

Specialists' Evidence Evaluation and Judgments in Audits

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Research Questions

What is the extent and impact of in-house specialists' ownership of their audit work?

Does specialists' **psychological ownership** of their audit work matter?

Does **auditor infringement** on specialists' audit work matter?



Our Approach

Survey

- Existence and variation of psychological ownership in practice
- Causes of lower and higher psychological ownership in specialists

Experiment

- Effects of different levels of psychological ownership
- Interaction of psychological ownership and auditor infringement



Valuation Specialists' Roles in Public Accounting Firms

1. Prepare valuations for advisory clients' reporting needs
 - Greater rewards
 - Greater % of billable hours
2. Assist audit teams with evidence evaluation and judgments related to fair values and other complex accounting estimates
 - Some of the most complex, subjective, risky parts of the audit
 - 94% of PCAOB-inspected audits in 2018 involved specialists

Specialists' audit work is critical to reliable financial reporting.



Problems

Specialists leave memos in the audit file without communicating directly

Auditors contend specialists do not care enough about audit work

Specialist ownership?

Auditors add to specialists' work without communicating directly

Specialists contend auditors interfere with their audit work

Auditor infringement?



Psychological Ownership



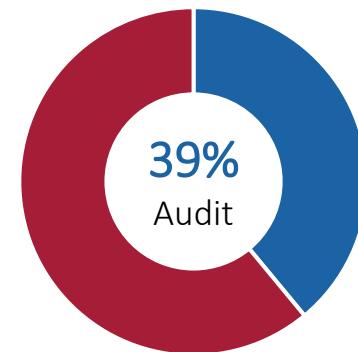
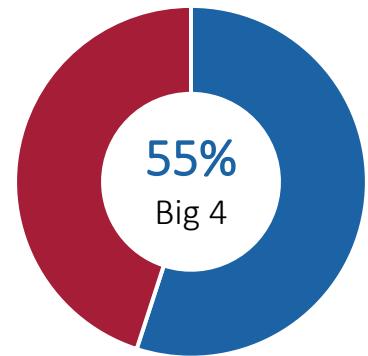
- Extension of self that you value and take responsibility for
- Can have attitudinal, motivational, and behavioral effects
- Arises from control, intense association, and/or investment



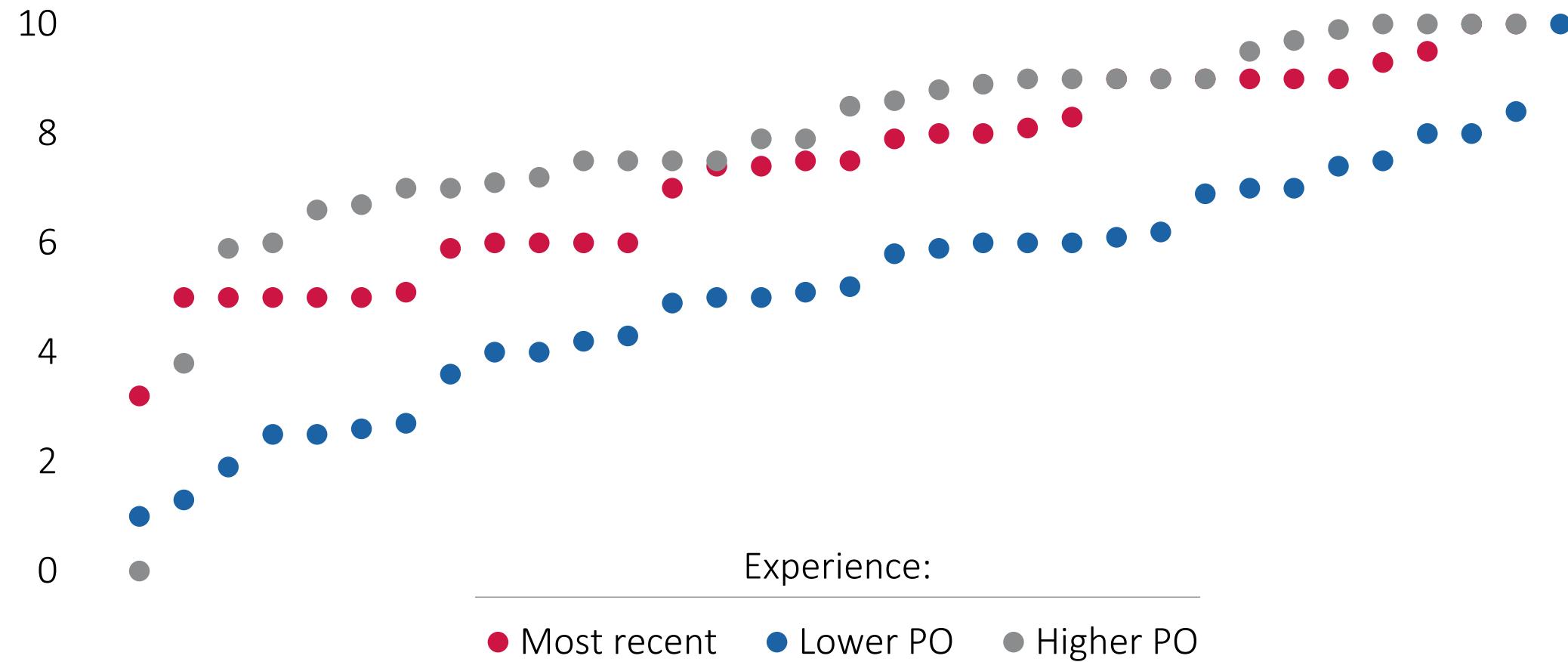
Survey

- Seek to gain insight into:
 - Levels of psychological ownership felt by specialists on audit engagements
 - Factors that influence specialists' psychological ownership in practice
- Scale ratings (0-10) and open-ended questions
 - Most recent, higher PO, and lower PO audit experiences

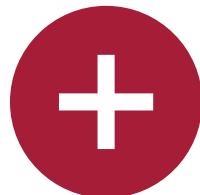
33 valuation specialists:



Survey Results: Levels of Ownership

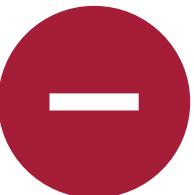


Survey Results: Factors Influencing Ownership



I was the acting lead for the valuation aspects of the audit and was responsible and actually signed off. . . **I would be the one answering to any errors** on our valuation review. Also, valuation has been a **key focus of regulators** so it's a very important risk management issue.

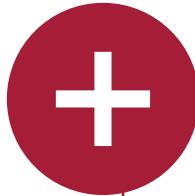
The valuation is already provided to us . . . the ownership level didn't seem so high since **I wasn't the one valuing the asset** or coming to the conclusion of the value initially.



I often **had to challenge down valuations** and defend my position. **I also was more informed on this market than the partners** I worked for, in many cases.

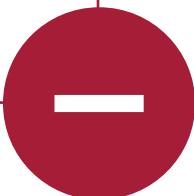


Survey Results: Factors Influencing Ownership



- Ability to create their own work
- Responsibility
- Being relied upon

- Little control
- Limited information
- Comparison to advisory work



Do circumstances enable specialists to engage in their audit work?

Do circumstances reinforce the importance of specialists' work?



Psychological Ownership and Complex Tasks

- Theorized positive effects of PO on responsibility and motivation
 - PO is associated with positive workplace outcomes
 - Responsibility and motivation encourage not just more but “better” mental effort
- Evidence integration
 - Involves combining external information with internal knowledge
 - Facilitates recognition of patterns and deviations
 - Results in more complete and objective evaluation of evidence

Infringement

- Perception that someone is intruding on or claiming **your** target
- Responses include defensive and territorial behaviors
- Auditors may:
 - Keep specialists from direct client interaction
 - Add memos to specialists' area of the audit file
 - Align specialists' work with the audit team's results



Psychological Ownership × Infringement

Lower PO:

- Not motivated to integrate evidence
- Identify fewer contradictions
- Make less evidence-informed judgments

Higher PO:

- Motivated to integrate evidence
- Identify more contradictions
- Make more evidence-informed judgments

Specialists' behavior

Add infringement:

