galinsky et al. 2008). Therefore, in perceiving an "intimidating" audit client, the staff-level auditor may, in some situations, choose to avoid interaction with management, reducing audit evidence obtained.

Social Image

Perceptions of inferiority and intimidation may also impact one's self-image, raising self-doubt in abilities and knowledge. Previous research has found that in order to preserve a positive self-image, people will change their behaviors and decisions (Belkaoui 1985; Cialdini and Goldstein 2004; Santos-Pinto 2008). According to Tetlock (1985), "one of the most influential motivational assumptions in social science is that people seek the approval and respect of others as ends-in-themselves" (p. 308). Such changes in behavior are attempts to mitigate negative impacts to one's self-esteem and to

[7] Gardner (1992) further explains that intimidation "occurs most often" when: (1) relationships are of a nonvoluntary or contractual nature; (2) the intimidator has the capability of inflicting either physical, mental, economic, or professional hardships on the target; (3) the target has weak retaliatory capabilities; and (4) the intimidator is willing to forgo any hope of being liked by the target. These four "criteria" can be found in the staff-level auditor and client relationship.

preserve a positive self-image. Tetlock further asserts that people attempt to gain others' approval and respect for materialistic or professional gain.

Schlenker (1980) states that people act in ways to maximize desirable outcomes and minimize undesirable ones. He further explains that a common response to minimize undesirable situations is to avoid them. Staff-auditors' interactions with potentially intimidating clients (either through explicit behavior or just due to a social mismatch) can threaten the staff-level auditor's self-image and be embarrassing. In such situations, a person may "avoid" or "retreat" from the situation in order to preserve self-image and avoid negative repercussions (Schlenker 1980, p. 135). However, as Bhattacharjee and Moreno (2002) assert, if "feelings" lead to an inappropriate reaction to the target, they should be discounted as a source of information. In an audit setting, auditors should be cognizant of such feelings and make professional decisions without interference from such perceptions and feelings. If the auditor fails to discount such perceptions and feelings, then the changes in their behavior may directly impact the audit process.

Thus, based on Social Image theory we predict that when interacting with an older audit client with more knowledge and experience, a staff-level auditor will be less likely to go to the audit client with requests for information than when requesting information from a client with similar age and experience. Further, staff-level auditors interacting with an audit client who behaves in an intimidating manner will be less likely to request information than from an audit client who does not. It is important to note that in deciding not to meet with the audit client, the auditor chooses not to request additional audit evidence. Stated formally,

H1a: Participants will be less likely to request additional audit evidence in a live interaction with client management who is older with more knowledge and experience, than from client management who is similar in age and experience.

H1b: Participants will be less likely to request additional audit evidence when client management has intentionally behaved in an intimidating manner than when the audit client has behaved neutrally.

Electronic Communications

Prior communication research has evaluated the comparison between electronic communications and face-to-face communications in social situations, including the workplace (Ho and McLeod, 2008; Maruping and Agarwal, 2004). Ho and McLeod (2008) find that electronic communications mitigate subjects' reluctance to express opinions found in face-to-face communications. Their findings suggest that electronic communication reduced the social cues to create an environment where the participant felt comfortable making his/her thoughts and opinions known. Audit research has also found electronic communications to have a significant impact on the audit process. Brazel, et al. (2004) find that the mode of review (electronic versus face-to-face) influences auditors' efficiency and effectiveness of preparing audit workpapers. They find that preparers who know their work will be reviewed using a face-to-face review method felt more accountable and are more focused on audit effectiveness. Their results suggest that audit staff could reduce accountability pressures, if given the choice, by communicating electronically. It is worth noting that in addition to lower quality workpapers resulting from electronic review expectations, a related study, Agoglia, et al. (2009), finds that use of electronic review of workpapers results in lower quality reviewer judgments (i.e., quality issues persist through the review process).

Maruping and Agarwal (2004) note specific differences between face-to-face communication and e-mail communication. They explain that e-mail has an advantage to provide the communicator with the opportunity to rehearse what needs to be communicated while face-to-face does not. Therefore, the auditor can choose exactly how to phrase the request for additional information before sending the e-mail. They further explain that face-to-face communication provides the opportunity for immediate feedback and multiple cues, such as body language and tone of voice, that are not possible with e-mail. While this may be a disadvantage to e-mail communications, a staff auditor feeling the

social pressures described above might prefer these limitations and be more likely to ask questions or request documentation if allowed to do so via e-mail relative to a face-to-face meeting.

