THE EFFECTS OF PREPARER FAMILIARITY AND PREPARER AFFECT ON REVIEWER DECISIONS

by

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Dedication

“Dare to live the life you have dreamed for yourself. Go forward and make your dreams come true.”

Ralph Waldo Emerson

This dissertation is dedicated to my three children, Alison, David, and Ashley. It is an example of a dream that took nearly two decades to come to fruition. My hope is that you never give up on your dreams!
# Table of Contents

List of Tables .......................................................... iii
List of Figures .......................................................... iv
Acknowledgements ...................................................... v
Abstract ................................................................................ vi

Chapter One: Introduction .................................................. 1
  1.1 Workpaper Review in Historical Context .................. 1
  1.2 The Research Question ..................................... 9
  1.3 The Experiment ................................................. 17
  1.4 Results ........................................................... 19
  1.5 Contributions .................................................... 20

Chapter Two: Literature Review and Hypothesis Development .... 23
  2.1 Introduction ....................................................... 23
  2.2 Preparer Risk ..................................................... 27
  2.3 Familiarity with the Preparer ................................ 35
  2.4 Preparer Affect ................................................... 41
  2.5 Reviewers’ Utilization of Preparer Recommendations .. 47

Chapter Three: Methodology and Experimental Design .......... 62
  3.1 Experimental Design ......................................... 62
  3.2 Participants ....................................................... 63
  3.3 Experimental Task ............................................ 63
  3.4 Dependent Variables ........................................... 66

Chapter Four: Results ...................................................... 69
  4.1 Manipulation checks .......................................... 69
  4.2 Descriptive Statistics ........................................ 70
  4.3 Tests of Assumptions ....................................... 73
  4.4 Results of Hypothesis Testing ............................. 75
  4.5 Supplemental Analysis ...................................... 85

Chapter Five: Conclusion .................................................... 91

Tables ............................................................................ 98
Figures .......................................................................... 120
References ..................................................................... 160
List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
<td>Descriptive Statistics</td>
<td>98</td>
</tr>
<tr>
<td>Table 2</td>
<td>Preparer Risk – Performance Evaluation</td>
<td>100</td>
</tr>
<tr>
<td>Table 3</td>
<td>Preparer Risk – Rating of Preparer Recommendation</td>
<td>102</td>
</tr>
<tr>
<td>Table 4</td>
<td>Preparer Risk – Assessment of Workpaper Preparer Objectivity</td>
<td>104</td>
</tr>
<tr>
<td>Table 5</td>
<td>Impact of Familiarity with the Preparer on Reviewers’ Agreement with Preparer Recommendations</td>
<td>106</td>
</tr>
<tr>
<td>Table 6</td>
<td>Impact of Preparer Affect on Reviewers’ Agreement with Preparer Recommendations</td>
<td>108</td>
</tr>
<tr>
<td>Table 7</td>
<td>Reviewer Risk Assessment</td>
<td>110</td>
</tr>
<tr>
<td>Table 8</td>
<td>Reviewers’ Write-Down Conclusions</td>
<td>112</td>
</tr>
<tr>
<td>Table 9</td>
<td>Preparer Risk and Agreement with Preparer Recommendations</td>
<td>114</td>
</tr>
<tr>
<td>Table 10</td>
<td>Preparer Risk and Utilization of Preparer Recommendations</td>
<td>116</td>
</tr>
<tr>
<td>Table 11</td>
<td>Path Analysis</td>
<td>118</td>
</tr>
</tbody>
</table>
List of Figures

Figure 1: Rich et al.’s (1997a) Model of Workpaper Review 120
Figure 2: Gibbins and Trotman’s (2002) Model of Manager Review 121
Figure 3: Model of Preparer Risk Assessment 122
Figure 4: Experimental Design 123
Figure 5: Hypothesis 1a 124
Figure 6: Hypothesis 1b 126
Figure 7: Hypothesis 1c 128
Figure 8: Hypothesis 2a 130
Figure 9: Hypothesis 2b 132
Figure 10: Hypothesis 2c 134
Figure 11: Hypothesis 3a 136
Figure 12: Hypothesis 3b 138
Figure 13: Hypothesis 3c 140
Figure 14: Hypothesis 4a and 4b 142
Figure 15: Hypothesis 4c 144
Figure 16: Hypothesis 4d 146
Figure 17: Hypothesis 5a and 5b 148
Figure 18: Hypothesis 5c 150
Figure 19: Hypothesis 5d 152
Figure 20: Hypothesis 6a 154
Figure 21: Hypothesis 6b 155
Figure 22: Results of Testing Hypotheses 6a and 6b 156
Figure 23: Hypothetical Path Model 157
Figure 24: Initial Path Model 158
Figure 25: Final Path Model 159
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The Effects of Preparer Familiarity and Preparer Affect on Reviewer Decisions

Abstract

By

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The workpaper process was invariable until the 1990s when firms began to modify (i.e. streamline) the review process in response to external pressures including competition and litigation risk. The momentum towards lighter workpaper files and less redundancy in the review process halted abruptly with the formation of the Public Company Accounting Oversight Board (PCAOB) in 2002. This dissertation examines factors impacting workpaper review in a subjective area, auditing accounting estimates.

Previous research has viewed the reviewer as the recipient of persuasive messages from the workpaper preparer (e.g., Rich et al. 1997b). This dissertation adopts a slightly different perspective that has not been adopted in previous research: the reviewer is viewed as the recipient of advice (i.e. recommendations) from the workpaper preparer. Models of audit workpaper review indicate that reviewers assess preparer risk (i.e. the risk that the preparer will fail to detect a misstatement) in determining the nature and extent of their review activities. This study examines two factors that may impact reviewers’ assessments of preparer risk: familiarity with the preparer and the preparer’s affective reactions to client personnel. An experiment is conducted in which practicing audit managers review the recommendations of a hypothetical workpaper preparer.

Results indicate that experienced reviewers rely on heuristics when assessing the level of preparer risk. Specifically, reviewers who are familiar with the workpaper preparer assess preparer risk lower and utilize the preparer’s recommendations more than reviewers who are unfamiliar with the workpaper preparer. Although reviewers identify that workpaper preparers who express negative affect towards client personnel are less objective, it has no impact on their performance evaluation judgments. The results of this experiment provide no evidence of the ironic rebound effect found in previous research.
The finding that experienced reviewers employ a trust heuristic in the utilization of preparer recommendations is important because it could result in less effective and less efficient workpaper reviews. For example, audit quality may suffer if reviewers apply a familiarity heuristic rather than identifying the weaknesses of a familiar workpaper preparer. Audits may be less efficient if reviewers apply a familiarity heuristic and over-review the work of a highly competent, unfamiliar workpaper preparer.
1.1 Workpaper Review in Historical Context

Workpaper review is a critical component of every financial statement audit. The workpaper review process is appropriately described as follows:

Traditionally, teams perform audits via a sequential and iterative process with multiple, hierarchical layers of review. Certain team members (hereafter, called preparers) perform the basic audit procedures and document in working papers the evidence (the procedures and their results) and the conclusions reached based on the evidence. When preparers are satisfied that the evidence as documented and conclusions are appropriate, they pass the working papers to other members of the audit team (hereafter, reviewers) who traditionally are at higher levels in the team hierarchy. Reviewers then appraise the preparer’s work as documented in the working papers. The review may take place in the presence of the preparer (with or without discussion) or in the preparer’s absence (i.e. without discussion). The reviewer decides either to (1) accept the evidence, conclusions and documentation as is or (2) require the preparer to perform additional procedures, modify conclusions, improve documentation and/or answer clarifying questions. Such instructions and questions generally are communicated through written review notes and given back to preparers along with the working papers. When preparers believe that the review notes have been appropriately addressed, the working papers are given back to the reviewer who, once again, decides either to accept the evidence, conclusions, and documentation as is or require additional preparer effort. (Rich et al. 1997b, p. 87)

This section discusses the history of audit workpaper review and how it has changed over time.