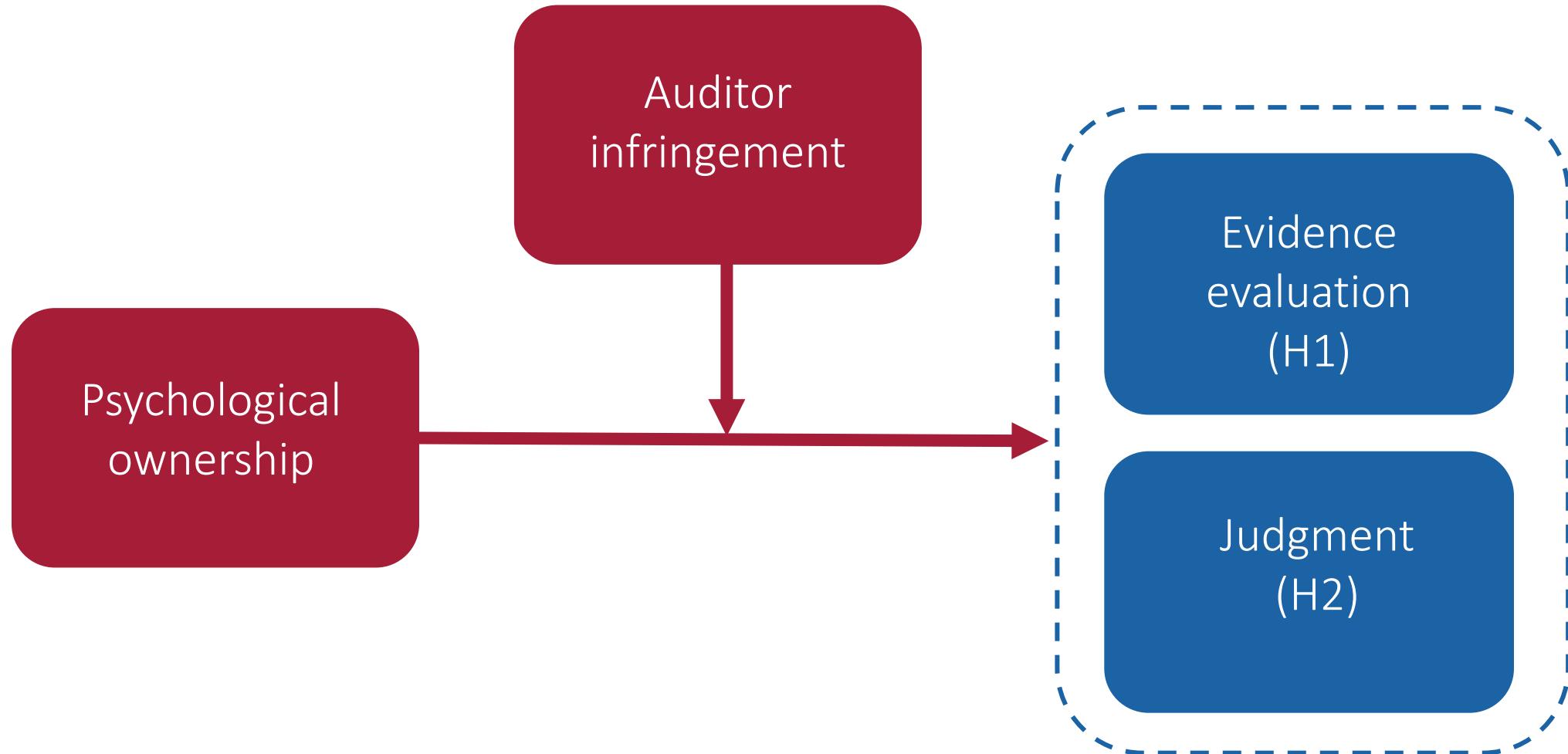
- Respond defensively by disengaging
- Does not change above behaviors

Add infringement:

- Respond defensively by disengaging
- Reduces above behaviors



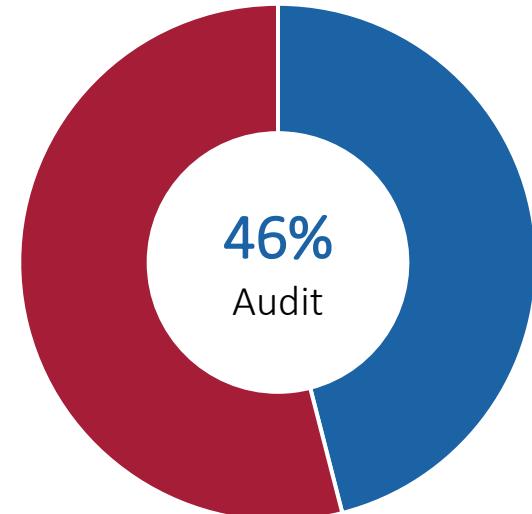
Hypotheses



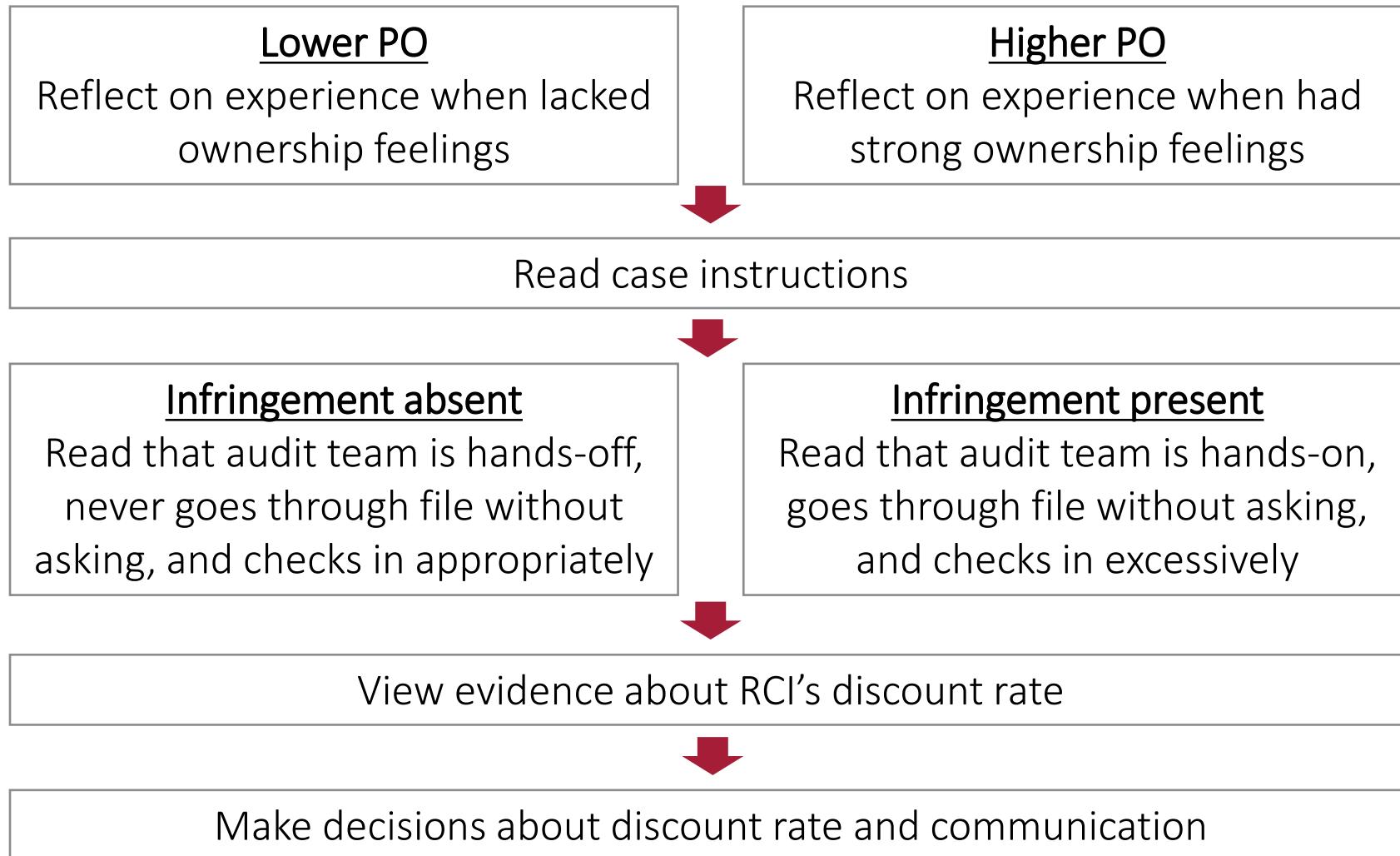
Experiment: Task and Participants

- Task
 - Assisting audit team with valuation of retained interest of securitized receivables
 - Assessing discount rate
 - Management provides five justifications for its discount rate, but other evidence contradicts each one
- 2 x 2 between-participants:
 - Lower vs. higher psychological ownership
 - Absent vs. present auditor infringement

130 valuation specialists:



Experiment: Manipulations



Experiment: Dependent Measures

Evidence evaluation (H1)

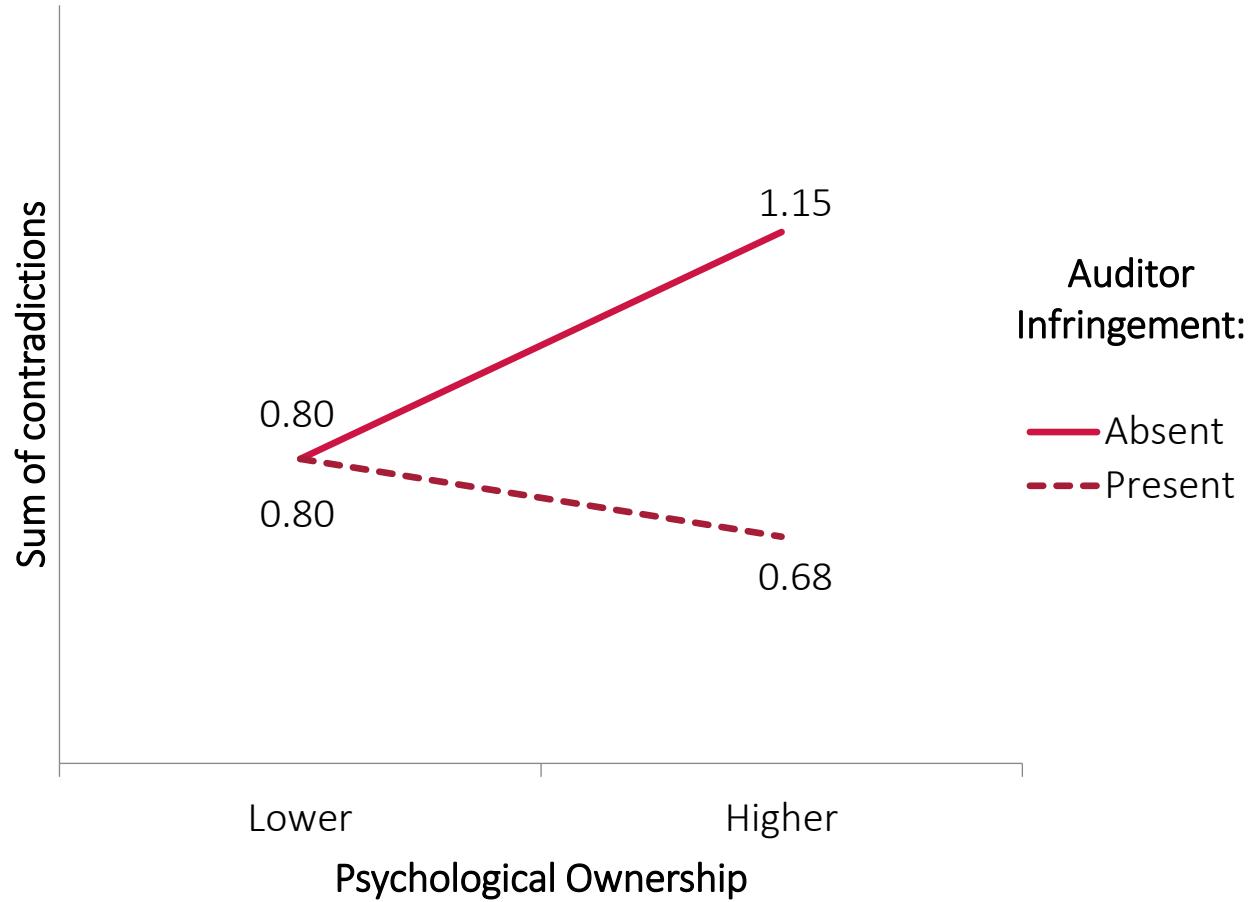
- Identification of contradictions
- Higher = more integration of client justifications with other evidence