Therefore, we predict that the form of communications (in-person versus e-mail) will increase the likelihood that audit staff will request additional data. Further, given that social pressures are heightened when dealing with an older and more experienced client, we predict that electronic communication will moderate the effects described in hypotheses set one. Specifically, the e-mail option will improve the evidence gathered for participants interacting with older, experienced client management more than participants interacting with a similarly matched client. (see Figure 1 for diagram representing the expected interaction). This leads to the following hypotheses,

H2: Participants will be more likely to request additional audit evidence via email than they will via a face-to-face interaction.

H3: The ability to communicate with the client via e-mail will reduce the effect of reduced evidence collection caused by interacting with an older, more experienced client.

[Insert Figure 1]

IV. EXPERIMENT

Participants

Given the demanding logistical requirements of this study (discussed below), graduate auditing students with approximately 2.5 months average internship experience (one busy season) were considered a practical and appropriate proxy for staff-level auditors with minimal experience. Participants were 96 Masters of Accountancy students from a large state university in the Southeast. Participants were 46 percent female and 54 percent male.

Experimental Audit Case

Participants were provided a case in which they were asked to assume the role of a first-year audit staff on a hypothetical audit engagement. The case materials and directions were presented via

computer. After a presentation of instructions and client background, participants were asked to complete testwork on accounts receivable confirmations. As discussed below, participants were motivated in a couple ways to help create an environment of accountability. First, this was an audit case that was included in the students' grade for the course. In addition, participants were told that their workpapers would be reviewed similar to the review process used in practice.[8]

To complete the testwork, participants reviewed an accounts receivable confirmation that had been returned with a potential discrepancy between the customer's records and the audit client's records. As part of the assigned task, participants were asked to determine the nature of the discrepancy and to conclude on accounts receivable testwork. Upon reviewing the returned accounts receivable confirmation noting the discrepancy, the participant was given a chance either to document his/her conclusion on the nature of the discrepancy or to request more information from the controller. It should be noted that while the auditor was not initially given enough information on the confirmation to make an appropriate conclusion, it was the participant's decision whether to request additional information from the audit client. That is, participants had the choice to meet with the client for the second time (the first meeting being the introduction), thus participants could, and a few did, decide not to meet with the controller to obtain necessary information. However, as described below, the dependent variable is the decision whether or not to meet and collect corroborating evidence the third time.[9]

In the second meeting with the controller, the participant was provided more information regarding the confirmation. Specifically, the controller stated that the item is "in-transit" at year-end and that according to the shipping terms (FOB Shipping Point), the sale and receivable are properly

[8] These review comments were provided to participants during the debriefing discussion.

[9] While, 97 participants initially started the experimental case, thirteen participants chose not to meet with the controller to obtain the necessary information (met only with the controller in the introduction). The design choice to let participants avoid this necessary meeting served to make the social predicament more salient (i.e., interrupting the work of the controller). We include these 13 participants when possible (Table 2), though results are unchanged if they are removed. However, since these participants did not receive the full manipulation nor the option to e-mail the controller to receive information, they are excluded from the analysis of H2 and H3.

recorded. The controller also provided the participant with copies of the invoice and shipping documents to verify the shipping dates. However, the invoice and shipping documentation were silent as to the shipping terms, thus the verbal statements of the controller regarding the shipping terms could not be verified to the written documentation.

Upon reviewing these documents, the participant was given the option to meet with the controller (for a third time) in order to request information to verify the shipping terms that the controller had verbally stated. Specifically, the auditor had to decide whether or not to obtain a copy of the contract between the two parties to verify the shipping terms. Finally, participants concluded their workpaper documentation based on the extent of evidence that they collected. Participants then responded to questions regarding their perceptions of the audit client, and finally, they provided demographic information.

Independent Variables

To test the hypotheses, we use a 3x2 Categorical ANOVA design where the first factor, *controller type* has three levels and is manipulated between participants. The second factor, *mode of communication*, is manipulated within participants. We manipulated controller type by randomly assigning participant into one of three groups. In the first group, participants interacted with a real person who acted in the role of the audit client controller.[10] The controller was clearly older, described as (and was) quite knowledgeable with significant accounting experience.[11] To further simulate the audit environment, the controller was shown to be busy preparing for a board meeting. The controller was provided a "script" of information to be given to participants (see Appendix for copy of script). In this first group, the controller made comments to participants designed to invoke feelings of

[10] It is important to note that the experimental confederate was not "pretending" to be a controller for the hypothetical company, as such "pretending" could undermine his actual experience and accounting knowledge. Rather, the confederate stated that he was helping with the audit exercise by providing information in the role of controller.