The accounting profession in the United States is considered to have begun during the Gilded Age (Previts and Merino 1998). Although
the practice of auditing in the United States began in the latter part of the nineteenth century, there were no formal written auditing standards or procedures until the Federal Reserve Board (FRB) adopted *Uniform Accounting* in 1917 (Zeff 2003a). *Uniform Accounting* was developed by the American Institute of Accountants, the predecessor of the American Institute of Certified Public Accountants (AICPA), and addressed both accounting and auditing, but focused more heavily on auditing. With respect to auditing, *Uniform Accounting* listed various procedures that should be performed in the course of a balance sheet audit for common accounts (e.g., cash, notes receivable, accounts receivable, securities, inventories, fixed property, accounts payable), but provided no guidance to broader issues such as independence, due care, professional skepticism or supervision and review. *Uniform Accounting* was updated at the request of the FRB in 1929.

The accounting profession received its audit franchise, the exclusive right to audit public companies, as a result of the Securities Acts of 1933 and 1934, but it was not until the McKesson & Robbins scandal in 1939 that the AICPA established the Committee on Auditing Procedure (CAP) to promulgate bulletins on auditing procedures. Price Waterhouse & Co. failed to identify the McKesson & Robbins fraud because they did not confirm receivables or observe inventory, procedures listed as “optional” in *Uniform Accounting*. Statements on Auditing Procedure No. 1 established requirements to confirm receivables and observe inventory
The Committee on Auditing Procedure issued fifty-four Statements on Auditing Procedure between 1939 and 1972. None of the Statements on Auditing Procedure focus on workpaper review, although Statement on Auditing Procedure No. 39 identifies workpaper review as a factor that affects the “quantity, type, and content of the working papers desirable for a particular engagement” (Committee on Auditing Procedure 1967).

The CAP did not describe specific procedures that should be performed as part of workpaper review, but they did identify workpaper review as an important component of the financial statement audit process. When the CAP issued its *Tentative Statement of Auditing Standards* in 1947, the supervision of assistants was listed as the first standard of field work (Committee on Auditing Procedure 1947). The following quote illustrates the objectives of workpaper review were training of less experienced auditors and quality control:

> The question may be raised of how the young man just entering upon an auditing career as a junior assistant may measure up to the requisite experience for professional competence. The answer to the question is, of course, proper supervision and review of the assistant’s work by his experienced superior. Experience being definitely a relative matter, the nature and extent of supervision and review must necessarily reflect wide variances in practice which understandably cannot be the subject of rule-formation. Here the accountant charged with final responsibility for the engagement must exercise a ripened judgment in the varying degrees of his review of the work done and judgment exercised by those under him, who in turn must meet the varying degrees of their own responsibility attaching to the varying gradations and functions of their work. (Committee on Auditing Procedure 1947, p. 14).
The CAP apparently believed that it was unnecessary to describe the actual procedures a reviewer might perform in order to meet these objectives. In the *Philosophy of Auditing* published in 1961, Mautz and Sharaf focus more on the quality control aspect of the review process:

> The auditor in charge of an engagement must hold his assistants to the same standards he would expect of the average independent auditor. He must exercise considerable care and effort, first in instructing his assistants as to the nature and purpose of each assignment he makes, second in reviewing their work and their conclusions to satisfy himself that they performed satisfactorily and comprehended his instructions. Audit review includes steps to insure not only that all portions of the audit program have been completed but that they were performed intelligently and alertly. Of course the auditor in charge cannot stand over his assistants like an overseer throughout the audit, but he should find time to discuss with them the work they are doing, to point out its importance, and to determine whether they understand both how to perform the required procedure and what its purpose is. (Mautz and Sharaf 1961, p. 138).

Even today, there is little guidance in professional standards regarding the specific procedures that constitute workpaper review.\(^1\) The audit partner is required to consider the knowledge, skills, and abilities of engagement team members before assigning them to tasks (PCAOB AS 1015.06). In addition, the reviewer is required to evaluate whether (a) the procedures were performed and documented, (b) the objectives have been achieved, and (c) the conclusions are supported by the results of the procedures (PCAOB AS 1201.05). While the auditing standards today

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\(^1\) The PCAOB issued AS No. 7 *Engagement Quality Review* in 2009. That standard provides more extensive guidance for the engagement quality review, but not for the other reviews (in-charge review, manager review, partner review) that take place during every audit.
remain largely at the principle level, the intensity of the workpaper review process has ebbed and flowed over the past thirty years.

For several decades prior to the mid-1990s, there was very little change to the nature and scope of workpaper review (Rich et al. 1997b). However, the audit workpaper process began to change in the 1990s as public accounting firms adapted to seismic shifts in the assurance market ecology. Several factors contributed to a shift from a collegial environment to a competitive environment. First, beginning in the late 1960s, clients began “opinion shopping” (Zeff 2003a). Some companies began to select their auditors based on willingness to accept aggressive accounting positions.

From 1959 to 1972, accounting standards were established by the Accounting Principles Board (APB), an organization that operated under the auspices of the AICPA. During that time, a partner from each of the large firms volunteered as a member of the APB. The APB was replaced in 1972 by an independent standard-setter, the Financial Accounting Standards Board. FASB board members are appointed by the Financial Accounting Foundation (FAF) and serve in a full-time, paid capacity. The firms were no longer represented on the board and some may have shifted their focus to influencing standard setting to favor their clients (Zeff 2003a).

A third factor that influenced the shift from a collegial to a competitive environment can be attributed to actions taken by the Justice
Department and the Federal Trade Commission (FTC) to enforce antitrust laws. The AICPA eliminated its ban on competitive bidding at the behest of the Justice Department in 1972. In 1979, the AICPA eliminated the prohibitions against advertising it had adopted in the 1922. These three factors helped to transform the auditing profession from one of collaboration of firms to serve the public interest to a competition among firms to increase market share.

Another factor that impacted the assurance market ecology relates to several federal court decisions in the latter half of the 1960s that were adverse to the accounting profession (Zeff 2003a). These precedents led to an increasing trend in lawsuits against auditors in the 1970s. Auditors responded to these lawsuits in multiple ways, including attempts to educate the public to narrow the “expectations gap.” Legal liability issues also appear to have influenced workpaper preparation and review.

By the mid-1990s, public accounting was a competitive business in which firm profitability seemingly supplanted audit quality as the primary objective. It is not surprising, therefore, that Rich et al. (1997a) found that accounting firms were modifying workpaper preparation and review in response to the changes in the audit ecology. In response to the competitive environment, they report that firms had begun to eliminate multiple-layered reviews in favor of a single layer of review. They also saw a shift away from documentation in favor of a conversational style of review. Finally, there was a movement to reduce the level of
documentation retained to support the audit opinion. This final change
had a dual purpose: reduce hours spent preparing and reviewing
workpapers and mitigate litigation risk because there is less for a plaintiff’s
attorney to pillory in front of a jury.

The pendulum that began to swing away from professionalism in
the 1960s and picked up steam through the 1970s, 1980s, and 1990s
abruptly came to halt and accelerated in the opposite direction in 2002
when Congress passed the Sarbanes Oxley Act (SOX). SOX supplanted
self-regulation of the accounting profession with an independent regulator,
the Public Company Accounting Oversight Board (PCAOB). The PCAOB
moved quickly to establish an inspection process and a standard-setting
process. Once established, both of these processes impacted the nature
and extent of details documented in workpapers.

The original five members of the PCAOB were appointed on
October 25, 2002. Within the first year of operation, on September 29,
2003, the PCAOB held a roundtable to discuss audit workpapers. During
the roundtable, one participant described the approach to workpapers
prior to SOX and the need for change:

So I think the big thing we ran into is the lawyers started
explaining: Don’t document so much, let’s keep these
workpapers as thin as possible. We’ve got to get away from
that. (PCAOB 2003, p.32).

Another roundtable participant emphasized the adverse impact of the level
of audit documentation on the effectiveness of the workpaper review
process:
I don’t know how I as an audit partner could have gone in and adequately reviewed and supervised the work and made sure the junior people, who quite frankly are doing 80 percent of the work on these audits, how I can tell if they’ve done the right work unless its documented and then turn around and provide a basis for reasonable inspection. (PCAOB 2003, p. 38).

Shortly after the September 29 roundtable, the PCAOB issued a proposed rule on November 21, 2003. After a relatively brief comment period (60 days), the PCAOB received 38 comment letters. The final standard, Auditing Standard No. 3, was released on June 9, 2004 and approved by the Securities and Exchange Commission on June 18, 2004. Auditing Standard No 3. established a principle that audit workpapers must contain sufficient documentation to enable an experienced auditor to understand the procedures performed, evidence obtained, and conclusions reached (PCAOB 2004).