Judgment (H2)

- Lowest acceptable discount rate (continuous and binary)
- Higher = more informed by the evidence



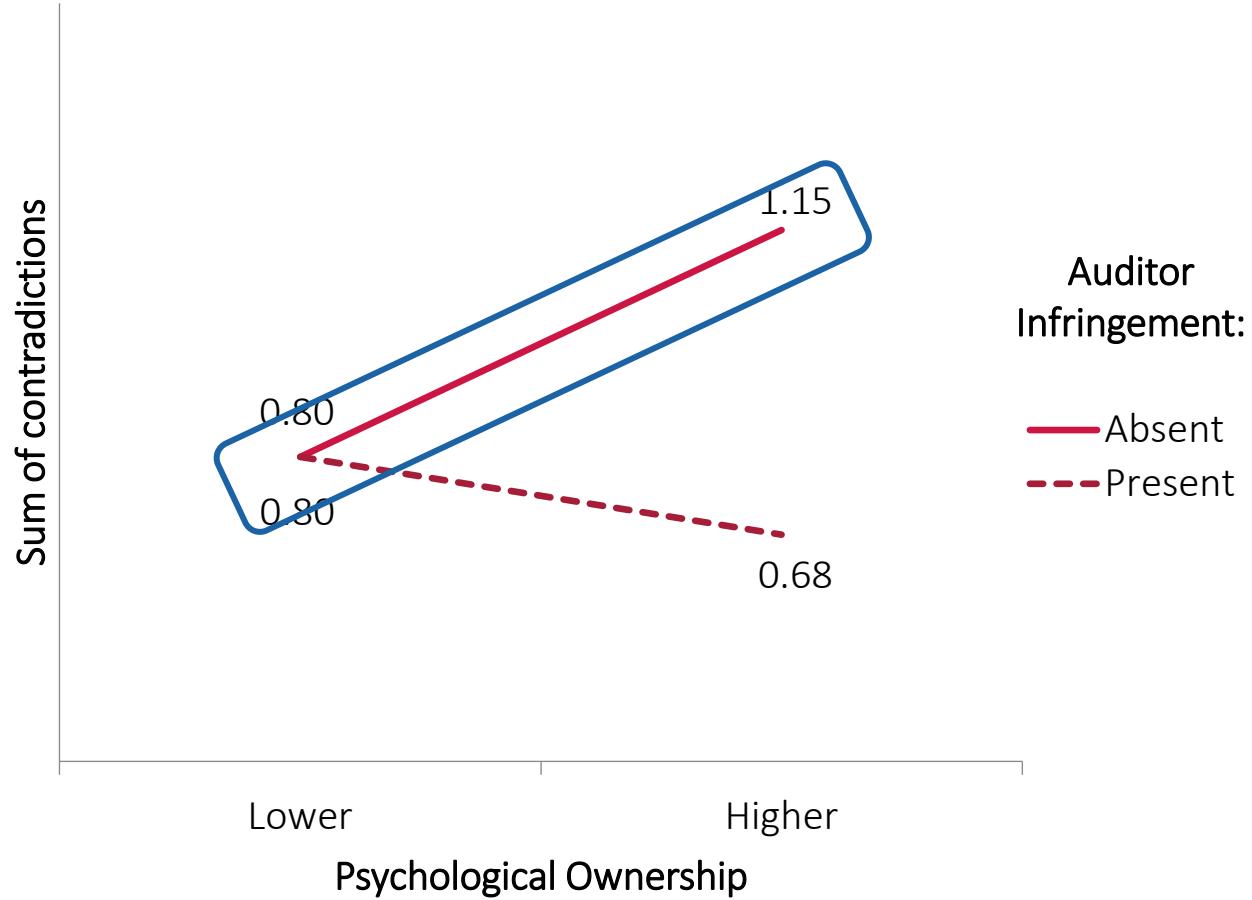
Results: Contradictions (H1)



Higher PO/infringement
absent > all others

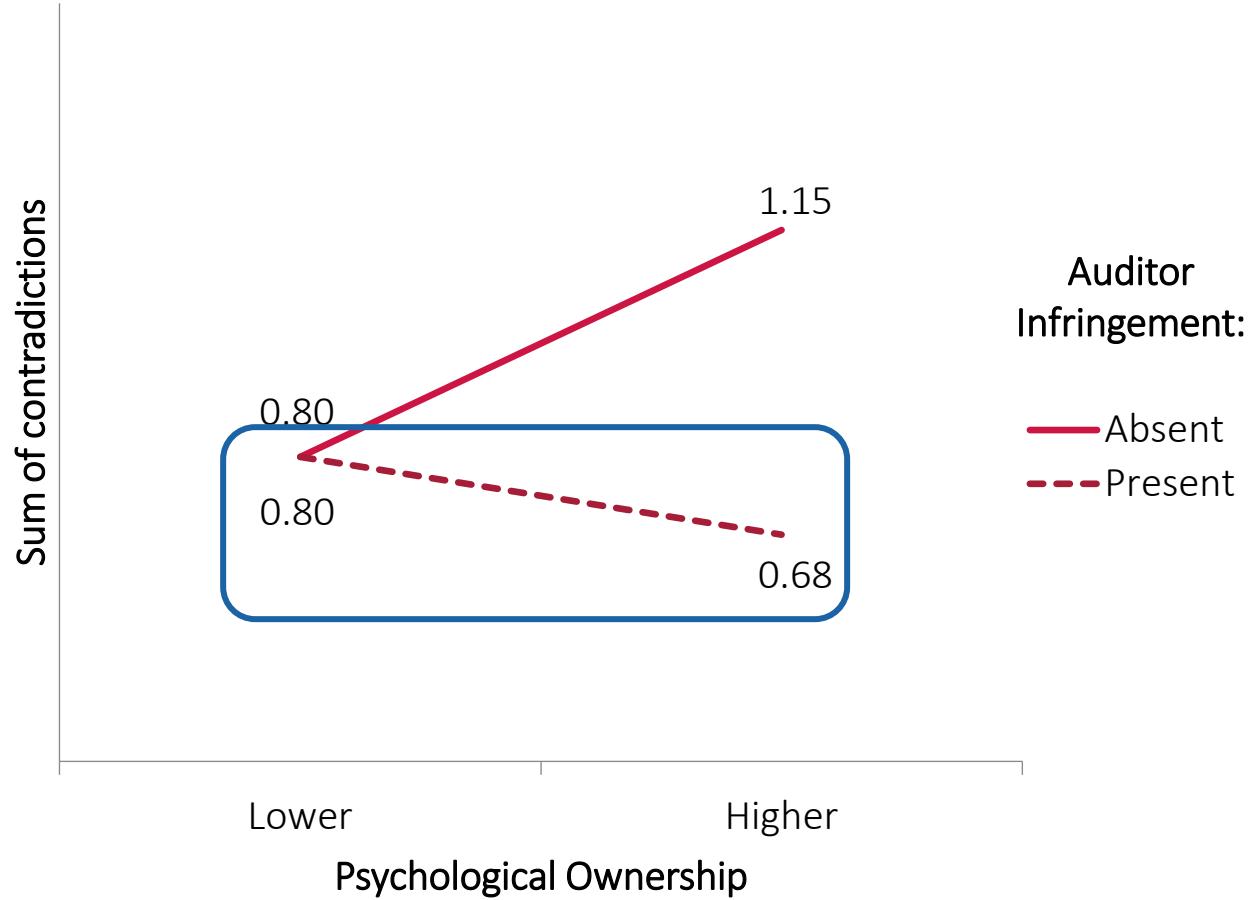
z 2.10 p 0.018

Results: Contradictions (H1)