[11] Two professionals were used in the role of the controller, each meeting with one-half of the participants (half of each condition). Both professionals were male and were similar in age and years of accounting experience. Finally, difference in controller had no interactive or main effects on the dependent variable, nor did it influence any of the other reported results.

intimidation. Comments included statements that rhetorically questioned the participants' accounting/auditing knowledge and experience; condescending remarks in his explanations and clarifications; and statements which indicated his frustration with being interrupted.[12] Examples of these statements include:

> *"I thought you had had internship experience as an auditor. I'm surprised you have questions about this."*
>
> *"Customer orders are shipped FOB shipping point. You should have covered that in your accounting classes. You understand what that means, don't you?"*

The second group encountered the same situation as the first group except that the controller did not act in an intimidating manner. That is, participants received the same accounting information from the same controllers, but the intimidating statements referred to above were omitted with this group.

The third group dealt with "controllers" that were matched with the participants with regard to age, knowledge, and experience. Six different controllers were used for this group with no differences found between controllers. In this group, the "controllers" used the "non-intimidating" script from Group 2 above.[13] Finally, for additional comparisons, we conducted a "pure" control group without any social interaction. Participants in the control condition received the same accounting information, but were provided the narrative of the meeting with the audit client (non-intimidating) via computer. That is, no meeting with a live person took place.

The second independent variable, Mode of Communication, was manipulated within participants. Once participants made the decision whether or not to request additional audit evidence from the controller (the dependent variable described below), they were informed that the controller

[12] Intimidating comments included in the script were based on information obtained in the experiential questionnaire section of the survey. Participants were asked to consider a situation in which they had to interact with difficult audit client personnel. Based on that experience, participants were asked open-ended questions relating to their interactions and perceptions of management.

[13] Students serving as controllers were asked to indicate any participants that were personal friends. Very few were identified as friends (5), most were either acquaintances or unknown to controllers. Controllers generally recognized the face, but didn't know the names of the participants. No differences were found for any analyses based on how well the controller knew participant or by removing friends from analysis.

was unavailable to meet. In lieu of meeting, participants had the opportunity to e-mail the controller to request the additional audit evidence. Participants were provided this option (within-subjects manipulation) regardless of the assignment to group or whether they decided to initially request the information in-person from the controller.[14]

Dependent Variable

The dependent variable is dichotomous representing the *actual choice* to meet with the controller and gather additional audit evidence (i.e., requested documentation to corroborate verbal statements regarding the shipping terms). Thus, the dependent variable is either 1 (requested evidence from controller) or 0 (did not request evidence from controller). If the staff-level auditor chose not to request the additional evidence, then he/she decided to conclude with only verbal representations from management (weaker quality of audit evidence). We use a repeated measure design such that the dependent measure (choice) is measured again when the form of the communication is electronic (vs. in-person).

V. RESULTS

Participants' Perceptions of Audit Client

Participants in all three treatment groups were asked to rate their perceptions of the audit client on several dimensions on a 9-point scale (1- "strongly disagree" to 9- "strongly agree"). Significant differences on these scales between groups indicate that the manipulation of these perceptions in the two live groups (and the control group) was achieved, based on participants' responses. Specifically, the perception of the audit client being "intimidating" was different between the explicitly intimidating group and the other two groups. Participants meeting with the explicitly intimidating client rated him more intimidating (mean = 6.60) than both the "non-intimidating" audit client (mean = 3.32; p-value <

[14] Due to the nature of this manipulation, it was not possible to alter the order of the two levels of the repeated measure. That is, our results do not allow a test of whether the e-mail condition would have had the same effect if presented before the in-person condition.

0.0001) and the third group meeting with a similarly matched client (mean=2.42; p-value < 0.0001) indicating that the manipulation was effective.[15]

Test of Hypotheses Set 1

To consider H1a, we compare the 40 participants who had an in-person interaction with the older/experienced controller with the group meeting with an equally matched controller (n=18). Table 2, Panel A presents the frequency means of participants who decided whether to request additional information from the audit client. The mean percentage of participants who decided to request the information in-person from a similarly matched controller was 72 percent, more than twice that of the experienced controller groups (χ^2 = 9.444; p-value = 0.002; Fisher's Exact Test p-value = 0.003; Panel B, Table 2). It is worth noting that when considering just the age/experience difference (i.e., considering only the cell where experienced controller was acting helpful) the difference is still significant (χ^2 = 7.114; p-value = 0.008; Fisher's Exact Test p-value = 0.009; Panel B, Table 2). These findings support H1a and suggest that when staff-level auditors need to request information from an audit client, they are less likely to request the information when they must interrupt the work of a highly experienced and older client representative than when the client employee is similar to them in age and experience.

