Journal of Accounting Literature 35 (2015) 104–124

Contents lists available at ScienceDirect

Journal of Accounting Literature

journal homepage: www.elsevier.com/locate/acclit

Auditor evaluation of others' credibility: A review of experimental studies on determinants and consequences☆

Eldar Maksymov *

W.P. Carey School of Business, Arizona State University, United States

ARTICLE INFO

Article history:
Received 19 December 2014
Received in revised form 1 October 2015
Accepted 21 October 2015
Available online 24 November 2015

Keywords:
Determinants of credibility
Consequences of credibility
Evaluation of competence
Evaluation of trustworthiness

ABSTRACT

I synthesize the extant experimental literature examining auditor evaluation of others' credibility published in six top accounting journals over the last three-and-a-half decades. I adapt the original definition of credibility by Hovland, Janis, and Kelley (1953): the extent of perceiving someone as competent and trustworthy. Audit guidance requires auditors to consider credibility of management, internal auditors, and staff, yet the research literature on auditor evaluation of others' credibility is fragmented and scarce, limiting our understanding of determinants and consequences of auditor evaluations. I develop a framework for analysis of research on auditor evaluation of others' credibility and review extant literature by types of examined effects (determinants of credibility vs. consequences of credibility) and by examined credibility components (competence, trustworthiness, or both). Throughout the literature review I suggest areas for future research.
© 2015 University of Florida, Fisher School of Accounting. Published by Elsevier Ltd. All rights reserved.

☆ I thank my dissertation committee members: Mark Nelson (Chair), Jacob Bien, Rob Bloomfield, and Dennis Regan for their valuable guidance and advice. I appreciate helpful comments and suggestions from Stephen K. Asare (the editor), Lindsay Andiola, David Wood, and the anonymous referee. I gratefully acknowledge financial support from the AICPA Foundation, the Samuel Curtis Johnson Graduate School of Management at Cornell University, and the W.P. Carey School of Business at Arizona State University.
* Tel.: +1 4809658614.
E-mail address: eldar.maksymov@asu.edu.

http://dx.doi.org/10.1016/j.acclit.2015.10.003
0737-4607/© 2015 University of Florida, Fisher School of Accounting. Published by Elsevier Ltd. All rights reserved.

المنارة للاستشارات

1. Introduction and background

Auditor evaluation of credibility of others is fundamental to auditing. Auditing guidance specifically requires auditors to assess competence of personnel who perform controls and of personnel who monitor performance of internal controls (PCAOB, 2007, AS5, par 46–47). Audit standards also require auditors to assess competence and objectivity of internal auditors (PCAOB, 2003, AU 322, par 9–12). In making these assessments the standards direct auditors to consider, along with other relevant sources, "information obtained from previous experience with the internal audit function, from discussions with management personnel, and from a recent external quality review, if performed, of the internal audit function's activities" (PCAOB, 2003, AU 322, par 11). Audit guidance also requires auditors to consider manager competence and trustworthiness through auditor consideration of internal controls. Auditors are required to opine on internal controls of their public clients (Sarbanes-Oxley Act) and COSO's 2013 Integrated Framework on Internal Controls emphasized manager competence and trustworthiness as key components of an effective control environment (COSO, 2013).

I adapt the original definition of credibility by Hovland, Janis, and Kelley (1953): the extent of perceiving someone as competent and trustworthy. COSO specifies that "competence is the qualification to carry out assigned responsibilities. It requires relevant skills and expertise, which are gained largely from professional experience, training, and certifications. It is expressed in the attitude, knowledge and behavior of individuals as they carry out their responsibilities" (COSO, 2013). The Framework emphasizes management's competence as one of the key components of an effective system of internal controls. The Framework also emphasizes the importance of management's trustworthiness as a vital component of an effective system. The first principle of the Framework is that the organization should demonstrate a commitment to integrity and ethical values (COSO, 2013). For the purposes of this review, I use the definitions of competence and trustworthiness that are suggested by the Framework.

Understanding the determinants and consequences of others' credibility on auditors' judgment is vital to the auditing profession, particularly for settings where judgment latitude is inherently great, such as in evaluation of internal control effectiveness. To-date there has been no review of the extant research on auditors' evaluation of others credibility. This research area would greatly benefit from a research framework that would categorize the extant research and identify areas that need further examination. The goal of this review is to develop such a framework, to analyze what we know from extant research within this framework, and to identify promising areas for future research. Fig. 1 outlines the proposed framework for analysis of the research on determinants and consequences of auditors' perceptions of others' credibility. The framework subdivides the literature by types of examined effects (determinants of credibility vs. consequences of credibility) and by examined credibility components (competence, trustworthiness, or both). In addition, each segment is further subdivided into evaluatee types: manager or other auditor.

My review of the literature shows that much less work has been done on determinants (12 studies covered in this review) compared to consequences of credibility components (30 studies covered in this review, with 2 studies double-counted in the numbers of studies on determinants and on consequences). The literature on determinants of credibility perceptions suggests that auditor evaluations of credibility are affected by multiple factors individually and in interaction with each other, including task difficulty, familiarity with the evaluatee, hierarchical relationship with the evaluatee, the evaluatee's attempt to prevent the problem, the auditor's prior communication to warn management about the problem, internal auditor compensation, and perception of organizational growth. The literature on consequences of credibility perception suggests that credibility perception affects multiple judgments, including perception of information reliability, evaluation of internal control system, likelihood of suggesting an audit adjustment, evaluation of reasonableness of management's forecasts, audit effort planning, perceived ability of other auditors to detect misstatements, and reliance on internal auditors and internal control system. In addition, at least one study reports an interaction of credibility with other factors. This analysis highlights the importance of research on credibility perceptions and suggests multiple areas for research.

المنارة للاستشارات

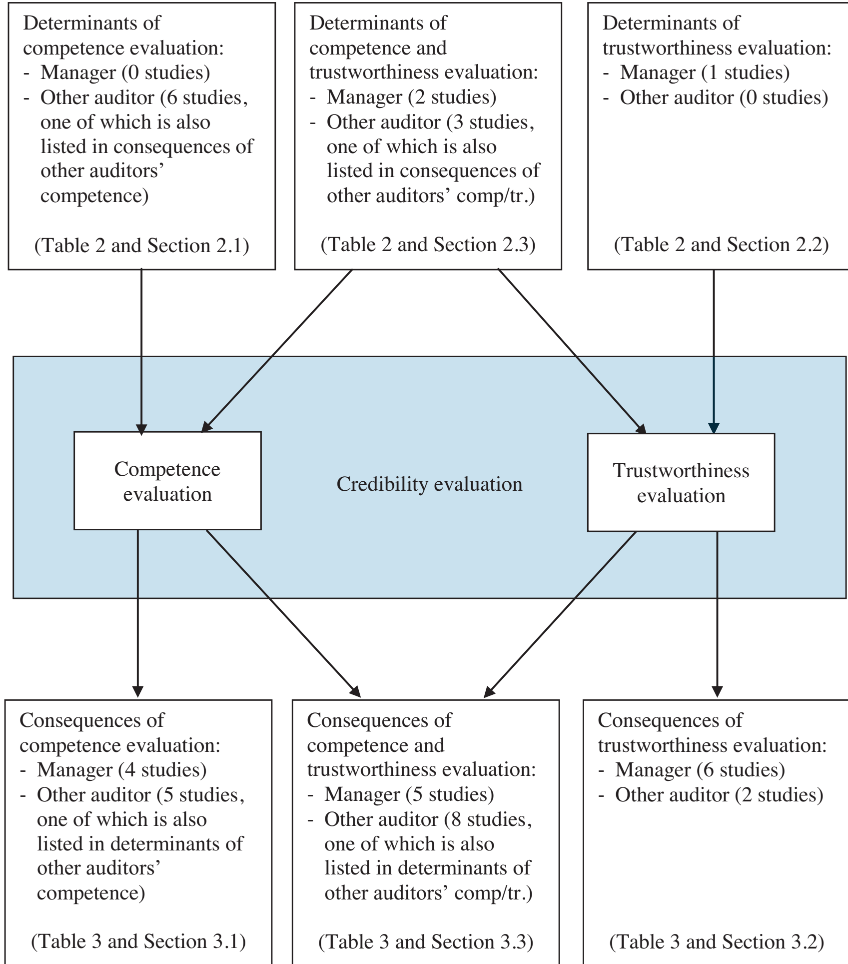

Fig. 1. Framework for analyzing research examining credibility in audit settings.

