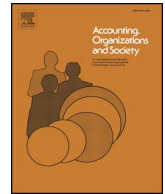




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The effects of an auditor's communication mode and professional tone on client responses to audit inquiries[☆]

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ABSTRACT

In this study, we investigate whether receiving an auditor inquiry via e-mail differentially affects client responses as compared to more traditional modes of inquiry, and whether those responses are affected by the auditor's professional tone. In an experiment, experienced business professionals respond to an auditor's information request regarding a potential accounting adjustment. We varied the communication mode of the request (e-mail, audio, or visual) and the professional tone of the communication (more versus less professional) and then measured the extent to which participants revealed information that either supported or did not support the client's accounting position. We find that if an auditor asks for information via e-mail, client responses are more biased towards information that supports the client's position as compared to audio or visual inquiries. In addition, we find that clients respond in a more biased manner when the inquiry is worded in a less professional tone as compared to a more professional tone. Further underscoring the implications of these findings for audit outcomes, our results suggest that if an auditor's request leads clients to provide a response that is biased towards client-supporting information, clients may be less likely to agree with an auditor's proposed income-decreasing adjustment.

1. Introduction

In recent years, partners at audit firms have expressed concern regarding the extent to which junior auditors use e-mail for communication with client personnel (May & May, 2012; Westermann, Bedard, & Earley, 2015). Most of these junior auditors are “Millennials” (those born since 1980) who have grown up utilizing computer-based communication technology and are often most comfortable sending abbreviated, text-based messages (Lancaster & Stillman, 2010). In fact, recent auditing research demonstrates that younger professionals use e-mail for client inquiries in order to avoid uncomfortable interactions with more senior client personnel (Bennett & Hatfield, 2013). While younger professionals may be more comfortable using e-mail for inquiries with client personnel, the question arises: are there adverse effects on client responses as a result of auditors using e-mail for client inquiries?

We investigate whether inquiries made by auditors via e-mail result

in adverse audit consequences as compared to more traditional inquiry methods such as audio requests (e.g., phone) or visual requests (e.g., face-to-face). Based on relevant psychological research on defensive bolstering and social presence theory, we argue that clients will respond in a less cooperative manner to an auditor's e-mail inquiry as compared with audio or visual inquiries. We expect that less cooperative behavior could include engaging in strategic bolstering behavior by providing more information that supports the client's position and/or withholding relevant information that does not support the client's position. Together, these less cooperative behaviors lead to a client response that is more biased towards providing information that supports the client's position and away from information that does not support their position (hereafter, biased information set) in response to an auditor's e-mail inquiry as compared to audio or visual inquiries.

Another concern regarding the audit inquiry process is that junior auditors often lack appropriate professional communication skills (Dixon, Belnap, Albrecht, & Lee, 2010; Jackson, 2012). A lack of

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professionalism in an inquiry could be viewed by experienced business professionals as norm violating. Psychological theory on norm violations predicts that aversive reactions can occur when a norm is violated (Brauer & Chekroun, 2005). These reactions could be in the form of less cooperative behavior (Fehr & Fischbacher, 2004). As a result, we predict that if a client receives a less professionally-worded inquiry, they will provide a more biased information set as compared to a client who receives a more professionally-worded inquiry.

Further, we consider whether the auditor's communication mode or professional tone affects audit outcomes beyond client response bias. Specifically, we predict that if a client is less cooperative due to an auditor's e-mail or less professionally-worded inquiry, the client may be more resistant to a subsequent proposed income-decreasing audit adjustment.

In our study, experienced business professionals, most with managerial experience, assumed the role of a client manager who receives an audit inquiry related to a potential inventory obsolescence problem. The inquiry was either presented as an e-mail, an audio-only request, or a visual request, and the inquiry wording was either more or less professional in tone. Rather than have clients interact with auditors, we hold the auditor request constant, and there is no back-and-forth communication. Instead, we use an audio recording to proxy for a phone request and a video recording to proxy for an in-person request. We also hold constant the mode of response by requiring all participants to compose a response in writing.¹

In our experiment, the participants responded to the inquiry based on an information set that included items that support the client's position that there is no inventory obsolescence problem and items that do not support the client's position. We then coded participant responses to determine the number of supporting and non-supporting items revealed by the participants. From this coding, we constructed a dependent variable called "net items revealed" which is the net number of items that support versus do not support the client's position. This dependent variable represents the extent to which the client's response is biased towards information that supports their position and away from information that does not support their position, and serves as a proxy for the construct "biased information set."