[Insert Table 2]

Next we consider how strategic intent to intimidate influenced the participants' likelihood of obtaining additional evidence (H1b). As can be seen by the frequencies reported in Panel A of Table 2, the *behavior* of the controller had no effect on participants' decision to request corroborating evidence. In both groups, seven participants (28 percent) chose to request additional information from the audit client (χ^2 = 0.00, p-value = 1.000, Fisher's Exact p-value = 0.6290). These results are clearly not

[15] Similar results were obtained for the participants' other perceptions of the audit client such as: approachableness, impatience, willingness to help and likeability.

supportive of H1b and suggest that the behavior of the controller had no effect even though the results of perception questions, discussed earlier, indicate that these two groups differed in their perceptions of the controller. Thus, it appears that the social situation itself was enough to prevent most participants from collecting additional evidence. Consistent with this inference, in the debriefing meetings, participants suggested that interrupting the work of the older client who was more experienced and knowledgeable created an "intimidating" social predicament for them, regardless of the client's dialogue (intimidating or not) with the participant.

Test of Hypotheses 2 & 3

Given the lack of difference between the two groups that interacted with the older, more experienced controller, we collapsed them into one group (more experienced controller) to compare with the group meeting with the similarly matched controller in a categorical ANOVA to test for the main effect and the hypothesized interaction. Hypothesis 2 predicts a main effect for communication mode while H3 states that communication mode is expected to improve the collection of evidence more for those participants dealing with the older/experienced client than for participants dealing with the similarly matched client. Results of the categorical ANOVA reported in Table 3, Panel B show that for both groups (experienced vs. similarly matched controller) the percentage of participants requesting information increased when e-mail was the mode of communication, supporting H2 ($\chi^2 = 6.21$; p = 0.013). However, as noted in Figure 2, the increase appears different between the two groups. The increase was larger for the participants who met with the experienced audit client (from 35.0 percent to 60.0 percent), compared to those meeting with similarly matched client (72.2 percent to 77.8 percent). The different slopes suggest an interaction effect between the mode of communication and the form of interaction.

[Insert Figure 2]

The categorical ANOVA results for H3, reported in Table 3, Panel B indicate that the interaction displayed in Figure 2 is only marginally significant at the = 0.113 level ($\chi^2 = 2.52$).[16] It should be noted, that this is a *non-directional* test of the predicted interaction. Given the limits of categorical ANOVA, we use Fisher's Exact Test to compare frequencies of the cells for the predicted interaction (Table 3, Panel C). The directional prediction for the overall interaction is significant at p=0.067. Further, when looking at the simple effects, they are in line with our predictions. Specifically, for the more experienced controller, participants were more likely to collect the necessary evidence if allowed to use e-mail (p=0.022), while for the younger controller the e-mail option had no effect on the collection of evidence (p=0.50). These results indicate that the use of e-mail allows the effect described in H1a to be reduced, providing support for H3.

[Insert Table 3]

However, it should be noted that participants were provided the e-mail option *after* they made their decision to either conclude on testwork or to request additional audit evidence (e.g. sales contract) from the controller in-person. Within this experimental design, requesting additional information from the controller in-person was the only option initially given to the participant. Therefore, 65 percent of the participants dealing with older experienced client management chose to conclude without the proper information. Only when the option of e-mail was provided did the percentage of participants concluding without the proper information decrease to 40 percent. Therefore, the main effect of feeling intimidation by an older, experienced client management is still important to the staff-level auditors' perceptions and decisions to gather more audit evidence.

[16] Additional analysis was conducted using Fisher's Exact Test (Table 8, Panel C), due to the small sample size and corresponding number of participants in each cell. Under the Fisher's Exact Test, the simple and main effects are still significant and are consistent with the predicted interaction effect.