The PCAOB’s adoption of Auditing Standard No. 3 increased the level of documentation included in audit workpapers, increasing the amount of time necessary to review the workpapers. Through its inspection process, the PCAOB prodded the firms to enhance the rigor of workpaper review. For example, in its 2009 inspection of an accounting firm, the PCAOB inspectors noted the following:

The reported deficiencies raise questions regarding the sufficiency, rigor, and efficacy of the supervision and review activities of the Firm’s engagement managers, engagement partners, and the SEC concurring review partners, including their exercise of due care and the thoroughness with which they review work papers. (PCAOB 2010, p. 13).
In summary, there have been significant changes in workpaper review over the past twenty years. These changes may be attributed to changes in the broader public accounting environment. In 1986, Cushing and Loebbecke (1986) expressed their opinion that reviews may be excessive. In the 1990s, Rich et al. (1997a) document a shift in the review process to less extensive workpaper documentation and fewer levels of review. By 2002, workpaper preparers were not providing sufficient documentation to enable an effective workpaper review. The pendulum has swung back due to the focus of PCAOB inspections. However, it is too early to determine whether we have reached an equilibrium in audit documentation and workpaper review.

1.2 The Research Question

The purpose of this dissertation is to investigate how the judgments of audit reviewers are influenced by workpaper preparers. Specifically, the study examines the impact of two variables, familiarity with the workpaper preparer and workpaper preparer affect toward a client, on reviewers’ judgments in the context of an accounting estimate. This is an important issue because reviewers may inappropriately rely on workpaper preparer’s recommendations if they inaccurately assess preparer risk.
1.2.1 Preparer Risk

According to models of workpaper review, reviewers consider the probability of preparer error in determining the nature and extent of their review activities (Rich et al. 1997a; Gibbins and Trotman 2002). According to these models, reviewers consider their own perceptions about the client (e.g., the risks of material misstatements) and the workpaper preparer (e.g., competence and objectivity) to assess the probability of preparer error. Thus, the probability of workpaper error is a function of client risk and preparer risk. It has been demonstrated that when client risk is high, managers spend more time on reviews when preparer risk is high than when preparer risk is low (Asare et al. 2007)². Moreover, when client risk is high, managers detect more workpaper errors when preparer risk is high than when preparer risk is low.

In the context of accounting estimates, audit workpapers typically contain documentation of the audit procedures performed by the workpaper preparer as well as the preparer’s recommendation regarding the reasonableness of the estimate (e.g., whether an adjustment is proposed). Depending on reviewers’ assessments of preparer risk, they can accept the preparer’s recommendation, read the preparer’s memo supporting his or her recommendation, review documentation of the detailed procedures performed by the preparer, and/or obtain additional

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² There is no difference in the amount of time managers spent reviewing the work of high and low risk preparers when client risk is low (Asare et al. 2007).
evidence directly from the client. At times, reviewers ignore preparer recommendations regarding accounting estimates and make their own assessments and at other times their judgments appear to be effected by preparer recommendations (Tan and Yip-Ow 2001; Frank and Hoffman 2015). The proposed study examines conditions under which reviewers are more or less likely to be influenced by the recommendations of workpaper preparers.

1.2.2 Accounting Estimates

While some management assertions evaluated in the financial statement audit are relatively objective and straightforward (e.g., the existence of accounts receivable), other assertions are less straightforward, more complex, and more subjective (e.g., the reasonableness of accounting estimates). In fact, many accounting estimates are based on uncertain and unobservable inputs that can result in a reasonable range of estimation uncertainty that is larger than audit materiality (Glover et al. 2017; Christensen et al. 2012). These situations require auditors to exercise professional judgment to evaluate the reasonableness of the underlying estimation model assumptions and the model input values selected by management. When estimation uncertainty is high, the auditors perform audit procedures to identify potential management bias in the reported value of an estimate. Likewise, review procedures performed related to complex accounting estimate
workpapers are expected to be different than those related to more straightforward and objective audit areas. For example, reviewers may be less willing to rely on preparer recommendations when estimation uncertainty is higher than when it is lower.

Previous research has examined audit tasks involving accounting estimates for which there is no correct answer (e.g., Tan and Yip-Ow 2001; Frank and Hoffman 2015) and the results are mixed. Reviewers in Tan and Yip-Ow’s (2001) experiment evaluated the workpaper preparer’s conclusion regarding the collectability of accounts receivable and were influenced by the preparer’s recommendation. On the other hand, the average judgment of reviewers in Frank and Hoffman’s (2015) experiment was not affected by the preparer’s recommendation in the control conditions.³ One of the objectives of the current study is to identify conditions under which reviewers are more likely to accept a preparer’s recommendation regarding subjective accounting estimates.

³ It is not clear why the reviewers in Tan and Yip-Ow’s (2001) control conditions were influenced by the preparer’s recommendation while the reviewers in Frank and Hoffman’s (2015) were not. Reviewers in Tan and Yip-Ow’s experiment made a judgment regarding the collectibility of accounts receivable after receiving an extreme recommendation (the preparer recommended either a complete write-off or that the receivable was fully collectible). Although the task was different (i.e. an inventory obsolescence task), reviewers in Frank and Hoffman’s experiment similarly received extreme recommendations (i.e. no write-down is necessary or a write-down equal to two-thirds of the recorded balance). The key difference between the two studies is the level of experience of the participants. Tan and Yip-Ow’s reviewers were seniors with mean experience of 2.9 years while Frank and Hoffman’s reviewers were audit managers and senior managers with mean experience of 9.4 years. The present study involved only more experienced auditors to control for the potential effects of experience (i.e. participants in the present study were managers and senior managers with mean experience of 10.3 years). Since experienced auditors are generally less susceptible to judgment traps and biases, this design choice biases against significant results.
1.2.3 Familiarity with the Preparer

According to Rich et al.’s (1997b) model, the extent of reviewer elaboration on a preparer’s recommendation depends, in part, on the reviewer’s assessment of preparer risk. In order to assess preparer risk, reviewers may rely on performance evaluations (Bamber 1983; Tan and Jamal 2001; Asare et al. 2007) and/or their own personal experience with the preparer (Asare and McDaniel 1996; Kennedy and Peecher 1997). For example, reviewers in Asare and McDaniel’s (1996) study altered the nature and extent of their review activities based on whether they were familiar or unfamiliar with the preparer. Reviewers who were familiar with the workpaper preparer appear to have assessed preparer risk lower since they reperformed less work than reviewers who were unfamiliar with the workpaper preparer.

Interestingly, the reviewers in Asare and McDaniel’s (1996) experiment were not actually familiar with the preparer, but instead were asked to assume familiarity with a hypothetical preparer. Reviewers in Asare and McDaniel’s experiment may have employed a familiarity heuristic: familiar preparers present less risk than unfamiliar preparers. Specifically, familiar reviewers reperformed less of the workpaper preparer’s work than did unfamiliar reviewers. Since reviewers may be familiar with lower performing as well as higher performing workpaper preparers, the use of a familiarity heuristic may result in lower quality
workpaper review depending on the preparer’s actual level of knowledge, skill and abilities.

This study examines whether reviewers will employ a familiarity heuristic when reviewing riskier accounts with higher complexity and estimation uncertainty. Specifically, this study examines whether reviewers assess preparer risk higher for unfamiliar workpaper preparers and lower for unfamiliar workpaper preparers and extends Asare and McDaniel’s (1996) paper in three important ways. First, this paper examines whether more experienced reviewers will also employ a familiarity heuristic. Previous research finds more experienced auditors are less susceptible to judgment traps and biases than less experienced auditors (e.g., Davis 1996; Lehmann and Norman 2006; Libby and Frederick 1990; Shelton 1999). The reviewers in the present study have mean experience of 10.4 years whereas the reviewers in Asare and McDaniel’s experiment had an average of 3.2 years of experience. Second, this paper attempts to measure reviewers’ assessments of preparer risk. To capture preparer risk, reviewers are asked to provide an overall performance rating for the workpaper preparer. Finally, Asare and McDaniel (1996) examine the impact of familiarity in a more objective setting that did not involve estimation uncertainty. In contrast, this study examines the impact of familiarity in a setting involving estimation uncertainty.
1.2.4 Preparer Affect

The judgments of less experienced auditors may be impacted by irrelevant information, including irrelevant affective information (e.g., Bhattacharjee and Moreno 2002, Shelton 1999, Glover 1997, Hackenbrack 1992). Although the review process is intended to identify and address issues of preparer bias (i.e. when irrelevant affective information influences judgments), Frank and Hoffman (2015) find that reviewers appear to be more, rather than less, influenced by preparers who share their positive or negative affect towards client personnel. It is concerning if reviewers are more influenced by a preparer’s recommendation when they also receive information about the preparer’s affect as this affective reaction may lead to preparer bias.