Consistent with our expectations, we find participants provide a more biased information set when receiving an e-mail inquiry than when receiving an audio or visual inquiry. In addition, participants also provide a more biased information set when receiving a less versus more professionally-worded inquiry. Further, our results suggest that an auditor's communication mode and professional tone can have downstream effects on audit outcomes. Specifically, we find that clients are less likely to agree with an auditor's proposed income-decreasing adjustment and they plan to negotiate more aggressively with the auditors if the client had previously provided a more biased information set as a result of receiving an e-mail or less professionally-worded inquiry.

This research has implications for both audit research and practice. Our findings provide evidence that the communication mode and professional tone of an audit inquiry can have ramifications for audit outcomes. In particular, the trend of young auditors using e-mail for client inquiries increases the likelihood that clients will provide a biased information set. This has several implications for the audit process. Trompeter and Wright (2010) note inquiry is a prominent source for investigating potential audit issues. Further, they express

¹ If we had allowed for interaction to occur or varied the response mode along with the request mode, the cause of biased responses would be uncertain (e.g., the cause could have been differences in the request mode, the response mode, perceived time pressure to respond, or visual cues from the auditor). By holding these features constant, we strengthen internal validity and are able to make strong causal inferences (Peecher & Solomon, 2001). Of course, in practice the client will likely respond using the same communication mode as the request. Further, various characteristics of interactive communication could affect a client's tendency to provide biased responses (e.g., the auditor could ask follow-up questions, the client could see cues in the auditor's behavior, or the client could choose to delay their response).

concerns that auditors may not adequately corroborate client responses or seek disconfirming evidence (see also Doty, 2011; Hirst & Koonce, 1996). Accordingly, if clients provide biased responses, auditors may fail to discover disconfirming evidence, suggesting the biased responses found in our study could impact audit outcomes. Finally, even if auditors discover disconfirming evidence through other audit procedures, we find clients that provide biased responses may be less likely to agree with an auditor's proposed income-decreasing adjustment. This resistance could result in a less conservative adjustment (Brown-Liburd & Wright, 2011; Hatfield, Houston, Stefaniak, & Usrey, 2010). Together, these findings demonstrate the importance of effective audit inquiry.

The next section discusses prior literature and the hypotheses development. Section 3 describes the method. Section 4 details the results and Section 5 provides concluding remarks.

2. Background and hypotheses development

2.1. Audit inquiry and communication mode

Inquiry includes direct requests for information or specific questions posed by the auditor to client personnel. Messier, Glover, and Prawitt (2017) note auditors discover a great deal of information via direct inquiry with client personnel, and Trompeter and Wright (2010) confirm inquiry is a frequently-used method for gathering information regarding unusual fluctuations and potential risk areas.

However, in response to inquiry, clients are likely to engage in defensive bolstering, a process in which individuals feel compelled to defend their position (Tetlock, Skitka, & Boettger, 1989). Kunda (1990) notes that "people expecting to incur heavier costs if their desired beliefs turn out to be wrong may expend greater effort to justify those desired beliefs" (p. 487). In an audit context, a client has an incentive to maintain commitment to their pre-existing accounting positions, with the knowledge that the auditor is typically seeking a more conservative position (i.e., typically income-decreasing). Accordingly, the client may feel compelled to defend their position and may bias their inquiry responses by revealing more information that supports their position and/or less information that does not support their position. A biased response that is weighted more heavily towards information that supports a client's position could ultimately affect auditor judgments (Hoffman & Patton, 1997).

We posit that communication mode can affect how clients respond to audit inquiries. While prior research has considered the effects of different communication modes on auditor performance (e.g., Bennett & Hatfield, 2013; Brazel, Agoglia, & Hatfield, 2004; Lynch, Murthy, & Engle, 2009), research has not considered how communication mode impacts client responses to audit inquiries. Inquiry is often conducted by lower-level audit staff (Trompeter & Wright, 2010) and these junior auditors often use e-mail for client inquiry (Westermann et al., 2015). From a positive perspective, Bennett and Hatfield (2013) find junior staff auditors who use e-mail for an inquiry are more likely to request additional information from senior client personnel as compared to junior staff auditors who make a face-to-face request. This benefit of e-mail use arises because e-mail allows the junior auditors to avoid uncomfortable social interactions with senior client personnel. However, if client personnel respond in a biased manner to e-communication, the benefit may be eliminated or may become negative overall, ultimately affecting audit outcomes.

Social presence theory (Short, Williams, & Christie, 1976) potentially explains why clients will provide different responses based on the communication mode of the request. Social presence theory predicts that the degree of "social presence" in a communication mode, i.e., the degree to which the communication mode indicates another person is "present," affects individual behavior (Short et al., 1976). Swaab, Galinsky, Medvec, and Diermeier (2012) note audio and visual interactions involve greater social presence than e-communication, leading

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