Control Group Analysis

Recall that we also conducted the experiment with a computer simulated controller. Participants didn't interact with an actual person, but rather indicated whether or not they would interact with a person to get the necessary information. The control group removes all influences of a social interaction, and is more similar to research employing a case scenario and asking participants what they would do. These results also indicate how the population of participants would perform without any social pressure working against the best solution (i.e., documenting the shipping terms beyond verbal evidence). The computer simulated controller's dialogue was the script used by the non-intimidating controllers in the treatment conditions.

The results of the control group are presented in the bottom cell of Panel A of Table 2. Note that the results are very similar to the similarly matched controller cell. Approximately 69 percent of participants requested the additional documentation, which is significantly greater than the 28 percent found with the experienced controllers (Fisher's Exact p-value = 0.0006). Results of the categorical ANOVA are also similar to the primary analysis, although significance is slightly improved due to the increased sample size (e.g., interaction p-value = 0.066). Finally, there are no differences between the control group and the participant group dealing with similarly matched controllers (p-value > 0.50). These results suggest that when dealing with client management that is similarly matched with regard to age and experience, participants behave like they would without any social concerns. These results also indicate the limitations of case-based research instruments when dealing with social aspects of the audit environment.

Additional Analysis

Depending on how staff auditors documented their findings, reviewing seniors (or managers) may correct the evidence quality issues discussed above. However, staff-level auditors have an incentive to avoid review notes and may attempt to stylize their responses to this end (Rich et al.

1997). Thus, we consider how staff documented their findings from the accounts receivable confirmation issue. Participants were given four basic options to start their workpaper, and then were able to add text as they saw fit. Table 4 provides a summary of these options as well as the frequency with which they were used by participants.

Note, that after the availability of the e-mail communication, most participants (60 percent) collected the sales contract (verifying the shipping terms). These participants primarily (89.5 percent) chose the appropriate conclusion (option C), stating that dates and shipping terms were verified by the appropriate documents. However, only 55 percent of the participants not collecting the sales contract documented their findings appropriately (i.e., stating that their conclusions are based on verbal evidence). Thirty percent chose a documentation option that was relatively ambiguous with regard to the source of the shipping term information (option B). Another 10 percent documented that the conclusion was based on a sales contract that they did not obtain (option C). These findings suggest that staff-level auditors can prepare workpapers that might not necessarily reflect the level of work performed and/or ambiguously state conclusions reached. As a result of such documentation, workpaper reviewers (e.g. senior staff, managers, and partners) can fail to notice shortcomings in the audit work and fail to have the auditors follow-up on such matters (Lambert and Agoglia 2010). It is also interesting to note that 36 percent of participants not obtaining any of the documentation concluded that the "proper cut-off" assertion was violated (Option A, the incorrect conclusion based on evidence that these participants chose not to collect), potentially leading to unnecessary additional audit work and reduced efficiencies.

[Insert Table 4]

VI. CONCLUDING REMARKS

This study investigates the interactions between young, inexperienced staff-level auditors and older, more knowledgeable audit clients. The mismatch of age, experience and knowledge between

staff-level auditors and client management can result in a potentially intimidating situation for the staff-level auditor and potentially impact the decisions being made while collecting information and conducting testwork. Results of this study suggest that this social predicament reduces the likelihood that staff-level auditors will request additional audit evidence in-person from the audit client. Further, results do not support the hypothesis that the client's intent to intimidate the auditor results in a difference in behavior. Participants meeting with a "non-intimidating" yet still older and experienced controller were just as likely to decide not to meet and collect corroborating evidence as participants meeting with an "intimidating" controller. And both groups were less likely to request additional information in-person to gather audit evidence, compared to the treatment group where the controller was similarly matched. However, this effect was found to be moderated by the mode of communication (i.e., e-mail). Finally, additional analysis suggests that participants often document their findings in such a way as to minimize the chance of a reviewer identifying the issue.

These results provide evidence regarding the impact of the auditor-client interactions on audit quality. It also provides practical implications for audit training practices, indicating that such issues of client interaction and intimidation should be addressed in professional training programs of staff auditors and reiterated in planning meetings prior to fieldwork. Further, the interaction results suggest that use of e-mail as a mode of communication mitigates much of this effect. However, it should be noted that prior research has indicated that such electronic forms of communication can result in a greater likelihood of message misinterpretation (Kock 2005) and are generally less preferred in audit tasks involving risk (e.g., Nöteberg et al. 2003; Brazel et al. 2004; Agoglia et al. 2009).