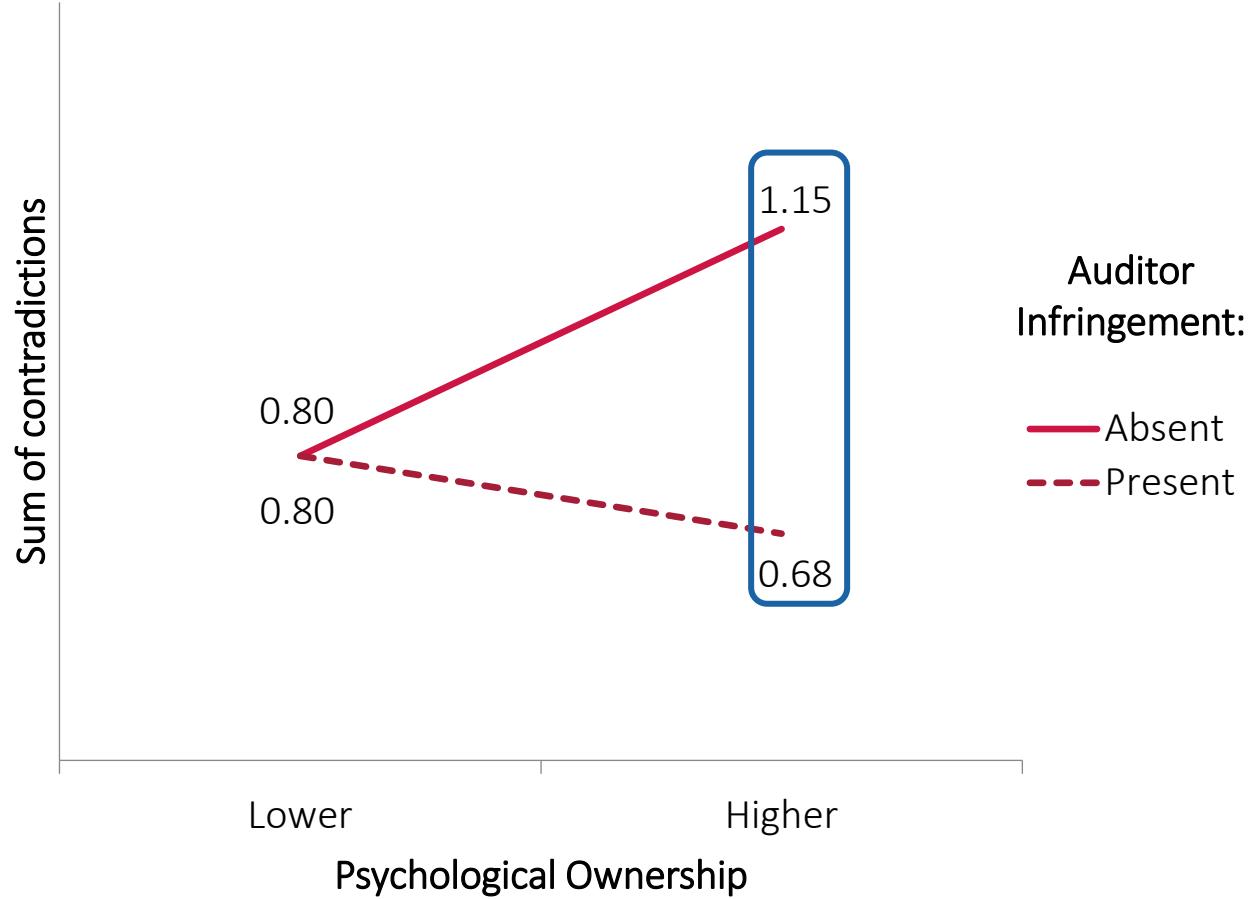
Auditor Infringement:	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	2.10	0.018
Infringement absent: Higher PO > Lower PO	1.40	0.081

Results: Contradictions (H1)



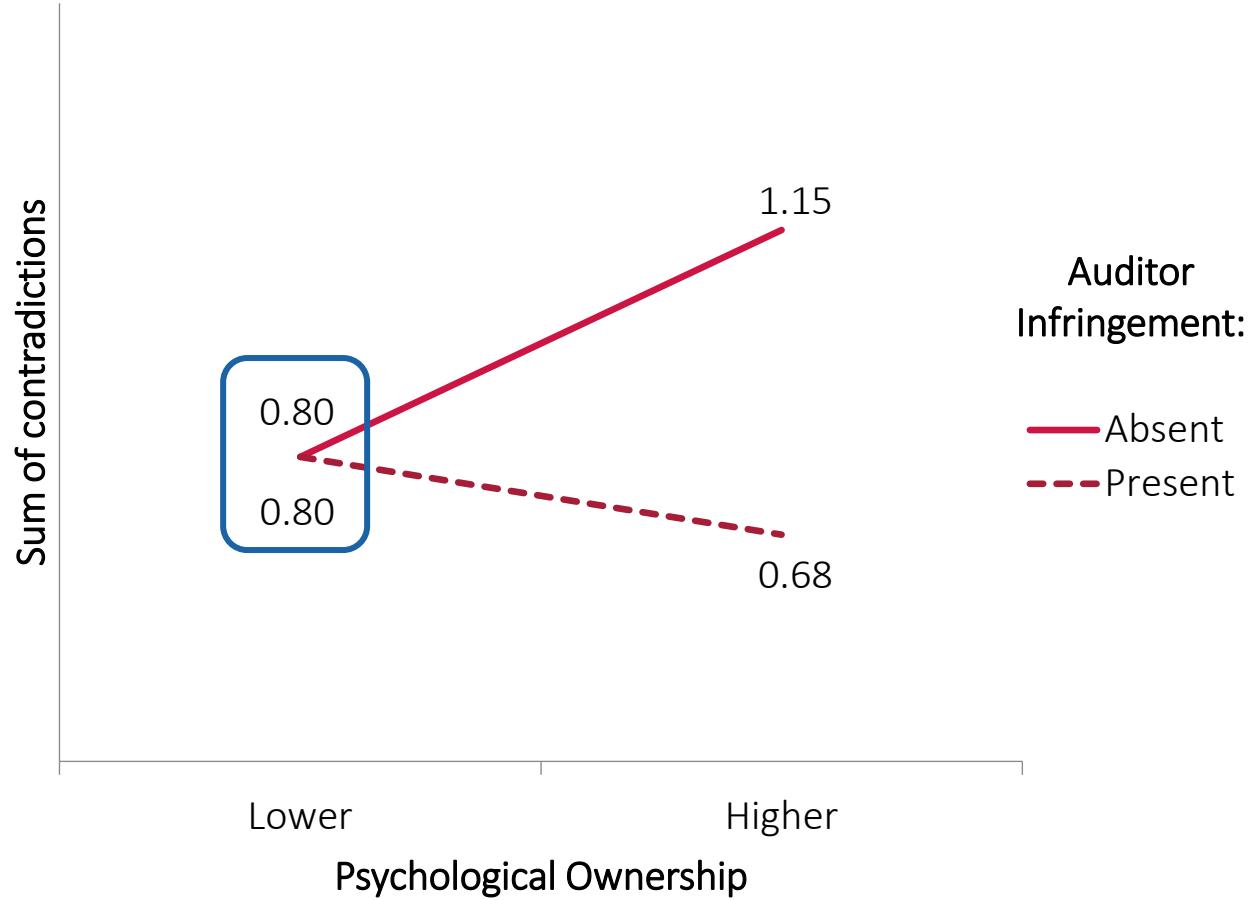
	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	2.10	0.018
Infringement absent: Higher PO > Lower PO	1.40	0.081
Infringement present: Higher PO = Lower PO	-0.59	0.555

Results: Contradictions (H1)



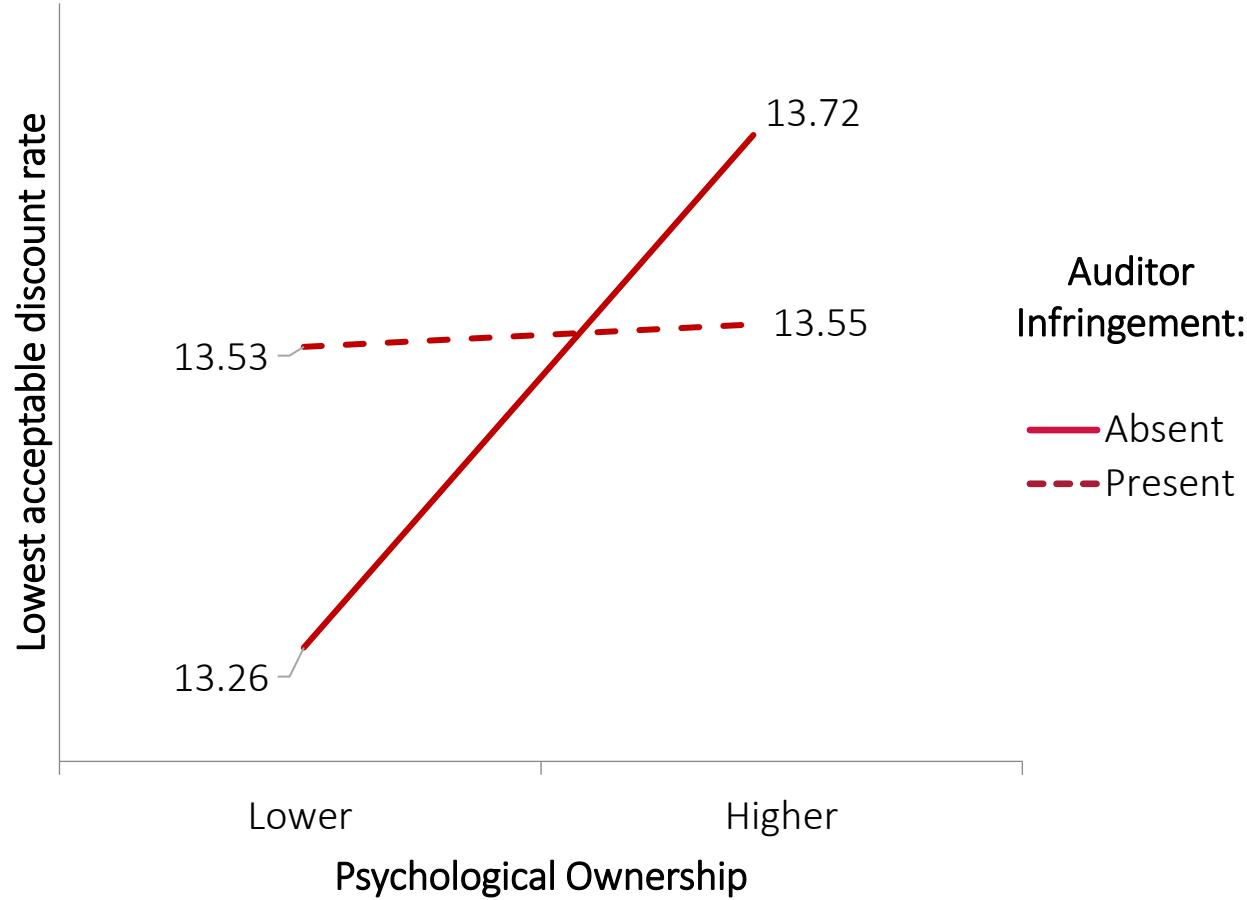
	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	2.10	0.018
Infringement absent: Higher PO > Lower PO	1.40	0.081
Infringement present: Higher PO = Lower PO	-0.59	0.555
Higher PO: Infringement absent > present	2.07	0.019