The following sections present key findings from the literature as well as specific directions for future research. I conclude by summarizing additional directions for future research.

2. Method

For the purposes of this review I examine experimental studies published in the last three-and-a-half decades (1980–2015) in six prominent accounting journals that regularly publish experimental research on topics in auditing: Accounting, Organizations, and Society; Auditing: A Journal of Practice and Theory; Behavioral Research in Accounting; Contemporary Accounting Research; Journal of Accounting Research; and The Accounting Review. I summarize the count of cited papers by the journal of publication and category (determinants, consequences, or both) in Table 1. I focus my review on the experimental research because experiments are well positioned to examine determinants and consequences of auditors' perceptions of others' credibility, as this research calls for either manipulation or measurement of auditors' perceptions, which would be challenging to examine using archival methods. Consistent with this notion, I found only two studies published in the six journals between 1980 and 2015 examining this topic that use non-experimental methods:

المنارة للاستشارات

Table 1
Cited papers by publication journal and category.

Publication journal	Category			Total
	Determinants of credibility	Consequences of credibility	Determinants and consequences of credibility	
Accounting, Organizations and Society	2			2
Auditing: A Journal of Practice & Theory	5	8		13
Behavioral Research in Accounting		2		2
Contemporary Accounting Research		4	1	5
Journal of Accounting Research	2	8		10
The Accounting Review	1	6	1	8
Total	10	28	2	40

Gibbins and Trotman (2002) use a survey method and Krishnamoorthy (2002) uses analytical methods. I refer to these studies in the contexts of the discussions of the experimental studies that are the focus of this review.

I categorize studies as examining *determinants* of credibility if they examine effects on auditors' judgments of credibility of others. In other words, these studies provide insights on how various factors determine, or affect, auditors' perceptions of others' credibility (their competence, trustworthiness, or both) or reasonable proxies for auditors' perceptions of others' credibility. I categorize studies as examining *consequences* of auditors' perceptions of others' credibility if they examine how auditors' perceptions of others' credibility affect auditors' judgments. In other words, these studies provide insights on the consequences, or effects, of auditors' credibility perceptions, or of their reasonable proxies, on auditors' judgments.

In my review, the term "manager" represents company management and other personnel responsible for preparation of financial statements and maintenance of internal controls over financial reporting. "Other auditors" include other external auditors, internal auditors, and other personnel responsible for auditing the financial statements and internal controls over financial reporting.

3. Determinants of credibility evaluations

Accounting studies have examined effects of various factors on auditor perceptions of the two components of credibility – competence and trustworthiness (see summary in Table 2). In this section, I first discuss effects on competence evaluation, then on trustworthiness, and then on both.

3.1. Determinants of competence evaluation

No studies published between 1980 and 2015 in the six journals I cover in my review fit the criteria I outline for studies examining determinants of auditors' perceptions of *managers' competence* (two studies, discussed in Section 3.3.1 below examine determinants of auditors perceptions of both *managers' competence* and *trustworthiness*). Eight studies fit the criteria I outline for studies examining determinants of auditors' perceptions of *other auditors' competence*. These studies generally report that auditors overestimate their own competence and the competence of other auditors, and that factors that are potentially irrelevant to competence evaluation (e.g., familiarity and social bond) affect perceptions of other auditors' competence.

Kennedy and Peecher (KP, 1997) report that both supervisors and subordinates are overconfident in their technical knowledge and that greater technical knowledge gap between supervisors and subordinates increases the supervisors' overconfidence in their subordinates' knowledge. KP point out that supervisors' overconfidence in their subordinates' knowledge is the result of anchoring on their own technical knowledge and not adjusting sufficiently for the gap between their own and their subordinates' knowledge. KP suggest that supervisors could assess their subordinates' knowledge more accurately if first they were more accurate in assessments of their own knowledge.

المنارة للاستشارات

Table 2
Determinants of credibility.

Study	Focus	Participants	Independent variables (determinants)	Dependent variables	Key results
Kennedy and Peecher (1997)	Competence/ other auditor	42 auditors (staff, seniors, and managers)	Measured supervisor and staff ability to answer questions correctly on accounting and auditing topics	Accuracy of auditor perception of their own and their subordinates' technical knowledge	Both supervisors and subordinates are overconfident in their technical knowledge. As the gap between technical knowledge of supervisors and subordinates expands supervisors' overconfidence in their subordinates' knowledge increases
Messier et al. (2008)	Competence/ other auditor	71 audit partner, 72 audit managers, and 72 audit seniors	Measured audit manager/senior detection of the seeded error in two audit cases	Audit partners' expectations of how well managers and seniors will detect financial statement errors	Partners are overconfident in their subordinates' abilities to detect errors, particularly with respect to audit seniors' abilities and complex (rather than simple) errors
Harding and Trotman (2009)	Competence/ other auditor	Study 1: 20 audit seniors Study 2: 107 part-time graduate students	Study 1: Familiarity with the assessee (yes vs. no) and hierarchical relationship levels (a peer or a subordinate) Study 2: Feedback – no feedback (control), individual-specific feedback, and average-group feedback. Familiarity was manipulated within subjects across two levels: familiar vs. unfamiliar with the assessee	Another auditor's competence	Study 1: Auditors tend to anchor on the specific competence of a *familiar* auditor (subordinate or peer) when evaluating the familiar auditor's competence. Auditors tend to anchor on the average competence of the *unfamiliar* auditor's peer group when evaluating the unfamiliar auditor's competence. Study 2: Average-group outcome feedback reduces overconfidence in competence assessments of an *unfamiliar* colleague. Individual-specific outcome feedback reduces overconfidence in competence assessments of a *familiar* peer
Tan and Shankar (2010)	Competence/ other auditor	56 audit seniors from Big 4 firms in Singapore	Between-participants: reviewer–preparer opinion congruence (congruent or incongruent) and justification strength (strong or weak documented justification). Within-participants: belief regarding the importance of subordinates' alignment with superiors' preference (high or low)	Ratings of perceived quality of auditor–preparers' justification memos (proxy for perceived competence of the auditor–preparer)	Opinion congruence has a greater effect on quality ratings for memos with strong justification than for memos with weak justification. This effect is significant only for auditors with low reported beliefs regarding the importance of subordinates' alignment with superiors