With regard to preparer affect, this study examines how the knowledge of a workpaper preparer’s negative affect impacts reviewers’ assessment of the preparer’s objectivity with respect to the audit client. In addition, reviewers rate the quality of the workpaper preparer’s recommendation and provide an overall performance evaluation rating. It is hypothesized that reviewers who are aware of the preparer’s negative affect toward client personnel will assign lower ratings for preparer objectivity, the preparer’s recommendation, and overall performance, which is indicative of higher preparer risk.
1.2.5 The Interaction of Familiarity and Affect

Since familiarity with the preparer and preparer affect may provide information about preparer risk, it is important to investigate the interaction of these two variables on reviewers’ assessments of preparer risk and utilization of preparer recommendations in the context of subjective accounting estimates. Competing theories are investigated with regard to interaction effects of familiarity and preparer affect on the utilization of preparer recommendations.

The ironic rebound effect occurs when one attempts to suppress a particular thought or idea and instead thinks about it more, rather than less, intensely (Wegner 1994; Wegner et al. 1993). Normatively, reviewers should place less weight on the recommendation of a potentially biased workpaper preparer than they place on the recommendation of a workpaper preparer who is unbiased. Reviewers in Frank and Hoffman’s (2015) experiment demonstrated the ironic rebound effect when they placed more, rather than less, weight on the recommendation of a potentially biased workpaper preparer than they placed on the recommendation of an unbiased workpaper preparer.

According to Ironic Rebound Theory, ironic effects occur when individuals are under cognitive load. Frank and Hoffman (2015) manipulated reviewers’ awareness of potential preparer bias through the presence/absence of information about the preparer’s affect toward client personnel. The presence of preparer affect information created
uncertainty regarding the extent of preparer bias and thus, increased reviewers' cognitive load. The present study examines whether familiarity with the preparer will reduce reviewers’ uncertainty about preparer bias and cognitive load. This study examines whether familiarity with the workpaper preparer will mitigate the ironic rebound effect because familiar reviewers feel less uncertain about preparer risk. In contrast, unfamiliar reviewers are expected to exhibit the ironic rebound effect and make judgments that are more closely aligned to preparer recommendations in the presence of negative affect information.

The alternative hypothesis is based on the trust heuristic (Kadous et al. 2013). Reviewers who are familiar with the workpaper preparer may ignore indications of preparer bias while unfamiliar reviewers discount the recommendations of potentially biased preparers. It is hypothesized that familiar reviewers will make similar judgments in the presence or absence of negative preparer affect information, while unfamiliar reviewers will more heavily discount the recommendations of preparers who show indications of potential bias (i.e. negative affect).

1.3 The Experiment

A 2x2 between-participants experiment was conducted with eighty-nine practicing audit managers who were asked to assume the role of reviewer in an inventory obsolescence task. Reviewers read background information and information about the workpaper preparer. In the familiar
Preparer condition, participants are asked to assume that the workpaper preparer is from their same office and that they have worked with the preparer on previous engagements. In the unfamiliar condition, participants are asked to assume that the workpaper preparer is from a different office than theirs and that they have never before worked with the preparer. Reviewers in the “affect present” conditions also read a paragraph describing the preparer’s negative affect towards the client’s controller. After the manipulations, all reviewers read a memo written by the workpaper preparer recommending a write-down of inventory by a material amount. The preparer’s memo, including the recommendations, were the same in all treatment conditions. The preparer assessed the risk of inventory obsolescence to be relatively high and recommended a write-down equal to two-thirds of the inventory balance.

After reading the preparer’s memo, reviewers indicated whether they agreed with the preparer’s assessment of the risk of inventory obsolescence and the preparer’s write-down recommendation. Reviewers also provided their own risk assessment and write-down judgment. Next, reviewers rated the quality of the workpaper preparer’s recommendations and provided an overall performance evaluation. They also rated the workpaper preparer’s objectivity with respect to the audit client. Reviewers answered additional questions intended to provide insight into their judgments and finished by responding to demographic questions.
The average time taken to complete the instrument was approximately twenty minutes.

1.4 Results

Reviewers appear to have employed a heuristic in evaluating preparer risk and in the utilization of preparer recommendations. Consistent with a trust heuristic, reviewers who were familiar with the workpaper preparer assessed preparer risk lower than reviewers who were unfamiliar with the workpaper preparer. They assigned higher overall performance evaluation ratings and rated the quality of the workpaper preparer's recommendations higher than reviewers who were unfamiliar with the preparer. In addition, reviewers who were familiar with the workpaper preparer were more likely to agree with the preparer's recommendations. However, in contrast to expectations, when familiar reviewers made their own independent risk assessments and write-down judgments, they were not significantly different from those of unfamiliar reviewers.

Reviewers who were aware of the workpaper preparer's negative affect recognized the loss of objectivity. Although reviewers in the negative affect conditions rated the objectivity of the preparer lower than reviewers in the no affect conditions, there was no difference in their ratings of the quality of the preparer's recommendations or the overall preparer performance evaluation. Further, knowledge of the preparer's
negative affect had no effect on reviewer’s willingness to accept the preparer’s recommendations.

Inconsistent with the results of Frank and Hoffman’s (2015) experiment, there is no evidence of an ironic rebound effect. Reviewers in the negative affect conditions rated the risk of inventory obsolescence to be lower than reviewers in the no affect conditions.4

1.5 Contributions

This dissertation provides evidence important to accounting practice and accounting research. First, this study provides evidence that reviewers assess preparer risk heuristically rather than systematically. Reviewers should evaluate preparer risk systematically by considering the preparer’s strengths and weaknesses and modifying review activities accordingly. Familiar reviewers can access their own knowledge of a preparer while unfamiliar reviewers must obtain knowledge of the preparer through, for example, discussions with others and review of the preparer’s personnel file. Reviewers who process preparer risk assessments heuristically, rather than systematically, may be less effective or less efficient. If reviewers apply a heuristic that preparer risk is lower for familiar preparers and higher for unfamiliar preparers, they will over-review

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4 The experimental instrument is the same as Frank and Hoffman (2015) except for the addition of the familiarity manipulation and the addition of attention check questions.
the work of above-average unfamiliar preparers and under-review the work of below-average familiar preparers.

This study extends previous research finding that audit seniors rely on heuristics when assessing preparer risk (Asare and McDaniel 1996). Specifically, Asare and McDaniel (1996) find audit seniors reperform less of the work of familiar preparers than that of unfamiliar preparers in a relatively objective audit task. This study extends previous research, finding that managers also rely on heuristics when assessing preparer risk in the context of subjective audit tasks. This study provides evidence that, in the context of subjective accounting estimates, reviewers at the manager level may be more willing to accept the recommendations of preparers with whom they are familiar. In addition, manager-level reviewers rate the performance of familiar preparers higher than unfamiliar preparers.

Previous research finds that the judgments of less experienced auditors are influenced by irrelevant affective information (e.g., Bhattacharjee and Moreno 2002). An important role of the workpaper reviewer is to detect and correct preparer bias. Reviewers should assess preparer risk higher when they are aware that a preparer’s judgment may be biased by his or her affect toward a client. This study provides evidence that reviewers rate the quality of preparer recommendations similarly whether indications of potential preparer bias are present or absent. Reviewers assigned overall performance evaluation ratings to
potentially biased preparers that were comparable to those assigned to
preparers for which evidence of potential bias was absent. The presence
or absence of negative affect had no impact on reviewers’ decisions to
accept or reject workpaper preparer’s recommendations.
2.1 Introduction

Financial statement audits are performed by hierarchical teams, led by the engagement partner. Although the engagement partner is ultimately responsible for the opinion expressed, the detailed audit work is mostly delegated to other members of the engagement team. In fact, the performance of the audit procedures (e.g., sending and receiving confirmations, testing the clerical accuracy of reconciliations, inspecting documentation supporting journal entries) is typically delegated to the least experienced members of the engagement team who are directed and supervised by more experienced members of the engagement team. The audit workpapers prepared by the staff are subject to reviews by the audit senior, the audit manager, and finally the engagement partner responsible for the opinion.