Results: Contradictions (H1)



	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	2.10	0.018
Infringement absent: Higher PO > Lower PO	1.40	0.081
Infringement present: Higher PO = Lower PO	-0.59	0.555
Higher PO: Infringement absent > present	2.07	0.019
Lower PO: Infringement absent = present	< 0.01	1.000

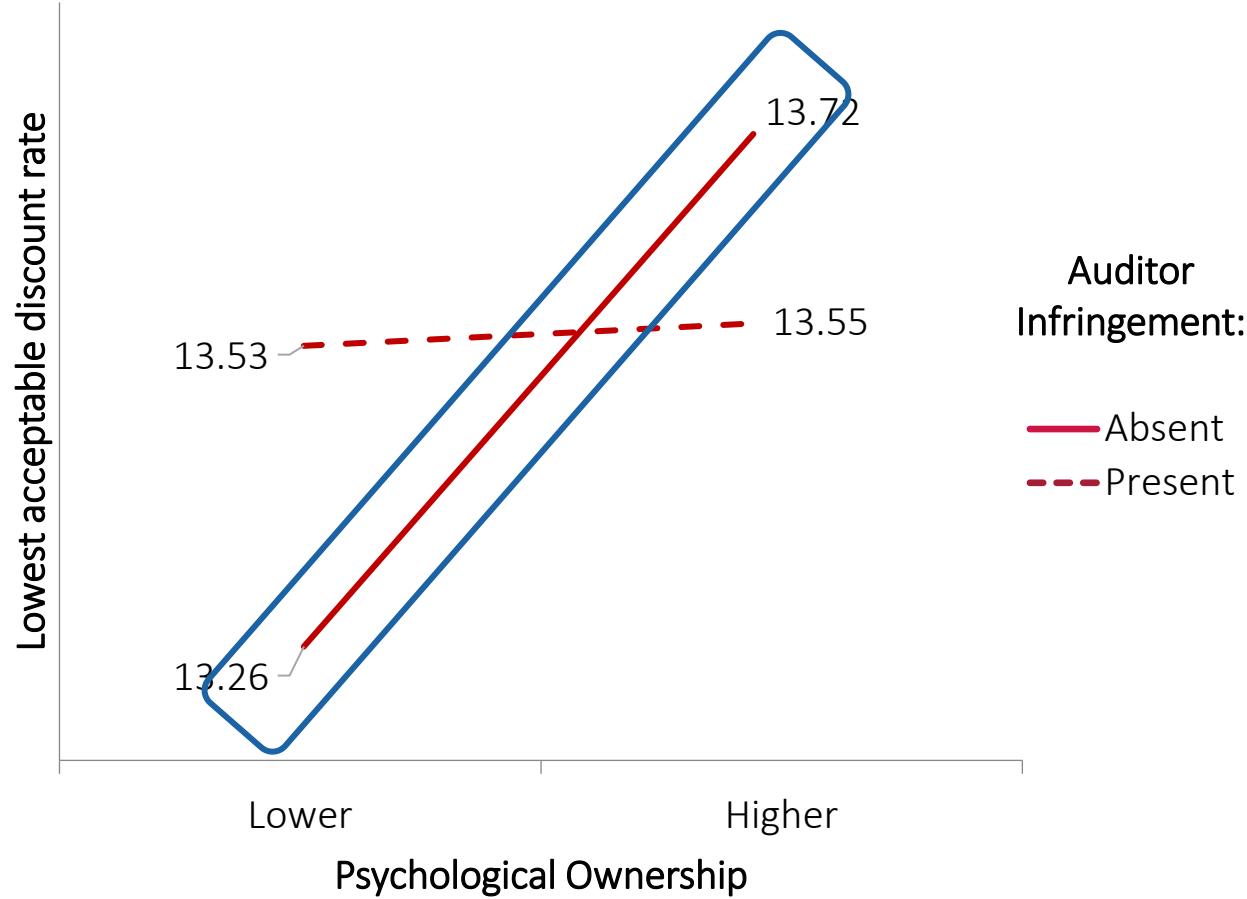
Results: Continuous Discount Rate (H2)



Higher PO/infringement
absent > all others

t 1.42 p 0.079

Results: Continuous Discount Rate (H2)

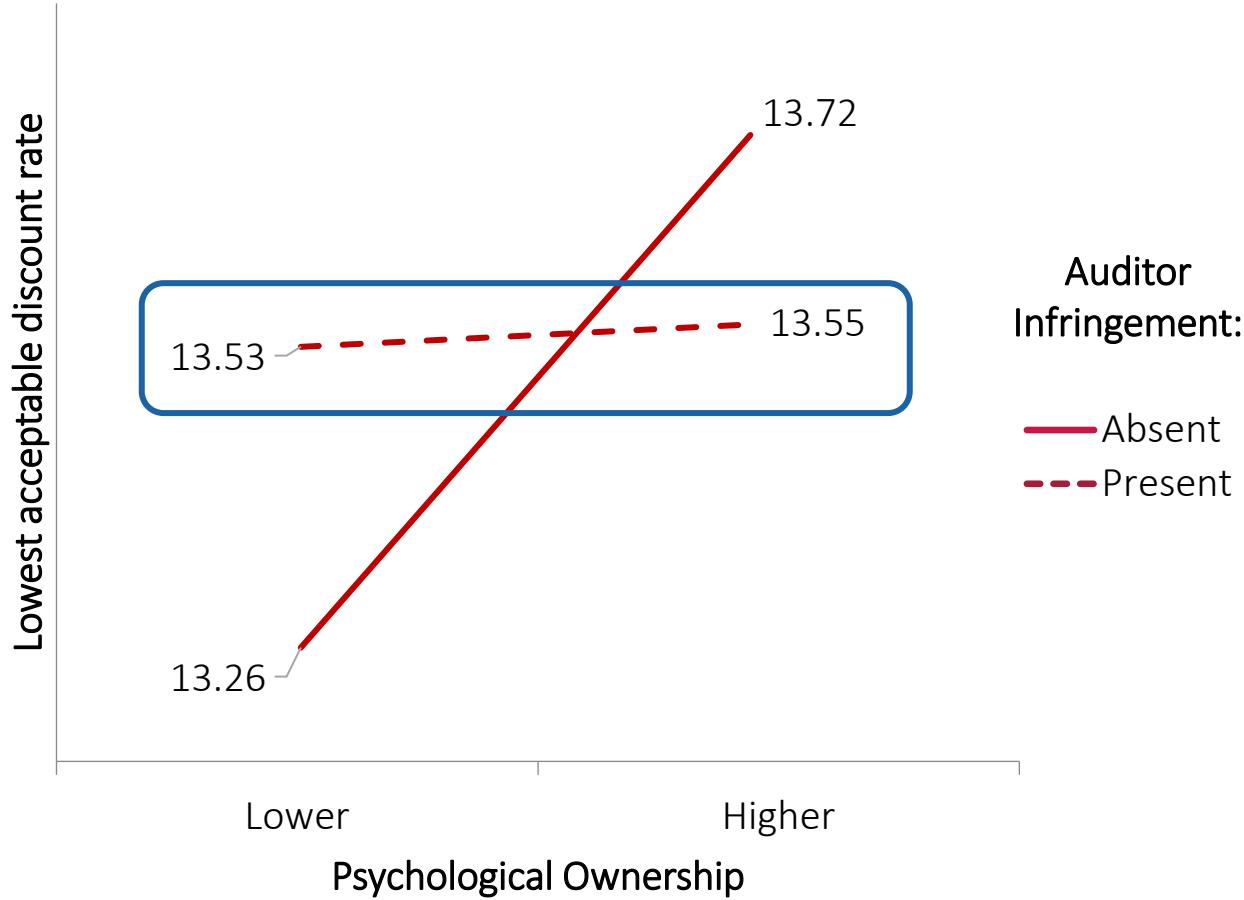


Higher PO/infringement
absent > all others

Infringement absent:
Higher PO > Lower PO

<i>t</i>	<i>p</i>
1.42	0.079
1.88	0.031

Results: Continuous Discount Rate (H2)