المنارة للاستشارات
www.manaraa.com

Han et al. (2011)	Competence/ other auditor	Fourteen teams of 1 audit manager and 2 audit seniors each	Task difficulty (low vs. high)	Assessments of technical knowledge of subordinates (managers assessing seniors) and superiors (seniors assessing managers)	Task difficulty affects overconfidence differently depending on whether the auditors predict performance of subordinates or superiors. The results show that predictions about subordinates' performance tend to be more overconfident when the task is more difficult (i.e., managers predicting the performance of seniors) and predictions about superiors' performance tend to be more overconfident when the task is less difficult (i.e., seniors predicting the performance of managers)
Kadous et al. (2013) [a]	Competence/ other auditor	88 audit seniors (from a Big 4 firm)	Social bond with the advisor	Perceived competence of the advisor	Greater social bond with the advisor leads to higher perceived competence of the advisor
Wong-On-Wing et al. (1989)	Trustworthiness/ manager	110 auditors (3 years of audit experience on average)	Deviation from expectations about management (low vs. high), management's ability to choose to make the transaction (high vs. low)	Auditor attribution of transaction to management disposition and auditor evaluation of materiality threshold for disclosure of the transaction	Auditors are most likely to attribute the transaction to management's disposition (i.e., attitude, personal traits, etc.) rather than circumstances when a transaction deviates differs from auditors' expectations and auditor perceives management to have a high degree of choice in making the transaction
Anderson and Marchant (1989)	Competence and trustworthiness/ manager	75 auditors (with 4.5 years of median experience)	144 behaviors (72 ability behaviors and 72 integrity behaviors)	Assessments for a combination of 20 ability behaviors, 20 integrity behaviors, and two trait dimensions [competent/ incompetent, honest/ dishonest] for client managers	Auditors view informativeness of behavior valence (positive vs. negative behavior) on client managers' credibility judgments differently depending on whether they assess managers' competence or trustworthiness. When assessing competence, auditors view positive behaviors as more informative. When assessing trustworthiness, auditors view negative behaviors as more informative. Auditors view extreme behaviors as more informative than moderate behaviors for both types of assessments: competence and trustworthiness
McKinley et al. (1996)	Competence and trustworthiness/ manager	63 audit partners (16.7 years of audit experience) and 76 audit managers (7.7 years of audit experience)	Measured perception of organizational growth on a scale ranging from 1 (very rapid growth) to 11 (very rapid decline)	Perception of manager competence and integrity	Compared to stability, rapid organizational decline and rapid organizational growth result in lower assessments of manager credibility: rapid decline leads to lower assessed competence and rapid growth – to lower assessed trustworthiness
Glover et al. (2008) [a]	Competence and trustworthiness/ other auditor	127 Big 4 auditors (20% audit managers or higher, 59% audit seniors, and 21% audit staff)	Sourcing arrangement of the internal audit function (in-house or outsourced), inherent risk (low or high), and subjectivity of the task performed by the internal auditors (subjective or objective)	External auditors' assessments of the internal auditors' objectivity and competence	Method of sourcing affects external auditors' perceptions of objectivity, but not their perception of competence of the internal auditors

المنارة للاستشارات
www.manaraa.com

Table 2 (*Continued*)

Study	Focus	Participants	Independent variables (determinants)	Dependent variables	Key results
Desai et al. (2011)	Competence and trustworthiness/ other auditor	105 experienced auditors (76 Big 4 auditors and 29 regional firms' auditors previously employed by Big 4)	A company's method of maintaining internal audit function: in-house, cosource, outsource, cosource with tax services, or outsource with tax services	External auditors' assessments of the internal auditors' objectivity and competence	Method of maintaining internal audit function affects perceived objectivity, but not competence. Auditors perceive lower objectivity when the internal audit service provider also provides tax services, particularly when cosourcing method is used
Messier et al. (2011)	Competence and trustworthiness/ other auditor	43 auditors in Norway (35 senior associates and 8 managers), majority from Big 4 firms	Using vs. not using of the internal audit function as a management training ground	Perception of manager competence and objectivity	When a company uses the internal audit function as a management training ground auditors perceive internal auditors to be less objective, but not less competent

[a] These studies also provide insights about consequences of credibility (see Table 3).

المنارة للاستشارات
www.manaraa.com

Similarly, Messier, Owhoso, and Rakovski (2008) find that audit partners are overconfident in their subordinates' competence with respect to detecting errors, particularly when errors are complex (rather than simple). Also, Han, Jamal, and Tan (HJT, 2011) find that managers tend to be more overconfident about the audit seniors' competence when tasks are more complex. Yet, the more complex audit procedures are potentially the areas where importance of evaluating subordinates' competence accurately increases relatively to less complex procedures. These results are consistent with the results of the survey conducted by Gibbins and Trotman (2002) indicating that audit managers view technical excellence as the least important characteristic of a competent audit partner, potentially because of overestimating their own and their subordinates' technical competence. Further, HJT also report that audit seniors overestimate their audit managers' technical competence only for less complex tasks, suggesting that they may overestimate their audit managers' scrutiny for the less complex tasks, but not for the more complex tasks, and therefore exert particularly extensive efforts for the less complex tasks. These combined results suggest that the more complex tasks that require particularly strong efforts may not receive sufficient attention neither by the audit seniors who perform them nor by the audit managers and audit partners who may overestimate the audit seniors' performance on these tasks.

These results call for future research examining factors that could reduce audit managers' and audit partners' overestimation of their subordinates' competence, particularly with regards to complex tasks. Future research could also examine whether the extent to which audit partners and audit managers overestimate their subordinates' competence varies by factors important to audit settings, such as audit risk, probability of a PCAOB inspection, or offering of non-audit services.

Another factor that has been shown to affect auditor estimation of other auditors' competence is familiarity. Harding and Trotman (HT, 2009) show that auditors tend to anchor on the specific competence of a *familiar* auditor (subordinate or peer) when evaluating the familiar auditor's competence, but anchor on the average competence of the *unfamiliar* auditor's peer group when evaluating the unfamiliar auditor's competence. HT also show that certain types of feedback can reduce the inaccuracy in competence assessments depending on familiarity with the colleague whose competence the auditor is evaluating. Individual-specific feedback can reduce overconfidence in competence evaluations of a *familiar* colleague and average-group feedback can reduce overconfidence in competence evaluations of an *unfamiliar* colleague.

Social bond and congruence of opinions have also been shown to affect auditors' perceptions of the other auditors' competence. Kadous, Leiby, and Peecher (2013) find that greater social bond with the auditor giving advice leads to higher perceived competence of the advisor. Tan and Shankar (2010) report that opinion congruence leads to more favorable evaluation of audit-preparer's performance (for the purposes of this review viewed as a proxy for perceived competence).

Future research could examine whether familiarity and social bond with colleague affect perceived competence in circumstances where accurate competence assessments are particularly important, such as high audit risk or complex audit tasks (e.g., evaluation of internal control or auditing complex estimates). Future research could also examine whether the effect of opinion congruence becomes particularly strong in these circumstances.

3.2. *Determinants of trustworthiness evaluation*

Only one study published between 1980 and 2015 in the six journals I cover in my review fits the criteria I outline for studies examining determinants of auditors' perceptions of *managers' trustworthiness* (two studies, discussed in Section 3.3.1 below examine determinants of auditors perceptions of both *managers' competence* and *trustworthiness*). No studies fit the criteria I outline for studies examining determinants of auditors' perceptions of *other auditors' trustworthiness.*

Wong-On-Wing, Reneau, and West (1989) report that auditors attribute a transaction with questionable motives (a gain on a sale of fixed assets) to management's disposition (for the purposes of this review viewed as a proxy for trustworthiness) rather than circumstances when the transaction deviates from auditors' expectations and auditors perceive management to have had a high degree of choice in making the transaction. This result suggests that auditors tend to exercise a higher degree

المنارة للاستشارات

of skepticism about the management's motives when transactions deviate from expectations and the management had a choice of whether to make the transaction.

An important future extension of this research would be examining how the increased attribution of a questionable transaction to management's disposition affects auditors' judgments. A particularly interesting venue seems to be in examining the extent to which attribution of one questionable transaction to management's disposition affects evaluation of the relevant internal control and attribution of another questionable transaction to management's disposition.

3.3. Determinants of both competence and trustworthiness evaluation

3.3.1. Determinants competence and trustworthiness evaluation of client managers

Only two studies in my review examined determinants of auditors' assessments of both competence and trustworthiness of managers. These studies examine how various manager behavior scenarios and perceived organizational growth affect perceived trustworthiness of managers.

Anderson and Marchant (AM, 1989) find that auditors view informativeness of behavior valence (positive vs. negative behavior) on client managers' credibility judgments differently depending on whether they assess managers' competence or trustworthiness. When assessing competence, auditors view positive behaviors as more informative. When assessing trustworthiness, auditors view negative behaviors as more informative. Generally, AM report that auditors view extreme behaviors as more informative than moderate behaviors for both types of assessments: competence and trustworthiness.

These findings suggest that perceived competence and trustworthiness differ in nature. Whereas client managers can "earn" higher perceived competence, trustworthiness tends to be a given until it is "lost." In other words, initially auditors may default to a fairly low assessments of competence, but to fairly high assessments of trustworthiness, and update these assessments differently. Auditors may *increase* competence based on observed competent actions to a lesser degree than decrease it based on observed incompetent actions. Auditors may *decrease* perception of trustworthiness based on observed untrustworthy actions to a greater extent than increase it based on observed trustworthy actions. Further research is needed to examine wither these suggestions hold true and under what circumstances they do not.