Participants completing this audit task did not have all the same pressures and incentives in completing the audit task as audit professionals do in the field. We attempted to create a parallel situation. For example, in addition to the characteristics of the experimental case described, the instructions indicated that participants would receive feedback on their workpaper documentation

similar to review notes in practice. Additionally, participants in the live group were informed that the person in the role of the audit client would have an opportunity to evaluate the participants as well. This expectation of evaluation and feedback was included to incentivize participants to take the task seriously, as well as attempt to add the element of evaluation and review of work (accountability) that is found in practice. [17] Also, while Masters of Accountancy students were an appropriate proxy for staff-level auditors in this situation, this study does not investigate at what professional level or experience level the effect of live interactions on auditor decisions may start to dissipate. Future research can expand on these findings by considering the potential for differing results due to differences in, for example, age, amount of experience, and gender.

[17] Participants were provided feedback during a debriefing discussion, including any input from the "controller," after all participants had completed the experimental task. In this discussion, it was evident from the participants' comments and questions that they did take the audit task seriously and thought about their decisions during the task.

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Table 1
Scenarios

Scenario	Percentage of Participants who have Experienced Scenario[1] %	n	Frequency of Experience[2] Mean (SD)	n
After a discussion with the client regarding questions that arose during audit testing, you notice that, by the end of the discussion, his tone or attitude seemed to indicate that he was becoming annoyed with you and your interruption of his work.	100.0%	28	1.79 (0.63)	28
Upon leaving a conversation with the client about your audit testwork, you feel that he was purposely trying to give the impression that you were bothering him.	80.8%	28	1.68 (0.65)	22
While meeting with a client, the client made statements that suggested that he had more knowledge and experience than you with respect to the particular matters being discussed. You were left with the impression that he thinks that you may not know what you're doing.	69.2%	28	1.40 (0.50)	20
During a meeting with the client about audit-related questions, the client tells you that he will be very busy for the next few days and that he would appreciate it if you kept your questions to a bare minimum.	73.1%	28	1.91 (1.14)	21
You are working on an area of the audit in which you have little prior experience. In discussing the audit testwork with the client, you rely on their expertise in completing testwork.	53.8%	28	2.13 (0.64)	15

[1]*Percent of Participants who have Experienced Scenario* = The percentage of participants that responded "yes" to having experienced a similar situation with an audit client. (Question: "Have you ever encountered a situation similar in nature to this one?")

[2]*Frequency of Experience* = Categorical question asked of the participants that responded "yes" to having experienced a similar situation with an audit client. (Question: "If you answered "yes," how often has this happened to you?") Scale: 1=Rarely, 2=Occasionally, 3=Regularly, 4=Frequently, 5=Almost Always

Table 2
Frequency Table - Staff-Auditors Requests for Audit Evidence
in Live and Simulated Interaction Groups [H1a, b]

Panel A: Frequency Table (frequency, mean, sample size)

	In-Person Meeting
Audit Client Behavior	*Cell 1*
Intimidating (Older and Experienced)	7 / 25 35.00%
	2
Non-intimidating (Older and Experienced)	7 / 25 35.00%
	3
Similarly matched (Young and Inexperienced)	13 / 19 68.42%
	4
Control (Simulated Interaction)	18 / 26 69.23%

Panel B: Frequency Comparison by Cell:

	Chi-Square	**p-value**	**Fisher's Exact p-value**
H1a			
Overall Age/Experience Effect [(1+2) vs 3]	9.444	0.002	0.0027
Age/Experience Effect {w/o intimidation} (2 vs 3)	7.114	0.008	0.0086
H1b			
Explicit Intimidation Effect (1 vs 2)	0.0000	1.0000	0.6290

Table 3
Proportion of Staff-Auditors Requesting Audit Evidence

Panel A: Frequency Table (frequency, mean, sample size)

	Communication Mode of Request		
Controller Type	**In-person Meeting**	**E-mail**	**Overall**
Older, Experienced Controller [1]	*cell 1* 14 / 40 35.00%	*2* 24 / 40 60.00%	n = 40
Similarly-matched Controller (Young and inexperienced)	*3* 13 / 18 72.22%	*4* 14 / 18 77.78%	n = 18
Overall	27 / 58 46.55%	38 / 58 65.15%	

[1]Given the lack of difference between the two groups with older/experienced controllers, these cells were collapsed. The number of participants in the Live Interaction Group varies from Table 2 due to exclusion of participants who did not meet with the audit client after the initial introduction (see footnote 8).