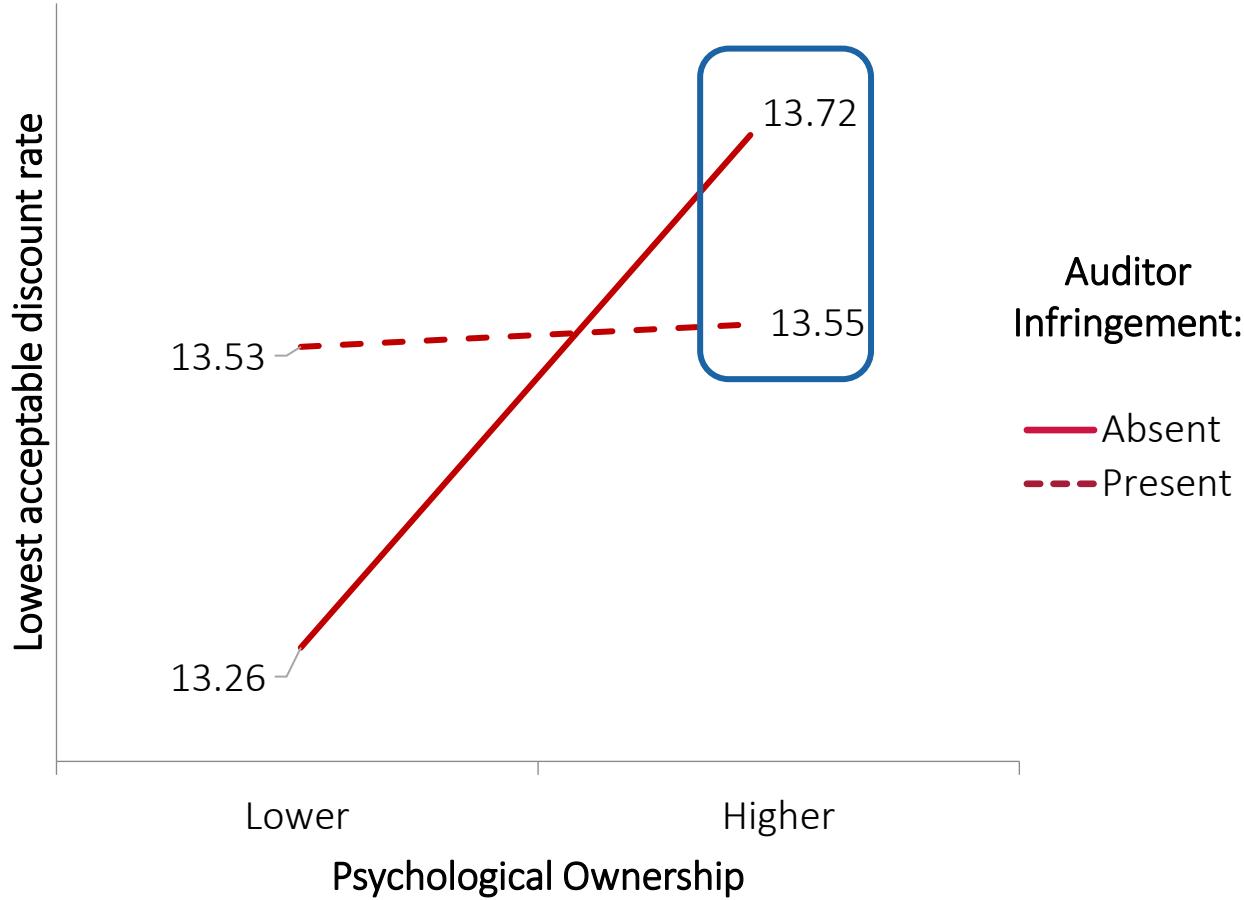
Higher PO/infringement
absent > all others

Infringement absent:
Higher PO > Lower PO

Infringement present:
Higher PO = Lower PO

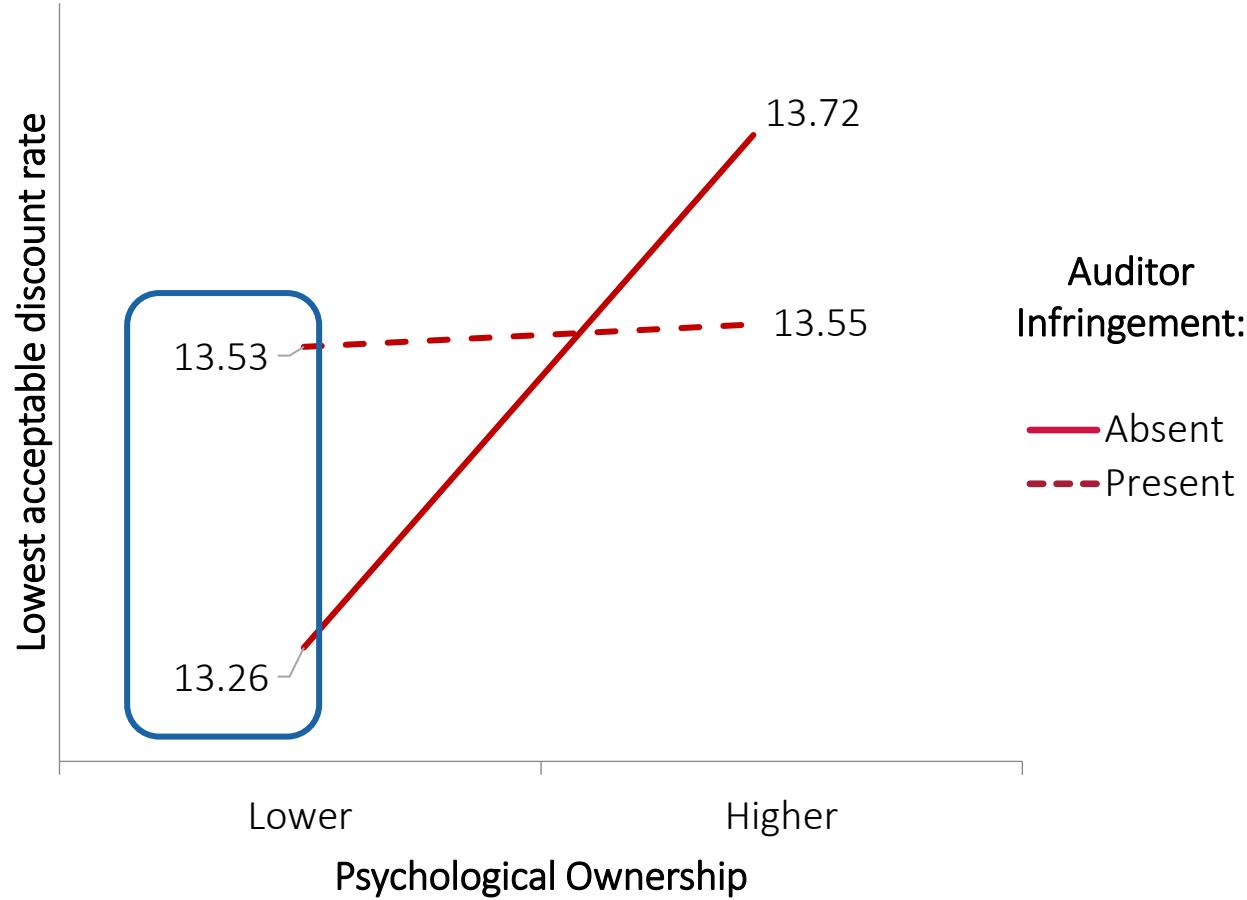
	<i>t</i>	<i>p</i>
Higher PO/infringement absent > all others	1.42	0.079
Infringement absent: Higher PO > Lower PO	1.88	0.031
Infringement present: Higher PO = Lower PO	0.08	0.938

Results: Continuous Discount Rate (H2)



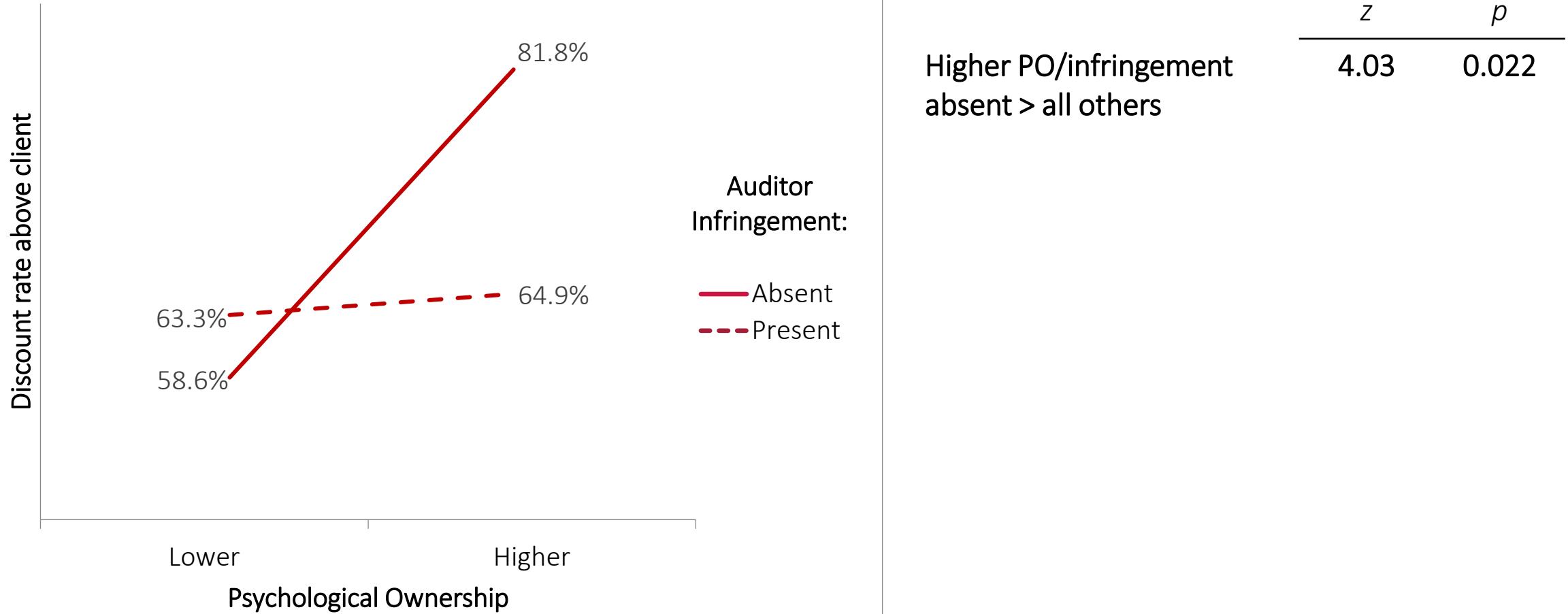
	<i>t</i>	<i>p</i>
Higher PO/infringement absent > all others	1.42	0.079
Infringement absent: Higher PO > Lower PO	1.88	0.031
Infringement present: Higher PO = Lower PO	0.08	0.938
Higher PO: Infringement absent > present	0.76	0.226