McKinley, Ponemon, and Schick (MPS, 1996) provide further insights into the differences between assessments of competence and assessments of trustworthiness. MPS report that rapid organizational decline decreases auditors' assessments of client managers' competence, but has no effect on assessments of trustworthiness. Presumably, reporting a rapid decline is generally against the management's interests, should signal a lower chance of earnings management, and therefore indicate that the management is trustworthy. Thus, the lack of effect on trustworthiness may appear puzzling, yet this lack of effect is consistent with the notion suggested above that trustworthiness is a given until it is "lost" because of untrustworthy actions.

Conversely, rapid organizational growth results in lower assessments of manager trustworthiness, but has no effect on competence. While the effect on trustworthiness is consistent with the suggestion that trustworthiness is a given until "lost," the lack of effect on competence may appear puzzling, as more competence should have been "earned" by the rapid growth. However, it is possible that the auditors discount the signals about greater competence because they suspect that the reported rapid growth is not real.

Further research is necessary to examine how and why various factors differentially affect auditors' perceptions of the client managers' competence and trustworthiness. Future research could also examine under what circumstances rapid decline will increase trustworthiness and when rapid growth will increase competence.

3.3.2. Determinants competence and trustworthiness evaluation of other auditors

Three studies in my review examined determinants of auditors' assessments of both competence and trustworthiness of other auditors. These studies examine how use of internal audit function (IAF) as a management's training ground and method of IAF's sourcing method affect perception of competence and trustworthiness of other auditors.

المنارة للاستشارات

Glover, Prawitt, and Wood (GPW, 2008) and Desai, Gerard, and Tripathy (DGT, 2011) find that method of IAF's sourcing affects external auditors' perceptions of objectivity, but not their perception of competence of the internal auditors. Specifically, GPW report that external auditors are more likely to rely on internal auditors to perform a subjective task when the IAF is outsourced compared to when the IAF is in-house. DGT report that auditors perceive lower objectivity when the internal audit service provider also provides tax services (vs. does not provide tax services), particularly when cosourcing method is used (vs. outsourcing method). Messier, Reynolds, Simon, and Wood (2011) find that use of IAF as a management training ground affects auditors' perceptions similarly: use of IAF as a management training ground affects perceptions of objectivity, but not of competence.

These results suggest that IAF's sourcing, provision of other services by IAF, and use of IAF as a management training ground inform evaluations of internal auditors' objectivity, but provide no signal about internal auditors' competence in the examined settings. Presumably, in-house IAF and IAF providing additional services should be viewed as more knowledgeable about their company than outsourced IAF or IAF not providing additional services. Further, internal auditors in IAF's used as management training ground should be self-selected from a more competitive pool and potentially viewed as more knowledgeable than when IAF is not used as management training ground. Future research is needed to examine under what circumstances method of sourcing, provision of additional services, and use of IAF as a management training ground will affect perceived competence of the internal auditors. Research should also examine multiple operationalizations of competence and trustworthiness measures that can be used in future research.

4. Consequences of credibility

Accounting studies have also examined effects of others' perceived credibility (competence and trustworthiness) on auditor judgment (see summary in Table 3). These studies report significant effects of perceived competence and trustworthiness on multiple judgments relevant to audit settings.

4.1. Consequences of competence evaluation

4.1.1. Consequences of competence evaluation of client managers

Five studies in my review examined consequences of perceived competence of managers. These studies examine the effects of perceived competence of client managers on auditor's planning judgments, evaluation of evidence, and evaluation of other information provided by the management.

Danos and Imhoff (DI, 1983) report that in evaluating management's forecasts auditors rely on management's historical forecast accuracy (viewed as a proxy for perceived competence for the purposes of this review) more than on any other factor examined by DI. Other studies find that auditors place greater weight on evidence and explanations when they come from more competent management (Anderson, Koonce, & Marchant, 1994; Knechel & Messier, 1990; Rebele, Heintz, & Briden, 1988).

These findings suggest that auditors give management the benefit of the doubt and potentially lower their professional skepticism when they perceive the management's competence as being higher. Future studies are needed to examine whether perceived competence of management in one area affects auditors' reliance on management's judgments in an unrelated area. For example, does higher perceived competence of client managers in estimating warranty expense lead to more favorable auditor judgments about internal control issues related to inappropriate capitalization of fixed assets? One of the concerns is that the perceived competence of a client manager in one area may create a halo effect wherein auditors give that manager the benefit of the doubt in unrelated areas as well.

4.1.2. Consequences of competence evaluation of other auditors

Five studies in my review examined consequences of perceived competence of other auditors. These studies examine the effects of perceived competence of other auditors on auditor judgments about internal controls, agreement with the subordinate's conclusions, intentions to take actions against a wrong-doing auditor, and evaluation of subordinate's work quality.

المنارة للاستشارات

Table 3
Consequences of credibility.

Study	Focus	Participants	Independent variables	Dependent variables	Key results (consequences)
Danos and Imhoff (1983)	Competence/ manager	81 auditors (13 years of experience)	Several factors: the importance of forecast system structure (decentralized/centralized), primary sales estimation method (formal model/series of meetings), typical results of forecast revision process (relatively high/ relatively low), role of forecast accuracy in reward structure (directly important/ indirectly important), forecast track record (historical accuracy of forecasts), forecast benchmark (the percentage increase in forecasted net income over the prior year's actual income), reward structure, and the measure of forecast adjustment during revision	Auditor evaluation of the reasonableness of managers' financial forecasts	Forecast track record is used by auditors more than any other examined variable in evaluating management's forecasts
Rebele et al. (1988)	Competence/ manager	70 auditors (2–4 years of audit experience)	Competence of management: management is described as having high expertise (high) or low expertise (low)	Auditor weighing of evidence from management	Auditors place more weight on evidence from management when preparer of that information is described as having high competence
Knechel and Messier (1990)	Competence/ manager	92 auditors (averaging 3.65 years of audit experience)	Credit manager reliability: credit manager is correct 90 percent of the time (high) or 50 percent of the time (low)	Choice of which evidence to examine and revisions	Auditors choose to examine more reliable evidence and that when reliability of the chosen evidence is higher auditors are more likely to revise their initial judgments about allowance for doubtful accounts
Anderson et al. (1994)	Competence/ manager	119 auditors (averaging 74 months of audit experience)	Competence level: assistant controller had limited (low) and extensive training and experience (high)	Reliability of explanation	Auditors view manager's explanation as being more reliable when they believe that the manager is more competent. Timing of when auditors learn about the manager's competence does not affect their assessments of explanation reliability
Bamber (1983)	Competence/ other auditor	35 audit managers	Reliability of audit senior's procedure performance (high or low)	Evaluation of the client's internal control system	Auditors were more sensitive to the manipulation of source reliability than the model predicted. Relative to the model's predictions, most audit managers excessively discounted the information's diagnosticity when audit senior's reliability was lower