Panel B: Results of Categorical ANOVA

	df	**Chi-Square**	**p-value**
Intercept	1	48.2	<0.0001
Controller Type	1	6.07	0.014
Communication Mode *(H2a)*	1	6.21	0.013
Controller Type x Communication Mode *(H2b)*	1	2.52	0.113

Panel C: Fisher's Exact Test

H2b Comparisons:	**p-value**
Predicted Interaction [(2-1) > (4-3)]	0.067
Communication Mode Simple Effects:	
Older Experienced Controller (2 > 1)	0.022
Similarly Matched Controller (4 > 3)	0.500

Table 4
Summary of Participants Conclusion

Panel A: Options for Conclusions

A: Based on review of the accounts receivable confirmation, the "proper cut-off" assertion has been violated. NTI erroneously included this invoice in sales and accounts receivable at year-end. Exception noted. Additional testwork required.

B: This shipment was in-transit at year-end. According to the shipping terms with the customer (FOB shipping point), the customer took possession of the goods on 12/31/08. New Technologies has properly accounted for the sale and receivable at year-end. No exception noted.

C: According to the shipping terms (FOB Shipping Point), the customer took possession of the goods on 12/31/08. Shipping terms were verified with a copy of the current contract between the two parties. Shipment dates were verified to invoice and shipping documents. New Technologies properly accounted for the sale and receivable at year-end. No exception noted.

D: Based on a conversation with Mr. James, this shipment was in-transit at year-end. According to the shipping terms (FOB Shipping Point), the customer took possession of the goods on 12/31/08. Therefore, New Technologies properly accounted for the sale and receivable at year-end. No exception noted.

Panel B: Breakout of Conclusion Choices

	Did Not Obtain Any Documentation	Obtained Only Invoice and Shipping Doc. (But Not Contract)	Obtained All Information Available (Invoice, Shipping Doc., and Contract)	
A	36.36%	5.00%	2.63%	
B	45.45%	30.00%	5.26%	
C	18.18%	10.00%	89.47%	
D	0.00%	55.00%	2.63%	
Number of Participants	11	20	38	69

Figure 1
Expected Interaction of Controller Type and Communication Mode on Requesting Additional Audit Evidence

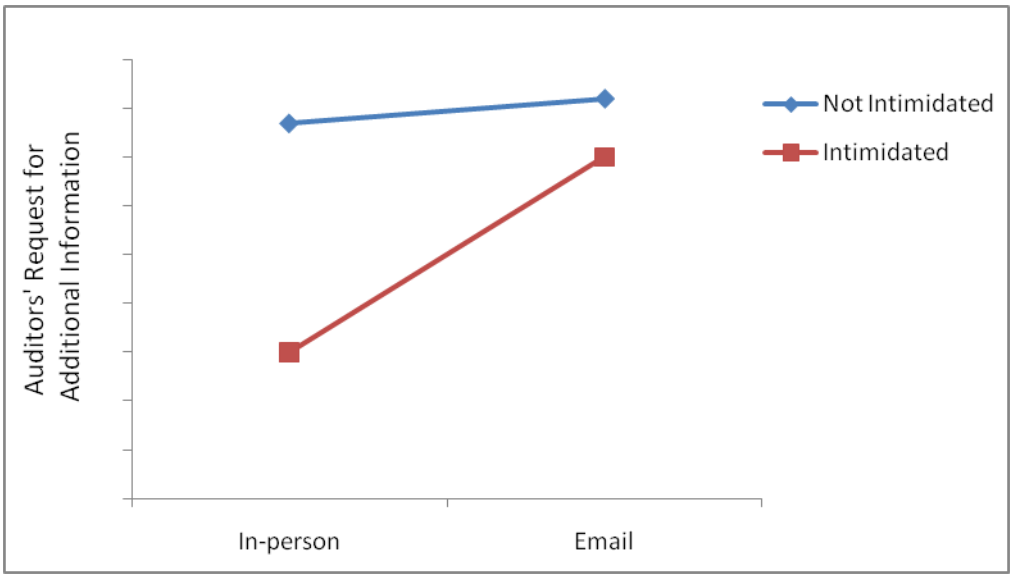
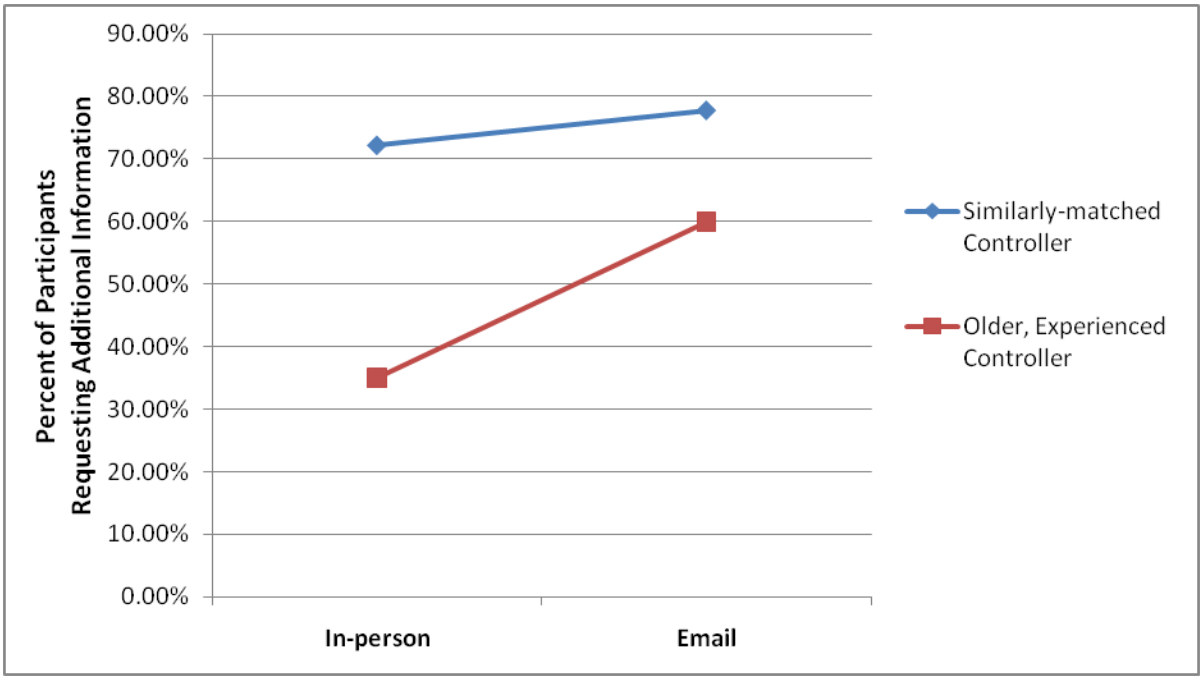