Results: Continuous Discount Rate (H2)

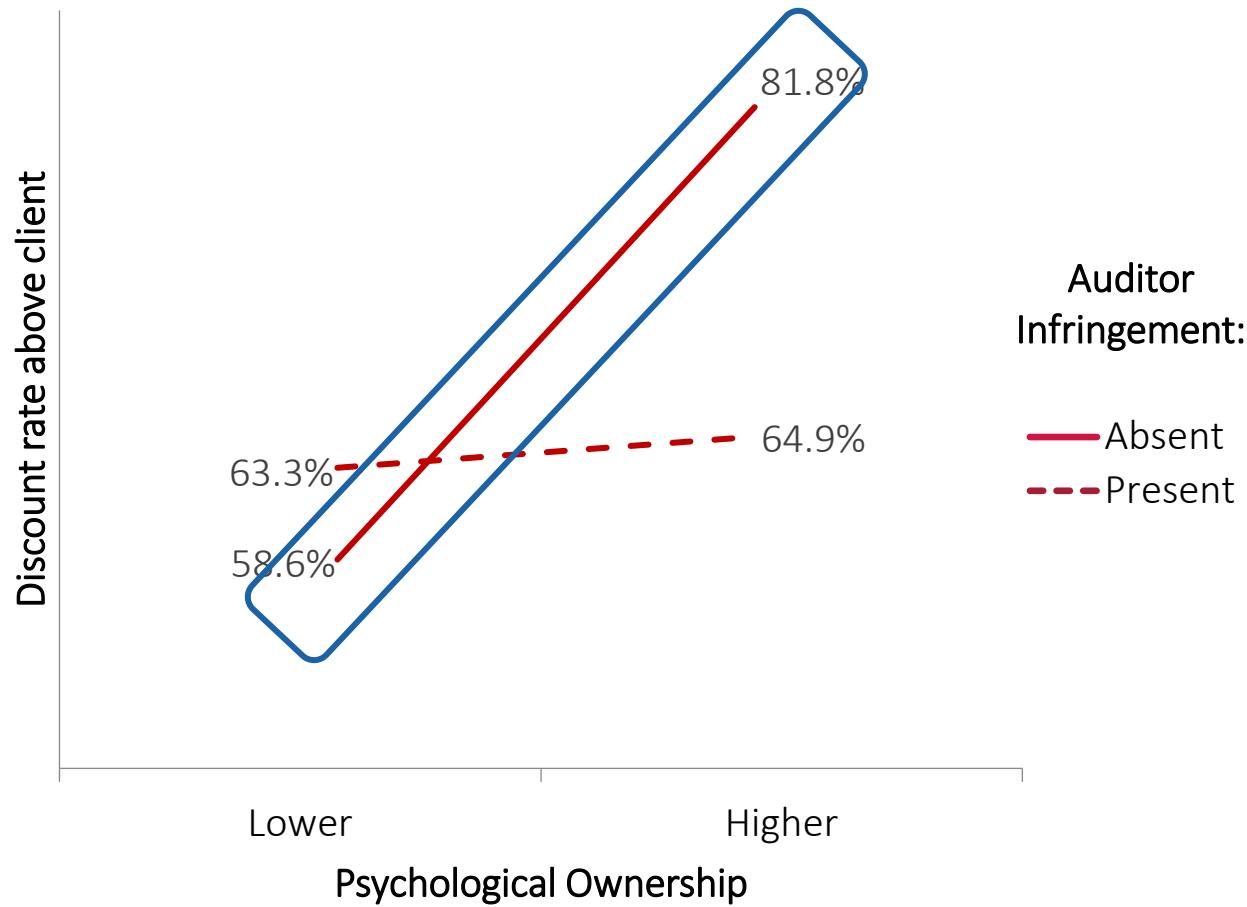


	<i>t</i>	<i>p</i>
Higher PO/infringement absent > all others	1.42	0.079
Infringement absent: Higher PO > Lower PO	1.88	0.031
Infringement present: Higher PO = Lower PO	0.08	0.938
Higher PO: Infringement absent > present	0.76	0.226
Lower PO: Infringement absent = present	-1.07	0.285

Results: Binary Discount Rate (H2)



Results: Binary Discount Rate (H2)

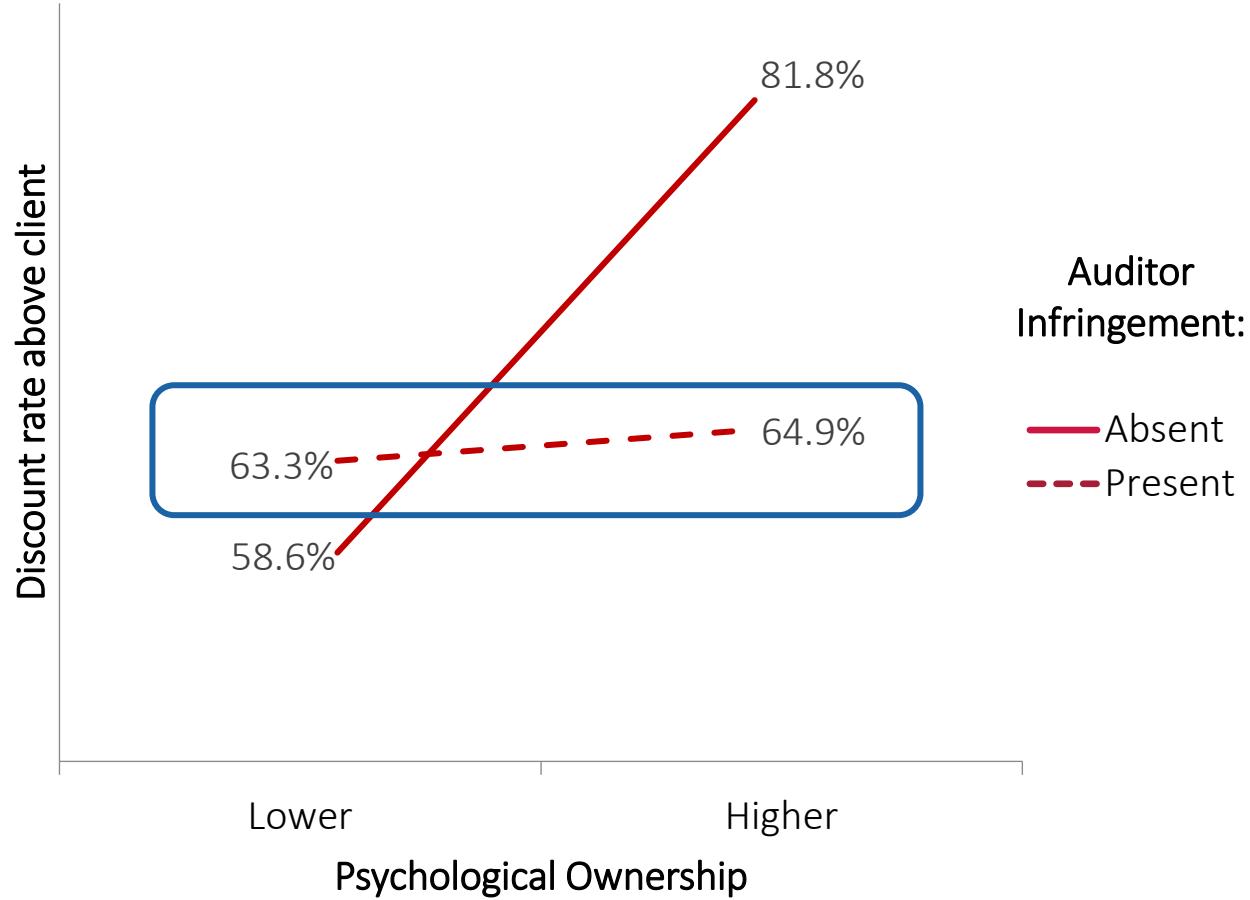


Higher PO/infringement
absent > all others

Infringement absent:
Higher PO > Lower PO

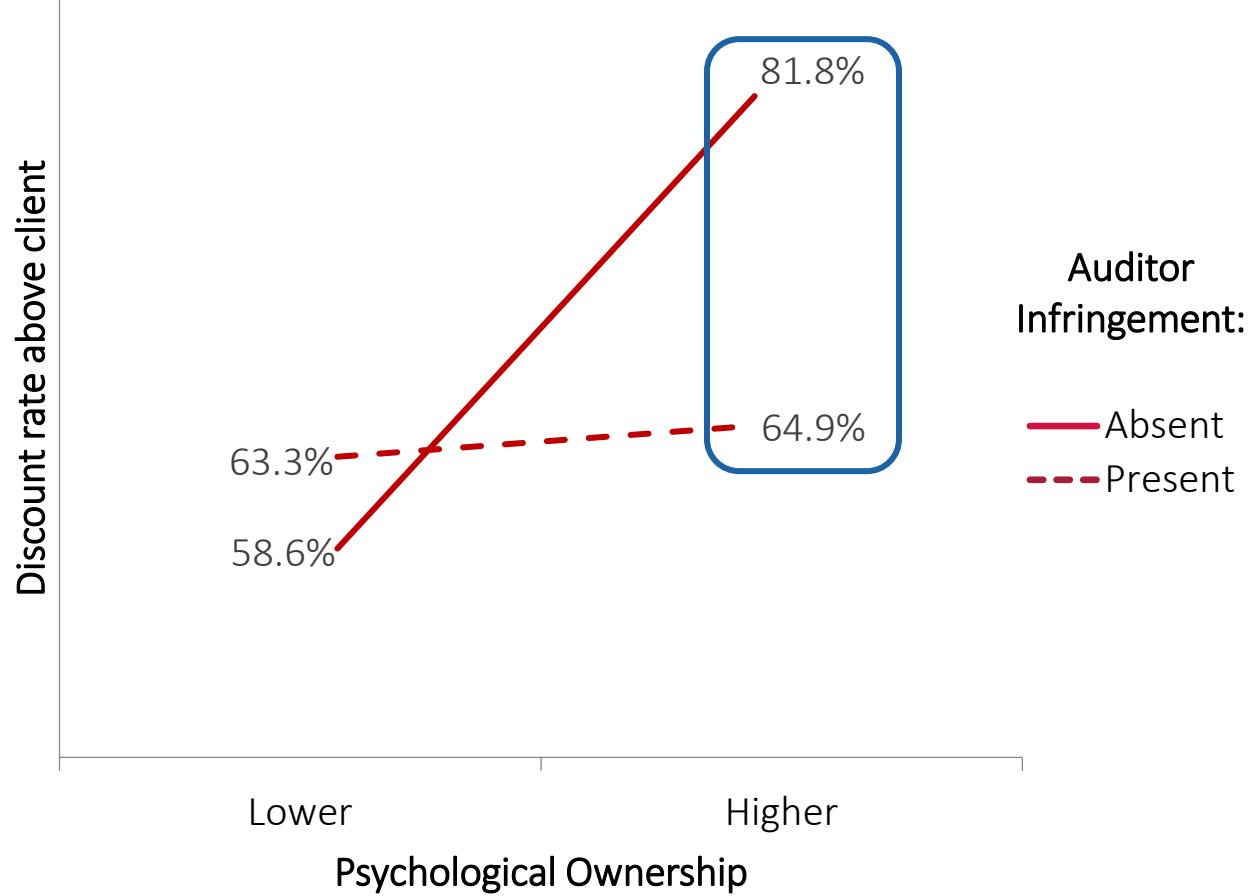
	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	4.03	0.022
Infringement absent: Higher PO > Lower PO	1.97	0.025