المنارة للاستشارات
www.manaraa.com

Rich (2004)	Competence/ other auditor	56 audit managers from four large international audit firms	Auditor–reviewer's perception of the auditor–preparer's competence (auditor–preparer is more or less likely to make an error based on the auditor–preparer's past performance) and accountability to financial statements' users (high or low)	The difference between the auditor–reviewer's agreement with the auditor–preparer's work before and after the review	The auditor–reviewer's perception of auditor–preparer's competence has a greater effect on the auditor–reviewer's agreement with the auditor–preparer when the perceived accountability to financial statements' users is higher
Robertson et al. (2011)	Competence/ other auditor	190 auditors of various levels (intern to partner) from firms with various sizes (local to Big 4)	Reputation for likability (more or less) and reputation for performance (high or low)	Intention to take action against the other auditor in response to questionable audit acts	Reputation for poor performance leads to higher intention to take action against the auditor, but only when the auditor is less likable
Tan and Jamal (2001) [a]	Competence/ other auditor	40 audit seniors and 20 audit managers from two Big 5 firms	Measured: Audit firm's classification of audit manager's competence (outstanding or average) Within-participants: audit senior competence (outstanding or average) and audit manager's awareness of the audit senior identity (audit senior's identity is revealed or not revealed)	Audit managers' evaluation of audit seniors' memo quality	Higher competence reputation of audit seniors leads average audit managers to evaluate the quality of their memos more favorably than the quality of memos by seniors with reputation for less competence, but only when the audit seniors' identity is revealed. Outstanding audit managers' evaluations are not affected by audit senior's competence reputation regardless of whether it is revealed
Kadous et al. (2013) [a]	Competence/ other auditor	88 audit seniors (from a Big 4 firm)	Social bond (perceived competence of an advisor), advice justifiability, and auditor specialization	Weight of advice in evaluating a discount rate; and advice quality	Higher perceived competence leads to greater weight of advice for non-specialists (auditors not specializing in financial services), but not for specialists, despite both types of auditors assessing advice quality higher when they perceive higher competence of the advisor
Caster and Pincus (1996)	Trustworthiness/ manager	195 audit seniors (average of 3.2 years of audit experience)	Participants are informed that the review was performed using an outside source of evidence (i.e., Dun and Bradstreet's credit ratings) or using an internal source of evidence (i.e., the client's credit manager).	Likelihood of auditors requiring an audit adjustment	When evidence is more reliable (comes from a credit agency rather than the client), the auditors are more likely to require an adjustment
Peecher (1996)	Trustworthiness/ manager	106 auditors from Big Six accounting firms (averaging 3 years of auditing experience)	Integrity (trustworthiness) of client management	JDM of auditors	Higher integrity of the client management is associated with larger effect of justifiee (audit firm's) preferences on auditors' judgments when auditors have incentives to accept the client's desired conclusion. When integrity is low there is no effect of justifiee preferences

المنارة للاستشارات
www.manaraa.com

Table 3 (*Continued*)

Study	Focus	Participants	Independent variables	Dependent variables	Key results (consequences)
Reimers and Fennema (1999)	Trustworthiness/ manager	165 audit managers and seniors (6.8 years of public accounting experience)	Auditor role with respect to the working paper in the task of evaluating allowance for doubtful accounts (preparer or reviewer) and source trustworthiness (outside credit agency or client's internal credit manager)	Auditor judgment about reliability of information	Only the auditors assigned to the role of reviewers are sensitive to the trustworthiness of information source
Goodwin (1999)	Trustworthiness/ manager	50 audit staff, based in Singapore (averaging 3.1 years of experience)	Scenario 1 (source integrity): a lawyer acting for the client in a lawsuit concerning patent infringement provided evidence that was either consistent (high integrity) or inconsistent (low integrity) with evidence obtained from within the client Scenario 2 (management integrity): evidence provided by management was either consistent (high integrity) or inconsistent (low integrity) with other evidence obtained from within the client	Auditor judgment about what accounting treatment is required	Auditors' judgments are more unfavorable and they recommend a more conservative accounting treatment when management trustworthiness is lower
Haynes (1999)	Trustworthiness/ manager	78 auditors from a large State Auditor's Office (average of 7.7 years of experience).	Context (abstract and audit) and experience (auditors and non-auditors) were manipulated between subjects while scenario, high source reliability/low evidence diagnosticity and low source reliability/high evidence diagnosticity, was varied within subjects	Importance of management integrity and evidence diagnosticity	Auditors place more weight on management trustworthiness than on evidence diagnosticity in their judgments
Peterson and Wong-on-Wing (2000)	Trustworthiness/ manager	93 audit seniors (averaging 3.3 years of audit experience)	Trustworthiness of explanation: an explanation for a fluctuation that comes from either the client (low trustworthiness) or an audit supervisor (high trustworthiness)	Auditor choice of tests	No effect of trustworthiness on auditor judgment. This result indicates that auditors may not always be sensitive to trustworthiness characteristics of the evidence
Abdel-Khalik et al. (1983)	Trustworthiness/ other auditor	59 audit seniors and managers (averaging 8 years of audit experience)	Objectivity, use of internal audit staff in reviews of changes in EDP applications, the use of an integrated audit facility, the use of generalized audit software, and the use of test data. ASW vary objectivity by the level to which internal auditors report within the organization (controller vs. the corporate audit committee), with higher level indicating greater independence and therefore objectivity. ASW vary the other factors by specifying whether IA department uses or does not use them	Audit planning judgments and reliance on internal auditors	Of the five factors examined only trustworthiness (i.e., objectivity) affected audit hours planned for compliance and for substantive testing. Trustworthiness was also the most important factor in determining external auditor reliance on IA department

المنارة للاستشارات
www.manaraa.com

Dezoort et al. (2001)	Trustworthiness/ other auditor	76 auditors from Big Five public accounting firm	Internal auditor compensation (fixed salary vs. incentive-based compensation), the kind of work internal auditors routinely perform (primarily auditing vs. primarily consulting), and subjectivity of audit task (tests of controls, a low subjectivity task vs. inventory valuation, a high subjectivity task)	Planning judgments and reliance on internal auditors	Compensation type affects auditor time budgets only for the highly subjective task: incentive compensation results in higher budgeted audit hours. Though consulting role affects perceived internal auditor objectivity, it does not affect external auditor reliance, leading to higher budgeted hours only when incentive compensation is also available
Joyce and Biddle (1981)	Competence and trustworthiness/ manager	Study 1: 50 auditors (4 years of experience on average) Study 2: 132 auditors (95% had one or two years of audit experience)	Study 1: Between-participants reliability of evidence source: auditors were told that false positives rate was high (low reliability) or low (high reliability) Study 2: Between-participants reliability as in study 1 and within-participants base rate of uncollectibles (25% or 75%) and order in which the case is presented (client's credit manager first vs. credit agency first)	Studies 1 and 2: Evaluations of collectability of accounts receivable	Study 1: No effect of competence (reliability) on auditor judgments about collectability of accounts receivable Study 2: A posterior odds base rate of receivables collection is not different from one, indicating that auditors completely neglect base rates manipulated between-participants. When the manipulation is done within participants and is thus more salient to each participant, the independent agency's information is considered more reliable
Danos and Imhoff (1982)	Competence and trustworthiness/ manager	42 audit partners and managers (averaging 13.8 years experience in public accounting)	Examined attributes included manager forecast accuracy, manager forecast bias, forecasted increase in net income, and sensitivity of forecasts to industry sales and company market share	Auditor evaluation of the reasonableness of managers' financial forecasts	Auditors weight management's past accuracy at making financial forecasts as the most important factor when evaluating the reasonableness of current forecasts (as compared to other competence factors and environmental factors). Client manager bias is viewed the least important factor
Bernardi (1994)	Competence and trustworthiness/ manager	342 audit seniors and 152 audit managers	Client integrity and competence (high, low, and control)	Reliance on internal control and planning judgments	Client trustworthiness and competence factors affect fraud detection only for the audit managers who have high-moral-development cognitive styles
Hirst (1994)	Competence and trustworthiness/ manager[b]	101 auditors (averaging 56.5 months audit experience)	Competence: specialist (high) vs. non-specialist (low) Objectivity (trustworthiness): source is a member of audit team (high) vs. client CFO (low)	Evidence diagnosticity	Auditors view evidence reported by a more competent source as being more diagnostic than the same evidence reported by a less competent source. Similarly, higher objectivity of the source makes evidence more diagnostic

المنارة للاستشارات
www.manaraa.com

Table 3 (*Continued*)