Reviews may serve as a form of accountability, causing workpaper preparers to be more diligent. Various studies show that preparers are more diligent when they expect to interact with their reviewer versus when the review will be conducted offline (e.g., Payne et al. 2010; Brazel et al. 2004). However, many of the errors that less experienced auditors make cannot be prevented through accountability. For example, Kennedy (1993) demonstrates that data-related judgment biases cannot be mitigated through accountability.
Existing research suggests that less experienced auditors are prone to errors that more experienced auditors are not (e.g., Bhattacharjee and Moreno 2002; Rau and Moser 1999; Moeckel 1990, 1991; Frederick 1991; Gibbins 1984). For example, more experienced auditors are more likely than less experienced auditors to identify contradictory information in the workpapers (Moeckel 1990). Less experienced auditors also have difficulty in complex tasks such as going concern, which involves recognizing that audit evidence obtained in particular audit areas (e.g., accounts receivable or debt) also have implications for the going concern evaluation (e.g., Rau and Moser 1999). Decisions of less experienced auditors have been influenced by irrelevant affective information while decisions of more experienced auditors are not (Bhattacharjee and Moreno 2002). Fortunately, auditors improve in their ability to identify errors as they gain experience (e.g., Harding and Trotman 1999; Ramsay 1994).

An objective of the audit review process is to identify workpaper preparer errors so that they can be corrected prior to issuance of the audit report (Rich et al. 1997a). Libby and Trotman (1993) find that while workpaper preparers tend to focus on information that supports their conclusions, reviewers tend to focus on information that contradicts preparers’ conclusions. Reviewers are also more sensitive to source credibility than preparers (Reimers and Fennema 1990).
Rich et al. (1997b) portray reviewers as recipients of persuasive messages from workpaper preparers. They suggest that workpaper preparers “stylize” workpapers in order to convince reviewers that they have performed the necessary procedures appropriately and reached reasonable conclusions. In addition, since reviewers also evaluate their performance, workpaper preparers use the workpapers to secure favorable performance evaluations. According to Rich et al. (1997b), preparers control how they gather evidence, what evidence they gather, and how the evidence is portrayed in the workpapers including its interpretation and format. In order to be effective, reviewers must be able to distinguish the meat from the garnish. Previous research provides evidence that reviewers can effectively withstand persuasion attempts (e.g., Ayers and Kaplan 2003). However, previous research also provides evidence that reviewers can be inappropriately persuaded by information documented by a preparer when the documentation provides a biased view of the relevant facts (e.g., Asare and Wright 2008; Richiutte 1999).

This chapter begins with a discussion of two models of audit workpaper review (Rich et al. 1997a and Gibbins and Trotman 2002). Both models suggest that, in determining the nature and extent of their review procedures, reviewers assess the probability of preparer error. Reviewers should be more knowledgeable about the strengths and weaknesses of preparers with whom they have worked previously (familiar) than preparers with whom they have not previously worked.
The models and previous research regarding reviewers’ assessment of preparer risk is discussed in Section 2.2.

Workpaper preparers perform audit procedures in a challenging environment with varying levels of hostility. Before the auditors arrive at the client location to perform procedures, they send a list of materials (e.g., trial balances, reconciliations, rollforward schedules) client personnel need to prepare for the audit. Once the auditors arrive, they ask follow up questions and request additional information, adding further disruption to the routines of client personnel. If client personnel are not already frustrated by the information requests and the auditors’ skepticism, they may become frustrated if the auditors identify misstatements or internal control deficiencies. Client personnel can create a hostile environment in a variety of ways. While workpaper preparers understand the auditing environment and routinely tolerate a reasonable level of client hostility, they may develop negative affect toward client personnel who exhibit extraordinary levels of hostility. Audit quality may suffer if preparers’ negative affect leads to biased decision-making. Section 2.4 discusses previous research demonstrating the impact of preparers’ affective reactions on their audit-related decisions and the abilities of reviewers to identify and properly address preparer bias arising from their affective reactions to client personnel.

Rich et al. (1997b) characterize reviewers as recipients of persuasive messages from workpaper preparers. They suggest that
preparers use audit documentation to persuade reviewers that sufficient evidence has been obtained, that conclusions are appropriate, and that the preparer performed well on the engagement. The reviewer could also be viewed as the recipient of advice from the workpaper preparer. Section 2.5 discusses the factors impacting the extent to which reviewers are influenced by preparer recommendations.

### 2.2 Preparer Risk

Audit workpaper review is a quality control process intended to identify preparer errors in a timely manner so that they can be corrected before the audit opinion is expressed. Existing models of workpaper review suggest reviewers’ assessments of preparer risk affect their approach to workpaper review (Rich et al. 1997a, Gibbins and Trotman 2002). Preparer risk is the risk that the workpaper preparer will fail to identify and address material misstatements (Asare et al. 2007). Preparer risk includes the risk that workpaper preparers will make unreasonable recommendations regarding accounting estimates.

Rich et al. (1997a) developed a model of workpaper review that details the steps in the review process, as well as factors that impact a reviewer’s approach within those steps. Gibbins and Trotman (2002) developed a model of the factors impacting manager reviews. Preparer risk is an input to both of these models, consistent with PCAOB auditing standards requiring supervisory personnel to consider the “knowledge,
skill, and ability” of workpaper preparers when determining the extent of supervision and review (PCAOB 2016). After describing the two models and the definition of preparer risk, this section discusses reviewers’ ability to assess preparer risk as well as methods used in previous research to measure preparer risk.

2.2.1 Prior Models of Workpaper Review

According to the Rich et al. (1997a) model, workpaper review involves five steps: planning, message acquisition, elaboration, evaluation, and action selection (see Figure 1). In the planning stage, the reviewer determines the nature and extent of review activities based on a variety of factors which include, among other things, the reviewers’ assessments of the probability of preparer error and the likelihood of a specific review activity to detect preparer error. The message acquisition step involves obtaining information about the preparer’s performance through discussions with the preparer and reading the workpapers. The elaboration activities step involves analysis of the information obtained during the message acquisition stage and other information known to the reviewer. During the evaluation stage, reviewers form judgments about the likelihood of preparer error. Finally, the action selection stage involves deciding to accept the preparer’s work as is or to require the preparer to correct workpaper deficiencies (e.g., perform additional procedures, enhance documentation). Gibbins and Trotman’s model does not
elaborate these five steps and instead refers to all of this as “manager’s conduct of the file review” (see Figure 2).

The Rich et al. (1997a) model identifies two sets of factors that impact reviewer behavior through the five steps: reviewer-specific characteristics and environmental factors. Reviewer-specific characteristics that affect the reviewer’s behavior during all stages of the review process include, for example, reviewer knowledge content, reviewer knowledge structure, and reviewer preferences. Gibbins and Trotman’s (2002) model uses a different term for reviewer-specific characteristics: “Manager’s own approach and circumstances.” Examples of environmental factors include risk of material misstatement in the account, materiality of an account, time and deadline pressures, business risk, and features of the preparer. Gibbins and Trotman (2002) classify environmental factors into three categories: expectations about the client, expectations about the preparer, and expectations about the partner. This dissertation focuses on the impact of a specific environmental factor, features of (or expectations about) the preparer, on reviewers in the decision stage of workpaper review.

Importantly, both the Rich et al. (1997a) model and the Gibbins and Trotman (2002) model identify preparer risk as a factor that influences reviewer performance. This notion is also consistent with professional standards requiring the auditor to consider the preparer’s competence when determining the nature and extent of direction, supervision and
Review. Reviewers surveyed by Gibbins and Trotman (2002) confirmed they alter their review activities depending on their evaluation of strengths and weaknesses of the workpaper preparer.