Results: Binary Discount Rate (H2)



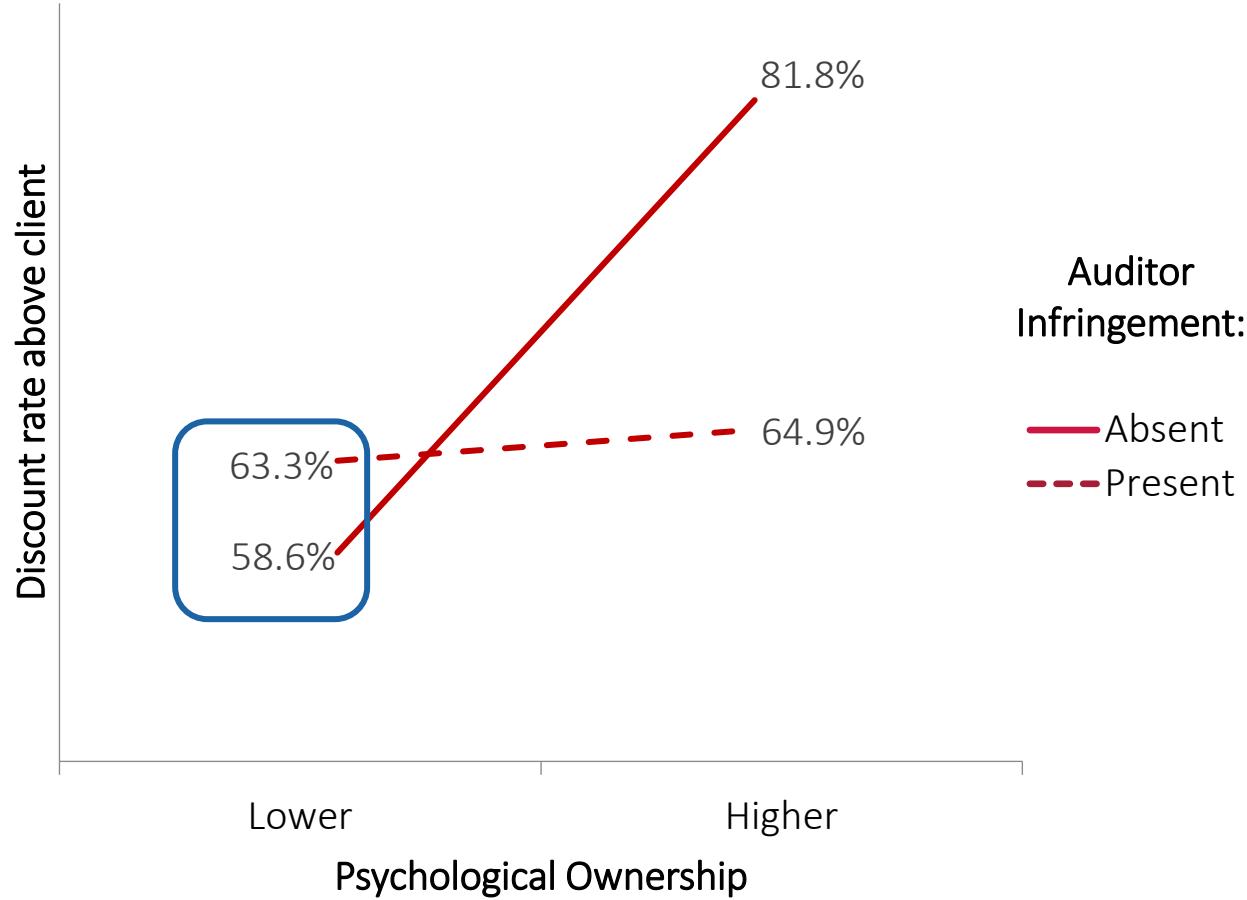
	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	4.03	0.022
Infringement absent: Higher PO > Lower PO	1.97	0.025
Infringement present: Higher PO = Lower PO	0.13	0.897

Results: Binary Discount Rate (H2)



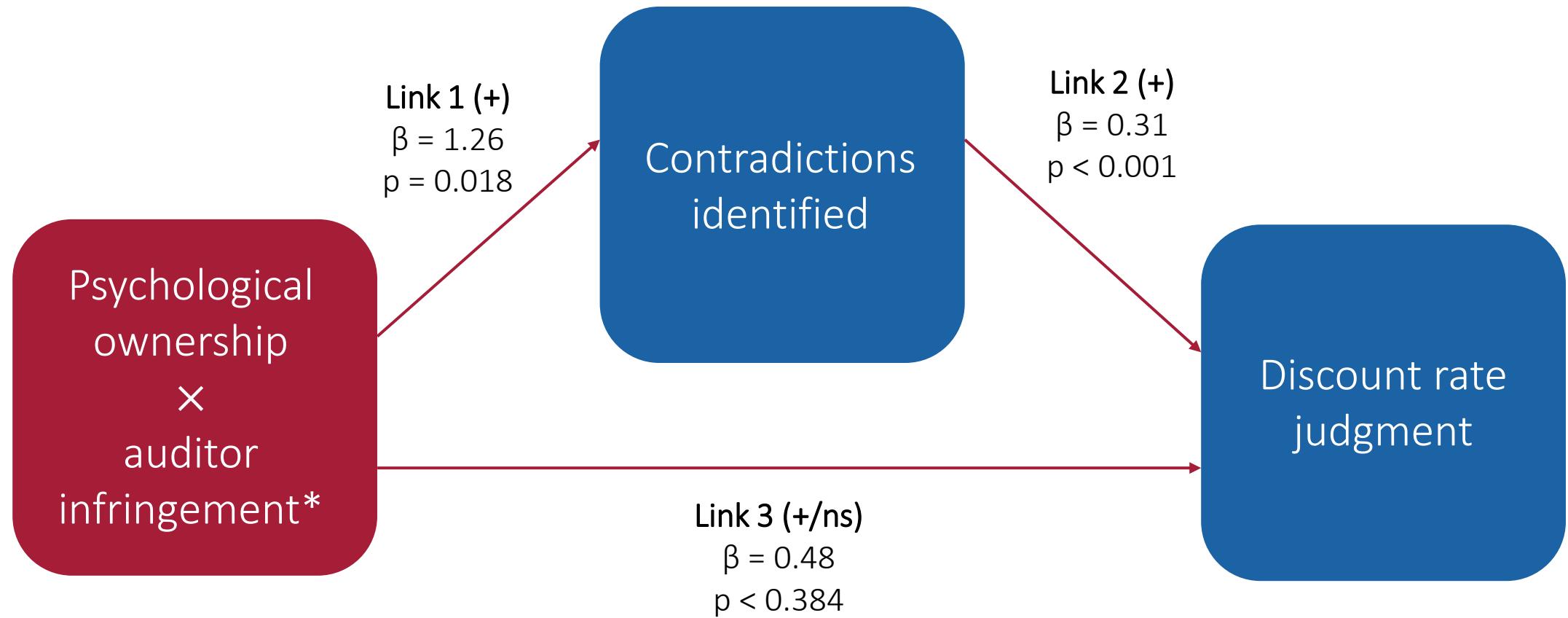
	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	4.03	0.022
Infringement absent: Higher PO > Lower PO	1.97	0.025
Infringement present: Higher PO = Lower PO	0.13	0.897
Higher PO: Infringement absent > present	1.57	0.059

Results: Binary Discount Rate (H2)



	<i>z</i>	<i>p</i>
Higher PO/infringement absent > all others	4.03	0.022
Infringement absent: Higher PO > Lower PO	1.97	0.025
Infringement present: Higher PO = Lower PO	0.13	0.897
Higher PO: Infringement absent > present	1.57	0.059
Lower PO: Infringement absent = present	-0.37	0.711

Results: Process



1—2 Indirect effect, 95% Confidence Interval: (0.034, 0.801)

*The PO x auditor infringement interaction for Links 1 and 3 is constructed as ordinal

Contributions

There is variation, and room for improvement, in specialists' ownership of audit work.

Psychological ownership and auditor infringement are relevant factors in specialist performance.

The benefits of interventions aimed at specialists also depend on auditor behavior.



Thank you!

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