Study	Focus	Participants	Independent variables	Dependent variables	Key results (consequences)
Jenkins and Haynes (2003)	Competence and trustworthiness/ manager	64 audit managers (40 Big 5 averaging 9.02 years of experience and 24 were non-Big 5 averaging 7.90 years)	Client credibility was manipulated at marginal or high level, with each participant receiving either: "(1) a disclosure task involving a highly credible client and a measurement task involving a marginally credible client, or (2) a disclosure task involving a marginally credible client and a measurement task involving a highly credible client."	Auditor judgments about the need to disclose contingent liability and about collectability of accounts receivable	No effect of credibility on auditor judgments about the need to disclose contingent liability or collectability of accounts receivable, indicating that auditors do not always reflect credibility perceptions in their judgment
Brown (1983)	Competence and Trustworthiness/ other auditor	101 audit seniors and managers from four "Big Eight" CPA firms (54 were audit seniors with 3–7 years of experience and 47 were audit managers with more than 7 years of experience in public accounting)	Six characteristics of internal audit function manipulated across 48 scenarios. The six factors addressed training, independence (trustworthiness), work quality, certification, follow-up quality, and supervision quality	Reliance on internal auditors	Across all audit experience levels trustworthiness (independence) and competence (quality of the previous years' audit work) are the primary factors auditors use in evaluating how much to rely on internal auditors. Auditors place the most weight on trustworthiness
Schneider (1984)	Competence and trustworthiness/ other auditor	24 experienced auditors (mostly audit managers, averaging 9 years of public accounting experience)	Competence, objectivity (trustworthiness), and work quality measured via several questions for each category questions	Reliance on internal auditors	Most auditors evaluate internal auditors by combining these factors and view competence as the second most important factor after work. Interestingly, auditors view competence as being more important than objectivity (trustworthiness), contrary to the findings of Brown (1983)
Schneider (1985)	Competence and trustworthiness/ other auditor	17 audit managers, 2 principals, and 1 supervisor	Sixteen profiles of IA departments, based on competence, objectivity (trustworthiness), and work quality	Reliance on internal auditors	Auditors tend to view competence as more important than trustworthiness in their reliance judgments on IA work. IA competence and trustworthiness have a positive relationship with auditor reliance decision, and there is a moderate degree of consensus among the auditors

المنارة للاستشارات
www.manaraa.com

Margheim (1986)	Competence and trustworthiness/ other auditor	1000 CPA's from Big Eight accounting firms (three or more years of AICPA membership)	Competence and work performance manipulated simultaneously via the information auditors receive about IA as indicating high vs. low education levels, department strength, and quality of performing specific tasks relevant to accounts receivable. Objectivity level manipulated via the information indicating that IA are independent from vs. dependent on department heads for approvals of IA recommendations	Nature and extent of audit procedures	External auditors reduce budgeted audit hours when the internal auditors have a high level of competence and work quality, but they do not change the nature and extent of audit tests in response to variations in internal auditor objectivity (trustworthiness)
Messier and Schneider (1988)	Competence and trustworthiness/ other auditor	22 audit supervisors and managers	Measured competence, objectivity (trustworthiness), and work of IA	Reliance on internal auditors	In evaluating IA function auditors weight competence of the internal auditors more than objectivity (trustworthiness) and work quality of the internal auditors, consistent with Schneider (1984, 1985)
Maletta (1993)	Competence and trustworthiness/ other auditor	Sixty-five Big 6 audit managers with average public accounting experience of six years	Inherent risk (high or low), competence (high or low), objectivity (high or low), and work performed (comprehensive or limited)	Reliance on internal auditors	Competence was found to be the most important factor in deciding whether to use internal auditors as assistants, followed by objectivity and work performed. At high inherent risk, work performed affects the decision on whether to use internal auditors only when objectivity is high; there is no such interaction at low inherent risk
Maletta and Kida (1993)	Competence and trustworthiness/ other auditor	Sixty-two Big 6 audit managers	Between-participants: inherent risk (high or low) and control quality (strong or weak) Within-participants: competence (high or low), objectivity (high or low), and work performed (comprehensive or limited)	Reliance on internal auditors	Auditors considered all three components of internal audit (objectivity, competence, and work performed) only when both inherent risk and control strength are high
Glover et al. (2008) [a]	Competence and trustworthiness/ other auditor	127 Big 4 auditors (20% audit managers or higher, 59% audit seniors, and 21% audit staff)	Sourcing arrangement of the internal audit function (in-house or outsourced), inherent risk (low or high), and subjectivity of the task performed by the internal auditors (subjective or objective)	Reliance on internal auditors	External auditors' perceptions of the internal auditors' objectivity, but not of competence, affect external auditors' reliance decision

[a] These studies also provide insights about determinants of credibility (see Table 2).
[b] Hirst (1994) manipulates trustworthiness in such a way that it could be attributed to either another auditor or a client manager. Since the inferences from the study do not change if assigned into "competence and trustworthiness/other auditor" category, I leave the study classified in "competence and trustworthiness/manager" category.

المنارة للاستشارات
www.manaraa.com

Bamber (1983) models auditor evaluation of client's internal control system on competence reputation (reputed "consistency and care in conducting detailed audit work and making audit judgments") and find that the audit senior's perceived competence affects audit managers' judgments more than predicted by the model. These results suggest that auditors are highly sensitive to their subordinates' competence. However, Tan and Jamal (TJ, 2001) show that this sensitivity may be due to a bias. TJ show that higher competence reputation of audit seniors leads average audit managers to evaluate the quality of their memos more favorably than the quality of memos by seniors with reputation for less competence, but only when the audit seniors' identity is revealed. Outstanding audit managers' evaluations are not affected by audit senior's competence reputation regardless of whether it is revealed.

These results suggest that auditors' sensitivity to other auditors' perceived competence may bias their judgment for (if competence is high) or against (if competence is low) the other auditors' judgments, and potentially lead to lower effectiveness and efficiency. Future research is needed to assess the extent to which perceptions of subordinates' competence bias auditor judgment and how this bias can be mitigated.

Rich (2004) the auditor–reviewer's lower perception of auditor–preparer's competence decreases the auditor–reviewer's agreement with the auditor–preparer more when the perceived accountability to financial statements' users is higher. Rich posits that this happens because greater accountability to the users of financial statements increases auditor–reviewer's efforts to mitigate the risk of potential legal and reputational losses, particularly when auditor–preparer's perceived competence is lower. Future research could examine whether factors that can be manipulated by auditors have a similar effect on auditor–reviewer's efforts to mitigate risk.

Kadous, Leiby, and Peecher (KLP, 2013) find that higher perceived competence leads to greater weight of advice for non-specialists (auditors not specializing in financial services), but not for specialists, despite both types of auditors assessing advice quality higher when they perceive higher competence of the advisor. KLP posit that this effect occurs due to specialists' need to protect their ego by discounting the advice of more competent advisors. This suggests that the need to protect own ego may reduce audit effectiveness and efficiency. Future studies are needed to examine factors that could reduce this effect.

Robertson, Stefaniak, and Curtis (2011) find that low perceived competence (reputation for poor performance) of the other auditor who is a wrong-doer leads to higher intention to take action against the other auditor, but only when the other auditor is less likable. This result indicates that the more competent auditor-wrongdoers are more likely to stay in positions where they can continue to undermine audit quality, compared to their less competent auditor-wrongdoers who are also less likable. Future research could examine how to mitigate the effects of competence and likability on auditor's intention to take action against the other auditor who is a wrong-doer.

4.2. *Consequences of trustworthiness evaluation*

4.2.1. *Consequences of trustworthiness evaluation of client managers*

Studies examining effects of perceived trustworthiness of client managers on auditor judgment report mixed results: while some studies find that lower trustworthiness results in less favorable audit judgments (Caster & Pincus, 1996; Goodwin, 1999) and that auditors weight trustworthiness more than other factors (Haynes, 1999), others find that auditors are not always sensitive to management's trustworthiness (Peterson and Wong-on-Wing, 2000; Reimers & Fennema, 1999). Caster and Pincus (1996) find auditors weigh evidence provided by managers as being less persuasive than evidence provided by third parties, presumably because auditors view client managers to be less trustworthy than third parties. Goodwin (1999) finds that auditors' judgments are more unfavorable and they recommend a more conservative accounting treatment when management trustworthiness is lower. Haynes (1999) reports that auditors place more weight on management trustworthiness than on evidence diagnosticity in their judgments.