2.2.2 The Likelihood of Preparer Error

The performance of audit procedures is typically delegated to the least experienced members of an engagement team. More experienced auditors direct and supervise the performance of audit procedures by less experienced auditors. Less experienced auditors are trained through the process of direction, supervision, and review by more experienced auditors. Auditors with supervisory responsibility alter the levels of direction, supervision, and review based on their assessment of the preparer’s knowledge, skills, and experience. For example, supervisory auditors provide a high level of direction to a new auditor on his or her first audit engagement. In subsequent engagements, supervisory auditors will provide less direction, but maintain high levels of supervision. After more engagements, supervisory auditors provide no direction and minimal supervision, but perform detailed reviews. Finally, for the most experienced workpaper preparers, supervisory auditors provide minimal direction and supervision and perform less extensive review procedures.

Previous research has demonstrated that workpaper preparers make systematic errors in the performance and documentation of audit procedures. For example, the judgments of workpaper preparers may be
influenced by irrelevant information cues (e.g., Davis 1996), including their fraud risk assessments (Hackenbrack 1992). In responding to fraud risks, audit seniors may not design audit procedures that are responsive to the identified risk (Hammersley et al. 2011). Less experienced auditors are also susceptible to conjunction errors (Lindberg and Maletta 2003) and fail to recognize connections between disparately received information (Moeckel 1990, 1991). In negotiations, less experienced auditors grant larger concessions towards the client’s position than more experienced auditors (Brown and Johnstone 2007).

The probability of preparer error can be conceived as the joint probability of client risk (i.e. the risk that a misstatement exists) and preparer risk (i.e. the risk that the preparer fails to detect the misstatement, Asare et al. 2007). Asare et al. (2007) decompose detection risk into preparer risk and reviewer risk: detection risk is the probability that preparers and reviewers will fail to detect material misstatements.5 Reviewers can influence detection risk through the nature and extent of their review procedures. When preparer risk is high because, for example, the preparer is new to the client, reviewers can modify their review activities to maintain the desired level of detection risk.

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5 The AICPA’s audit risk model suggests that audit risk is a function of inherent risk, control risk, and detection risk. Audit risk is the risk that the auditor will issue an unqualified opinion on materially misstated financial statements. Detection risk is the risk that the auditor will fail to detect a material misstatement. The auditor mitigates detection risk through the performance of audit procedures and, according to Asare et al. (2007), the review of the documentation of those procedures by more experienced auditors.
Reviewers will modify the nature and extent of review procedures as preparer risk changes (Bacsik and Rizzo 1983). For example, when preparer risk is high, reviewers reperform more of the procedures to determine that they were performed correctly (Asare et al. 2007). Previous research has investigated various factors impacting reviewers’ assessments of preparer risk, including the competence of the preparer (e.g., Asare et al. 2007; Rich 2004; Kennedy and Peecher 1996; Bamber 1983), familiarity with the preparer (Asare and McDaniel 1996), previously observed biases (Bamber 1983) and tendency to stylize workpapers (Tan and Yip-Ow 2001). Although surveyed auditors indicated that preparer quality did not impact the extent of their review, the survey was limited to auditors in the public sector of Australia (Fargher et al. 2005). Reviewers write more time-consuming review notes when they perceive that workpaper preparers are less competent (Rich 2004).

In order to perform an effective workpaper review, reviewers need to be able to accurately assess preparer risk. If reviewers assess preparer risk too high, they will be inefficient in their review activities. If reviewers assess the preparer risk too low, they may fail to identify preparer errors and, in the worst case, material misstatements in the financial statements. Existing research suggests that reviewers may not accurately assess preparer risk (e.g., Jamal and Tan 2001; Kennedy and Peecher 1997; Messier et al. 2008). For example, previous research suggests reviewers will be overconfident in the level of workpaper
preparers’ technical knowledge (Kennedy and Peecher 1997) and their ability to detect errors (Messier et al. 2008).

2.2.3 Model of Preparer Risk Assessment

Figure 3 presents a model of preparer risk assessment based on dual-process theory. Reviewers may process their consideration of preparer risk systematically or heuristically. In order to process consideration of preparer risk systematically, reviewers must consider the knowledge and skills of the workpaper preparer. Reviewers who are familiar with the preparer can access their memories to consider the preparer’s strengths and weaknesses (e.g., technical competence, tendency to stylize workpapers, ability to maintain objectivity) and adjust their review procedures accordingly. Although unfamiliar reviewers cannot simply access their memories, they can obtain relevant information through, for example, discussions with peers who are familiar with the workpaper preparer.

Instead of processing the consideration of preparer risk systematically, reviewers might instead apply a simple heuristic: familiar preparers pose less risk than unfamiliar preparers. Applying this heuristic may be faster than systematically processing the various factors impacting preparer risk. However, a workpaper review may not be effective if a familiar reviewer applies this heuristic when reviewing the work of a relatively less competent, but familiar preparer. Also, a workpaper review
may be inefficient if an unfamiliar reviewer applies this heuristic when reviewing the work of a highly competent, but unfamiliar preparer.

2.2.4 Proxies for Preparer Risk

Previous studies have manipulated preparer risk through performance evaluations (Asare et al. 2007; Tan and Jamal 2001), reputation for stylization (Tan and Trotman 2003; Tan and Yip-Ow 2001), and quantitative measures of preparer reliability (Bamber 1983). For example, Asare et al. (2007) manipulated the description of the preparer based on ranking among peers. In the low preparer risk condition, the preparer was described as very competent, a good thinker, and in the top 5% of peers. In the high preparer risk condition, Asare et al. (2007) described the preparer as average competence and in the fiftieth percentile among peers.

Rich (2004) held preparer competence constant and manipulated workload pressure to create two levels of preparer risk. He described the preparer as an excellent senior, but one who responds poorly to workload pressure. Rich (2004) manipulated the client’s year-end so that it was December (high workload pressure resulting in high preparer risk) or July (low workload pressure resulting in low preparer risk).

Rich et al. (1997b) suggests that workpaper preparers will stylize workpapers to conform to reviewer preferences. They suggest workpaper preparers are motivated to stylize their workpapers for impression
management purposes – reviewers typically have input into workpaper preparer’s compensation and promotion decisions. Preparers can stylize workpapers in various ways, including omitting evidence from workpapers, using justification memos that include only supporting evidence or that emphasize supporting evidence and de-emphasize contradictory evidence, and exerting varying levels of effort in their work. Tan and Yip-Ow (2001) found that reviewers place less weight on a preparer’s recommendation when they stylized the memo than when they did not.

2.3 Familiarity with the Preparer

2.3.1 Familiarity and the Elaboration Likelihood Model

It is reasonable to expect that detection risk decreases as reviewer familiarity with the preparer increases. A reviewer who has worked with a workpaper preparer previously should have more knowledge about the preparer’s strengths and weaknesses than a reviewer who has not previously worked with the preparer. Reviewers who are familiar with the workpaper preparer should be able to tailor their review procedures based on the areas where the preparer has weaknesses or is likely to stylize the workpapers.

The Elaboration Likelihood Model (ELM) of persuasion posits two routes to persuasion: the central route and the peripheral route (Petty and Wegener 1999). The central route involves extensive cognitive
processing while the peripheral route involves the use of heuristics. When familiar reviewers consider a preparer’s unique knowledge, experience, skills and ability when selecting the nature and extent of their review procedures, they are using the central route. A central-route-processing reviewer would, for example, assess preparer risk lower when a familiar preparer is more competent and higher when a familiar preparer is less competent. On the other hand, a peripheral-route-processing reviewer might simply apply a heuristic: familiar preparers are less risky compared to unfamiliar preparers.

Reviewers in Asare and McDaniel’s (1996) experiment appear to have assessed preparer risk lower for familiar workpaper preparers than for unfamiliar preparers since they reperformed less of the work of familiar preparers. These reviewers did not actually know the workpaper preparer because the workpaper preparer was hypothetical. It appears that the reviewers applied a heuristic that familiar workpaper preparers pose lower preparer risk than unfamiliar workpaper preparers. This dissertation extends Asare and McDaniel’s (1996) paper in three ways. First, the participants in this study are audit managers and senior managers. Asare and McDaniel’s participants were audit seniors. It is important to understand whether managers will employ a heuristic in assessing preparer risk. Second, the Asare and McDaniel (1996) experiment involved a relatively objective task without estimation uncertainty. This experiment involves a task with higher inherent risk due to estimation
uncertainty. It is important to understand whether reviewers also employ heuristics to assess preparer risk when reviewing work performed on higher risk accounts. Finally, this study measures the impact familiarity has on two antecedents of preparer risk, preparer’s performance and objectivity.