Figure 2
Interaction of Form of
Communication on Requesting Additional Audit Evidence



Appendix

This is the script provided to the two confederates that took on the role of "controller" during the experiment. The narrative in regular font was provided to all participants, including the computer-simulated interaction in the control group. The sections in bracketed bold were added to the narrative for the "intimidating" manipulation.

INTERACTION #1 (Introduction):

"Hi. I'm Mr. James. I've agreed to help with the case study that you are doing today. When they asked me to help, they said that my years of experience as a CFO and Controller would be helpful. I think I'll be able to handle any questions you may have.

{"It seems like a fairly straightforward case, and not particularly difficult. But I guess they want me to help "train" you young auditors."}

I've brought some work with me that I need to finish for an upcoming Board Meeting. I'll be in here working if you have any questions. If you need me, come back to see me.

{"But I really do have a lot to try to get done; so try to keep interruptions to a minimum."}

INTERACTION #2 (Explanation of confirmation and shipping terms):

{Already?}

[Student will ask question about confirmation.]

{I thought you had had internship experience as an auditor. I'm surprised you have questions about this.}

Ok…Let me explain how this works:

Most of NTI's customers orders are shipped FOB shipping point. ***{You should have covered that in your accounting classes. You understand what that means, don't you?}*** That means that the customer takes ownership when the product is shipped. Most international shipments take at least a week to arrive.

I believe there is some background information that you should have read. It states that invoices are sent out on the same day that the product is shipped. ***{You did read the background information, didn't you?}***

The invoice is dated December 31st, so the order would have shipped the same day. Due to the shipping terms (FOB Shipping Point), even though the customer does not physically have the product, they do owe for the shipment.

NTI recorded the receivable in the right year, because the material was shipped on Dec 31st and, thus, considered a "Sale" and the property of the customer on 12/31.

So you can understand better, I'll show you a copy of the invoice and related shipping document. ***{That's all you need to finish up testwork on this confirmation.}***

[Mr. James' phone starts ringing.]

Intimidating: **{<Mr. James just waves auditors out of office while he answers phone call.>}**
Not *intimidating:* "Ok. Excuse me. I have to take this call. I'll e-mail those documents