On the other hand, Reimers and Fennema (1999) find that auditors are only sensitive to the trustworthiness of information source (client management or external credit agency) when they are

المنارة للاستشارات

assigned to the role of reviewers, but not to the role of preparers. In addition, Peterson and Wong-on-Wing (2000) find no effect of trustworthiness on auditor judgment in the setting they examine.

The combined results suggest that auditors are not always sensitive to perceived trustworthiness of client management. Future research is needed to examine what factors affect auditor sensitivity to client management's trustworthiness. Research could also examine further why auditors assigned to the role of preparers are less sensitive to trustworthiness of the information source. The literature could also benefit from further examination of what types of audit judgments are affected by auditor perceptions of client managers' trustworthiness.

Peecher (1996) finds that higher integrity of the client management is associated with larger effect of justifiee (audit firm's) preferences on auditors' judgments when auditors have incentives to accept the client's desired conclusion. When client management's integrity is low there is no effect of justifiee preferences. These results suggest that when auditors allow greater latitude in judgment, allowing for higher risk of error, when they perceive that their clients have high trustworthiness. Conversely, these results suggest that when perceived trustworthiness is low auditors narrow the latitude in their judgment, allowing for lower risk of error, and, therefore, are less sensitive to their firms' preferences.

Future studies could examine how these effects differ at different levels of inherent and control risks. Future research could also examine how different levels of management's competence affect auditors' willingness to comply with their firms' preferences.

4.2.2. Consequences of trustworthiness evaluation of other auditors

Two studies examine how perceived trustworthiness of internal auditors affects external auditors' planning judgments and decisions regarding whether to rely on IAF. Abdel-Khalik, Snowball, and Wragge (ASW, 1983) use audit seniors and managers to examine how various factors common to internal audit settings affect judgments made by external auditors in planning audit programs. Of the five examined factors perceived trustworthiness of IAF was the most important factor in reliance decisions. Perceived trustworthiness of IAF was also the only factor that affected audit hours planned for compliance and for substantive testing. The factors included objectivity (a proxy for trustworthiness), use of internal audit staff in reviews of changes in EDP applications, the use of an integrated audit facility, the use of generalized audit software, and the use of test data. Similarly, DeZoort, Houston, and Peters (DHP, 2011) find that lower IAF trustworthiness (incentive-based, rather than fixed compensation) increases auditor time budgets, but only for the high-subjectivity task (inventory valuation). DHP find no effect of IAF trustworthiness for the low-subjectivity task (tests of controls).

These results indicate that generally auditors are sensitive to perceived trustworthiness of IAF in developing audit plans and making reliance decisions. Future research could examine whether perceived trustworthiness of IAF affects other auditor decisions such as evaluations of internal control issues and assessments of client management's competence.

4.3. Consequences of both competence and trustworthiness evaluation

4.3.1. Consequences of both competence and trustworthiness evaluation of client managers

Several studies examine effects of management's competence and trustworthiness on auditors' perceptions of accounts receivable's collectability and find mixed results. On the one hand, Joyce and Biddle (JB, 1981) finds that auditors generally ignore both management's competence (reliability) and trustworthiness (evidence from management vs. an external credit agency) in their evaluations of collectability of accounts receivable. Auditors differentiate between trustworthiness levels only when they are manipulated within-participants and thus made more salient. Similarly, Jenkins and Haynes (2003) find no effect of competence or trustworthiness on auditor judgments about the collectability of accounts receivable or the need to disclose contingent liability, indicating that auditors do not always reflect credibility perceptions in their judgment.

On the other hand, a larger body of literature finds that auditors tend to be sensitive to differences in management's competence and trustworthiness. Danos and Imhoff (DI, 1982) and Haynes (1999) report that auditors are incorporate management's competence and trustworthiness into their judgments, though differ in how auditors weigh competence and trustworthiness. DI report that

المنارة للاستشارات

auditors weight management's competence (historical forecast accuracy) as the most important factor when evaluating the reasonableness of current forecasts (as compared to other competence factors and environmental factors).

Thus, the results regarding whether auditors are sensitive to management's competence and trustworthiness are mixed and we need further understanding under what circumstances management's credibility affects auditor judgment. Further research could also examine how different operationalizations of competence and trustworthiness affect auditor judgments.

4.3.2. Consequences of both competence and trustworthiness evaluation of other auditors

Multiple studies examine how competence and trustworthiness of internal auditors affect external auditors' planning decisions and decisions about reliance on IAF, reporting somewhat contradictory results. On the one hand, Schneider (1985), Margheim (1986), Messier and Schneider (1988), and Maletta (1993) report that auditors in their studies view internal auditors' competence as the most important factor in reliance decision. Margheim (1986), in particular, reports that auditors reduce budgeted audit hours when the internal auditors have a high level of competence and work quality, but they do not change the nature and extent of audit tests in response to variations in internal auditor objectivity (trustworthiness). Schneider (1984) also reports that auditors weigh competence higher than trustworthiness in reliance decisions. Maletta and Kida (1993) shed further light into the importance of competence, objectivity (trustworthiness), and work performed by showing that auditors consider all three factors only when both inherent risk and control strength are high.

In sum, the findings on which factor auditors weight more in their reliance decisions seem inconclusive and require further research. Krishnamoorthy (2002) uses analytical methods and reports that external auditors' ranking of the importance of internal auditors' competence, objectivity, and work performance depends on the type of observed evidence, suggesting that no single factor will dominate in all circumstances. Future research is needed to shed further light into factors affecting external auditor rankings of IAF's competence, objectivity (trustworthiness), and work performed in making their decisions on whether to rely on the IAF.

5. Conclusion

Despite more than 35 years of research in the area the literature on determinants and consequences of perceived credibility in audit settings is still in its infancy. The purpose of this review is to provide a framework that can be used to categorize the existent research and to identify promising venues for future research. In examining experimental research published in six prominent accounting journals from 1980 to 2015 I have identified only 12 studies examining determinants and 30 examining consequences of perceived credibility in audit settings. Two of the studies are double-counted in consequences and determinants, so the total number of studies is 40. In the framework in Fig. 1, I suggest that it is useful to view this literature in terms of determinants and consequences of the components of credibility: competence and trustworthiness, both when assessing credibility of a client manager and of another auditor. A client manager has different incentives than another auditor to present biased information, so determinants and consequences of various factors with regards to perceived credibility may differ depending on whether the evaluatee is a client manager or another auditor.[1]

It is puzzling that this research has not grown much over the last 35 years, particularly the studies on determinants of competence and trustworthiness. Thus, examination of determinants of competence and trustworthiness appears to be a particularly needed direction for future research.

Auditor perception of competence and trustworthiness of the parties related to audit settings is vital to effectiveness and efficiency of audits. Underestimated perception of management's and internal auditors' competence or trustworthiness could lead to inefficient audits, while overestimation could lead to overreliance on management's representations and IAF's work, potentially resulting in ineffective audits. Similarly, overconfidence in colleagues' competence, could lead to ineffective

[1] For example, managers have incentives to report favorable results (e.g., see Cheng & Warfield, 2005) while auditors have incentives to persuade their superiors that their conclusions are correct (e.g., see Rich, Solomon, & Trotman, 1997).

المنارة للاستشارات

audits. I hope this review and the suggested framework aid academics in identifying directions for future research to extend our understanding of the determinants and consequences of credibility of managers and other auditors.

References

Abdel-Khalik, A. R., Snowball, D., & Wragge, J. H. (1983). The effects of certain internal audit variables on the planning of external audit programs. *The Accounting Review, 58*(2), 215–227.

Anderson, U. L., Koonce, L., & Marchant, G. (1994). The effects of source-competence information and its timing on auditors' performance of analytical procedures. *Auditing: A Journal of Practice & Theory, 13*(1), 137.

Anderson, U., & Marchant, G. (1989). The auditors assessment of the competence and integrity of auditee personnel. *Auditing: A Journal of Practice & Theory, 8*, 1–16.