2.3.2 Familiarity and Social Bond

In general, people are influenced more by individuals with whom they share a social bond (Lee 2016). For example, Lee (2016) found that frugal consumers will spend more money when they are with friends (i.e. stronger social bond) who are spending, but not with acquaintances (i.e. weaker social bond). Research in social psychology demonstrates that it does not take much for a social bond to form (e.g., Miller et al. 1998; Finch & Cialdini 1989; Heider 1958; Koffka 1935). For example, sharing a birthday was enough to create a social bond in an experiment conducted by Miller et al. (1998). In the auditing context, it is likely that reviewers and workpaper preparers will form social bonds when they are from the same office and work together on audit engagements.

It is not clear whether familiarity with the workpaper preparer will improve or harm reviewers’ assessments of preparer risk. Familiarity with the preparer may improve reviewers’ assessments of preparer risk if reviewers process the information systematically. Specifically, familiarity with the workpaper preparer should enable reviewers to make better
predictions about a preparer’s weaknesses and the types of errors he or she is likely to make. However, previous research suggests that reviewers may be overconfident in the knowledge and abilities of workpaper preparers (e.g., Kennedy and Peecher 1997; Messier et al. 2008). If, instead of thinking about the familiar preparer’s strengths and weaknesses, reviewers process heuristically (i.e. familiar preparers are less risk, unfamiliar preparers are more risky), then familiarity may negatively impact the quality of reviewers’ preparer risk assessments.

Tan and Jamal (2001) asked audit managers to read and evaluate memos prepared by seniors with whom they had previously worked. Each manager reviewed two memos: one prepared by an outstanding senior and the other prepared by an average senior. When the memo authors were known to the managers, they rated the memos written by the outstanding seniors higher than the memos written by the average seniors. However, they rated the two memos similarly when memo authorship was unknown. Tan and Jamal’s (2001) results suggest that reviewers may over-rely on their past experience with a workpaper preparer when evaluating the adequacy of the current workpaper.

In an analytical procedures task, Favere-Marchesi (2006) asked teams of auditors to generate hypotheses for an unexpected fluctuation. Two-member teams consisted of one manager and one senior who had no prior involvement or positive prior involvement. The teams consisting of a manager and senior who had positive prior involvement generated
more plausible hypotheses than teams who had no prior involvement. Favere-Marchesi (2006) suggests that familiar reviewers are able to focus on areas of deficiencies to increase audit team performance.

In a review task, Asare and McDaniel (1996) manipulated participants’ familiarity with a hypothetical preparer. In the familiar condition, participants assumed the preparer was from the participants’ office and they had worked on three previous engagements. In the unfamiliar condition, participants assumed the preparer was from another office and they had never worked together previously. Reviewers in the familiar condition apparently assessed preparer risk lower because they reperformed less of the preparer’s work than reviewers in the unfamiliar condition. Due to the time pressure in the experiment, reviewers in the familiar condition reallocated their time from reperformance to conceptual errors and identified more seeded errors as a result.

Asare and McDaniel’s (1996) results suggest that reviewers assessed preparer risk to be lower for familiar versus unfamiliar preparers since reviewers chose to reperform less of the preparer’s work when they were familiar with the preparer. However, Asare and McDaniel (1996) did not measure reviewers’ assessments of preparer risk. It is important to understand whether reviewers heuristically assess preparer risk lower for familiar versus unfamiliar preparers.

Previous research has used performance evaluation information to manipulate preparer risk (e.g., Asare et al. 2007; Tan and Jamal 2001).
For example, the preparer was ranked in the top 5% among staff accountants and in the 50th percentile in the low and high preparer risk conditions, respectively. Tan and Jamal (2001) used performance evaluation information to identify outstanding seniors and average seniors. In contrast to previous studies that have manipulated preparer risk as a dependent variable, this study examines factors that influence preparer risk (i.e. preparer risk is a dependent variable). Thus, performance evaluation ratings are used as a proxy for preparer risk. Higher performance ratings indicate lower preparer risk.

Hypotheses 1a and 1b predict that reviewers will assess preparer risk lower when they are familiar with the workpaper preparer than when they are unfamiliar with the preparer (see Figures 5 and 6).

**H1a:** Familiar reviewers will assign higher performance evaluation ratings than unfamiliar reviewers.

**H1b:** Familiar reviewers will rate the workpaper preparer’s recommendations higher than unfamiliar reviewers.

Hypotheses 1a and 1b are based on an expectation that reviewers will rely on a heuristic to assess preparer risk. Since objectivity is an antecedent of preparer risk, familiar reviewers may assess preparer objectivity higher than unfamiliar reviewers. For example, previous research in psychology finds evidence of a halo effect (Rosenzweig 2007; Nisbett and Wilson 1977). If familiar reviewers assign higher overall performance evaluations and recommendations consistent with Hypotheses 1a and 1b, then they may also assign higher objectivity
ratings as a result of the halo effect. Hypothesis 1c predicts that reviewers will assess preparer objectivity higher when they are familiar with the workpaper preparer than when they are unfamiliar with the preparer (see Figure 7).

**H1c: Familiar reviewers will rate the workpaper preparer’s objectivity higher than unfamiliar reviewers.**

2.4 Preparer Affect

2.4.1 Affect and Decision Making

Interpersonal affect, or simply affect, refers to a positive or negative evaluative reaction to a stimulus (Bonner 2008). Moods and emotions that individuals bring to tasks can induce affective reactions. Whereas moods are low-intensity, simply valenced feelings without a specific target, emotions are higher-intensity, shorter-lived feelings that may have a specific target (e.g., an auditor may be angry at the client’s controller).

People’s judgments are sometimes influenced by their emotions. Since emotions are involved in some judgments and not others, it is important to identify situations where people are more or less likely to be influenced by their emotions. The Affect Infusion Model (AIM) identifies four judgmental strategies, two of which involve little (or no) affect infusion and two which involve extensive affect infusion (Forgas 1995). According to the AIM, the impact of interpersonal affect on one’s judgment depends
on various factors including the decision-maker’s existing level of knowledge about the matter, the complexity of the matter, personal relevance to the decision-maker, the decision-maker’s motivation and the decision-maker’s cognitive capacity.

Dual-process theories suggest two processing routes: central, or systematic processing and peripheral, or heuristic processing (Chaiken and Trope 1999). Consistent with other dual-process theories, the AIM predicts that interpersonal affect will impact judgments differently when an individual is processing heuristically versus systematically. The AIM predicts that in some situations (e.g., low personal relevance, low cognitive capacity), individuals will employ an “affect-as-information” heuristic, making judgments based on their feelings, rather than other available information. In other situations when individuals process systematically (e.g., situations involving high personal relevance, high motivation for accuracy, complexity), the AIM predicts that interpersonal affect will impact how the individual processes decision-relevant information (e.g., selective attention, selective encoding, selective retrieval).

Previous research demonstrates that workpaper preparers allow interpersonal affect to impact their judgments (e.g., Bhattacharjee and Moreno 2002; Bhattacharjee et al. 2012). For example, the judgments of workpaper preparers may be influenced by irrelevant affective information
Bhattacharjee and Moreno (2002) conducted an experiment in which auditors made a judgment regarding the likelihood that a write-off for inventory obsolescence was necessary. In the negative affect condition, the client was described as arrogant and unpleasant to work with due to his attitude. Less experienced auditors in the negative affect condition assessed the likelihood of a necessary write-down higher than less experienced auditors in the neutral condition. More experienced auditors assessed the likelihood that a write-down would be necessary similarly, regardless of affect.