Bamber, E. M. (1983). Expert judgment in the audit team: A source reliability approach. *Journal of Accounting Research, 21*(2), 396–412.

Bernardi, R. (1994). Fraud detection: The effect of client integrity and competence and auditor cognitive style. *Auditing: A Journal of Practice & Theory, 13*(Supplement), 68–84.

Brown, P. R. (1983). Independent auditor judgment in the evaluation of IAFs. *Journal of Accounting Research, 21*(2), 444–455.

Caster, P., & Pincus, K. V. (1996). An empirical test of Bentham's theory of the persuasiveness of evidence. *Auditing: A Journal of Practice & Theory, 15*(Supplement), 1–22.

Cheng, Q., & Warfield, T. D. (2005). Equity incentives and earnings management. *The Accounting Review, 80*(2), 441–476.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013). *Internal control-integrated framework*. Durham, NC: AICPA.

Danos, P., & Imhoff, E. A. (1982). Auditor review of financial forecasts: An analysis of factors affecting reasonableness judgments. *The Accounting Review, 57*(1), 39–54.

Danos, P., & Imhoff, E. A. (1983). Factors affecting auditors' evaluations of forecasts. *The Accounting Review, 21*(2), 473–494.

Desai, N. K., Gerard, G. J., & Tripathy, A. (2011). Internal audit sourcing arrangements and reliance by external auditors. *Auditing: A Journal of Practice & Theory, 30*(1), 149–171.

Dezoort, F. T., Houston, R. W., & Peters, M. F. (2001). The impact of internal auditor compensation and role on external auditors' planning judgments and decisions. *Contemporary Accounting Research, 18*, 257–281.

Gibbins, M., & Trotman, K. T. (2002). Audit review: Managers' interpersonal expectations and conduct of the review. *Contemporary Accounting Research, 19*, 411–444.

Glover, S. M., Prawitt, D. F., & Wood, D. A. (2008). Internal audit sourcing arrangement and the external auditor's reliance decision. *Contemporary Accounting Research, 25*(1), 193–213.

Goodwin, J. (1999). The effects of source integrity and consistency of evidence on auditors' judgments. *Auditing: A Journal of Practice & Theory, 18*(2), 1–16.

Han, J., Jamal, K., & Tan, H.-T. (2011). Auditors' overconfidence in predicting the technical knowledge of superiors and subordinates. *Auditing: A Journal of Practice & Theory, 30*(1), 101–119.

Harding, N., & Trotman, K. T. (2009). Improving assessments of another auditor's competence. *Auditing: A Journal of Practice & Theory, 28*(1), 53–78.

Haynes, C. M. (1999). Auditors' evaluation of evidence obtained through management inquiry: A cascaded-inference approach. *Auditing: A Journal of Practice & Theory, 18*(2), 87–104.

Hirst, D. E. (1994). Auditors' sensitivity to source reliability. *Journal of Accounting Research, 32*(1), 113–126.

Hovland, C., Janis, I., & Kelley, H. (1953). *Communication and persuasion*. New Haven, CT: Yale University Press.

Jenkins, J. G., & Haynes, C. M. (2003). The persuasiveness of client preferences: An investigation of the impact of preference timing and client credibility. *Auditing: A Journal of Practice & Theory, 22*(1), 143–154.

Joyce, E. J., & Biddle, G. C. (1981). Are auditors' judgments sufficiently regressive? *Journal of Accounting Research, 19*(2), 323–349.

Kadous, K., Leiby, J., & Peecher, M. E. (2013). How do auditors weight informal contrary advice? The joint influence of advisor social bond and advice justifiability. *The Accounting Review, 88*(6), 2061–2087.

Kennedy, J., & Peecher, M. E. (1997). Judging auditors' technical knowledge. *Journal of Accounting Research, 35*(2), 279–293.

Knechel, W. R., & Messier, W. F. (1990). Sequential auditor decision making: Information search and evidence evaluation. *Contemporary Accounting Research, 6*(2), 386–406.

Krishnamoorthy, G. (2002). A multistage approach to external auditors' evaluation of the internal audit function. *Auditing: A Journal of Practice and Theory*, 95–121.

Maletta, M. J. (1993). An examination of auditors' decisions to use internal auditors as assistants: The effect of inherent risk. *Contemporary Accounting Research*, 508–525.

Maletta, M. J., & Kida, T. (1993). The effect of risk factors on auditors' con figural information processing. *The Accounting Review*, 681–691.

Margheim, L. L. (1986). Further evidence on external auditors' reliance on internal auditors. *Journal of Accounting Research, 24*(1), 194–205.

McKinley, W., Ponemon, L. A., & Schick, A. G. (1996). Auditors' perceptions of client firms: The stigma of decline and the stigma of growth. *Accounting, Organizations and Society, 21*(2–3), 193–213.

Messier, W. F., Jr., Owhoso, V., & Rakovski, C. (2008). Can audit partners predict subordinates' ability to detect errors? *Journal of Accounting Research, 46*, 1241–1264.

Messier, W. F., Jr., Reynolds, J. K., Simon, C. A., & Wood, D. A. (2011). The effect of using the internal audit function as a management training ground on the external auditor's reliance decision. *The Accounting Review, 86*(6), 2131–2154.

Messier, W. F., & Schneider, A. (1988). A hierarchical approach to the external auditor's evaluation of the internal auditing function. *Contemporary Accounting Research, 4*(2), 337–353.

Peecher, M. (1996). The influence of auditors' justification processes on their decisions: A cognitive model and experimental evidence. *Journal of Accounting Research, 34*(1), 125–140.

المنارة للاستشارات

Peterson, B. K., & Wong-On-Wing, B. (2000). An examination of the positive test strategy in auditors' hypothesis testing. *Behavioral Research in Accounting, 12*, 257–278.
Public Company Accounting Oversight Board (PCAOB) (2007). *An audit of internal control over financial reporting that is integrated with an audit of financial statements, Auditing Standard No. 5. Release 2007–2005*. Washington, D.C. PCAOB.
Public Company Accounting Oversight Board (PCAOB) (2003). *The auditor's consideration of the internal audit function in an audit of financial statements. AU 322*. Washington, D.C. PCAOB.
Rebele, J. E., Heintz, J. A., & Briden, G. E. (1988). Independent auditor sensitivity to evidence reliability. *Auditing: A Journal of Practice and Theory, 8*(1), 43–52.
Reimers, J. L., & Fennema, M. G. (1999). The audit review process and sensitivity to information source objectivity. *Auditing: A Journal of Practice & Theory, 18*(1), 117–123.
Rich, J. S. (2004). Reviewers' responses to expectations about the client and the preparer. *The Accounting Review, 79*(2), 497–517.
Rich, J. S., Solomon, I., & Trotman, K. T. (1997). The audit review process: A Characterization from the persuasion perspective. *Accounting, Organizations and Society, 22*(5), 481–505.
Robertson, J. C., Stefaniak, C. M., & Curtis, M. B. (2011). Does wrongdoer reputation matter? Impact of auditor-wrongdoer performance and likeability reputations on fellow auditors' intention to take action and choice of reporting outlet. *Behavioral Research in Accounting, 23*(2), 207–234.
Schneider, A. (1984). Modeling external auditors' evaluations of internal auditing. *Journal of Accounting Research, 22*(2), 657–678.
Schneider, A. (1985). The reliance of external auditors on the IAF. *Journal of Accounting Research, 23*(2), 911–919.
Tan, H. T., & Jamal, K. (2001). Do auditors objectively evaluate their subordinates' work? *The Accounting Review, 76*(1), 99–110.
Tan, H. T., & Shankar, P. G. (2010). Audit reviewers' evaluation of subordinates' work quality. *Auditing: A Journal of Practice & Theory, 29*(1), 251–266.
Wong-On-Wing, B., Reneau, J. H., & West, S. G. (1989). Auditors' perception of management: Determinants and consequences. *Accounting, Organizations and Society, 14*(5–6), 577–587.

المنارة للاستشارات

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

المنارة للاستشارات

www.manaraa.com