2.4.2 Client Hostility and Workpaper Preparer Affect

Recent research describe the hostility that some auditors face when interacting with client personnel (Bennett and Hatfield 2013; Guenin-Paracini et al. 2015). For example, Guenin-Paracini et al. (2015) embedded themselves with seven engagement teams as they performed audit fieldwork at client locations. They witnessed various situations in which clients obstructed audits through their control of workspace, time, and atmosphere. For example, they observed varying levels of client

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6 Research in psychology has provided evidence of a dilution effect, whereby individuals make less extreme judgments when provided with both relevant and irrelevant information than when they are provided with only relevant information (e.g., Nisbett et al. 1981). Accounting research demonstrates that auditors are not immune from the dilution effect (e.g., Shelton 1999; Glover 1997; Asare and Wright; Hackenbrack 1992). For example, auditors who received both irrelevant and relevant information made less extreme fraud risk assessments than auditors who received only relevant information (Hackenbrack 1992). Although the dilution effect cannot be mitigated through accountability (Hoffman and Patton 1997), it has been mitigated through time pressure (Glover 1997). Importantly, more experienced auditors are less influenced by irrelevant information (Shelton 1999; Bhattacharjee and Moreno 2002).
hostility ranging from nonverbal displays of irritation (e.g., sighs, grimaces) to verbal abuse.\textsuperscript{7} While auditors routinely deal with moderate levels of hostility from client personnel, above average levels of hostility may trigger negative affective reactions.

Previous research suggests that, in general, people realize that individuals may make biased judgments about someone they do not like (Mills and Grant 2009). Since the audit review process is intended to detect and correct preparer bias, it is important to understand whether reviewers can detect this increased preparer risk and respond accordingly. A reviewer should assess preparer risk higher when a preparer discloses negative affect towards client personnel to the extent the reviewer perceives the preparer’s affect has biased his or her judgment. The following hypotheses predict that reviewers will assess preparer risk higher (i.e. assign lower performance valuation ratings, rate quality of the preparer’s recommendation lower, and rate the preparer’s objectivity lower) when they are aware of the preparer’s negative affect toward client personnel (see Figures 8, 9, and 10).

\textbf{H2a:} Reviewers who are aware of the preparer’s negative affect toward client personnel will assign lower performance evaluation ratings than reviewers who are unaware of the preparer’s negative affect toward client personnel.

\textsuperscript{7} Examples of verbal abuse included comments such as: “I can’t believe how slow you are!”; “If you can’t understand that, then I don’t know what to say to you. I’m not here to train you!”; “Listen, talk louder! Articulate! I can’t understand a word you’re saying!”; “Can’t you see that what I’m telling you does not make any sense! You’ll believe anything, won’t you?” (Guenin-Paracini et al. 2015, p. 213).
H2b: Reviewers who are aware of the preparer’s negative affect toward client personnel will rate the quality of the workpaper preparer’s recommendation lower than reviewers who are unaware of the preparer’s negative affect toward client personnel.

H2c: Reviewers who are aware of the preparer’s negative affect toward client personnel will rate the workpaper preparer’s objectivity lower than reviewers who are unaware of the preparer’s negative affect toward client personnel.

2.4.3 Preparer Familiarity and Preparer Affect

This section discusses the interaction of preparer familiarity and preparer affect in the reviewer’s assessment of preparer risk. When assessing preparer risk, Hypotheses 1a-c propose that reviewers will assess preparer risk higher when they are unfamiliar with the workpaper preparer and lower when they are familiar with the workpaper preparer. Hypotheses 2a-c predict that reviewers will assess preparer risk higher when they are aware of the workpaper preparer’s negative affect toward client personnel. Since both preparer familiarity and preparer affect are hypothesized to impact reviewers’ assessments of preparer risk, it is important to investigate how these variables interact.

When a workpaper preparer discloses his or her negative affect toward client personnel, they may be biased in their judgments, increasing preparer risk. However, reviewers may be overconfident in the objectivity of workpaper preparers with whom they are familiar. Kadous et al. (2013) found that stronger social bond advisees ignored justification strength
while weaker social bond advisees did not. Just as stronger social bond auditors ignored justification strength, stronger social bond reviewers (i.e. those who are familiar with the workpaper preparer) may ignore or discount evidence of preparer bias. Hypothesis 3a-c predict that reviewers who are unfamiliar with the workpaper preparer will assess preparer risk higher when they are aware of the preparer’s negative affect than when they are not, while familiar reviewers will assess preparer risk similarly regardless of their knowledge of the preparer’s affect toward the client (see Figures 11, 12, and 13).

**H3a:** Unfamiliar reviewers will rate the workpaper preparer’s objectivity lower when they are aware of the preparer’s negative affect toward client personnel than when they are unaware. Familiar reviewers will rate the workpaper preparer’s objectivity the same regardless of the preparer’s negative affect.

**H3b:** Unfamiliar reviewers will assign lower performance evaluation ratings when they are aware of the preparer’s negative affect toward client personnel than when they are unaware. Familiar reviewers will assign the same performance evaluation ratings regardless of their awareness of the preparer’s negative affect.

**H3c:** Unfamiliar reviewers will rate the quality of the workpaper preparer’s recommendations lower when they are aware of the preparer’s negative affect toward client personnel than when they are unaware. Familiar reviewers will rate the quality of the workpaper preparer’s recommendations the same regardless of their awareness of the preparer’s negative affect.
2.5 Reviewers’ Utilization of Preparer Recommendations

Rich et al. (1997b) portray the reviewers as recipients of persuasive messages from workpaper preparers. From a slightly different perspective, reviewers can be viewed as the recipients of advice from workpaper preparers. This section discusses both of these perspectives in the context of workpaper review. After discussing the two perspectives, previous research regarding advice utilization is reviewed. Finally, hypotheses regarding reviewers’ utilization of preparer recommendations are presented.

2.5.1 The Persuasion Knowledge Model

Rich et al. (1997b) present the audit review process as a persuasion episode. Workpaper preparers attempt to persuade reviewers that they have performed appropriate audit procedures, reached appropriate conclusions, and that the workpaper documentation is defensible. Because reviewers typically provide input to promotion and compensation decisions, workpaper preparers have an “impression management” incentive to stylize the workpapers. Rich et al. (1997b) suggest that stylization has occurred whenever a workpaper preparer's goal in producing audit documentation is to enhance his or her reputation. Workpaper prepares can stylize through workpaper formatting, framing of documentation, and selective documentation of audit evidence.
Rich et al. (1997b) apply Friestad and Wright’s (1994) Persuasion Knowledge Model (PKM) to the audit review process (see Figure 3). According to the PKM, the workpaper reviewer has three types of knowledge: topic knowledge, agent knowledge, and persuasion knowledge. In the context of workpaper review, topic knowledge would include the reviewer’s understanding of audit and accounting standards as well as knowledge of the client’s business and industry. Agent knowledge refers to the reviewer’s understanding of the workpaper preparer, including the preparer’s competence, objectivity, and incentives (e.g., motivation to stylize workpapers). The third type of knowledge is the reviewer’s understanding of persuasion and techniques for coping with persuasion attempts. Reviewers use these three types of knowledge to cope with persuasion attempts.

Previous research provides evidence that reviewers can effectively withstand persuasion attempts (e.g., Ayers and Kaplan 2003). However, previous research also provides evidence that reviewers can be inappropriately persuaded by information documented by a preparer when the documentation provides a biased view of the relevant facts (e.g., Asare and Wright 2008; Richiutte 1999). According to the PKM, reviewers who are familiar with a particular workpaper preparer and systematically process should be better able to cope with persuasion attempts than reviewers who are unfamiliar with the preparer because they have more agent knowledge. Reviewers who process heuristically may be more
easily persuaded by a familiar preparer than an unfamiliar preparer due to the inappropriate reliance on source cues.

2.5.2 Persuasion Target versus Advice Recipient

When viewed from the persuasion perspective, the review process consists of attempts by the workpaper preparer to manipulate the attitude of the reviewer (Yaniv 2004). The workpaper preparer attempts to influence the reviewer to adopt the preparer’s viewpoint while the reviewer attempts to cope with the persuasion attempts. Rich et al. (1997b) seem to characterize the workpaper preparer’s motives to be focused on convincing the reviewer that the preparer should be well compensated and promoted in rank. They suggest that preparers’ compensation and promotion objectives incentivize them to “behave strategically and possibly deceptively” to achieve their impression management goals (Rich et al. 1997b, p. 486).

The review process can also be examined from the perspective of the reviewer as the recipient of advice. Whereas the persuasion perspective focuses on the workpaper preparer, the advice literature focuses on the reviewer as the recipient of advice. The persuasion literature focuses on the workpaper preparer who seeks to influence or persuade reviewers that the procedures performed and resulting conclusions are appropriate. Whereas the persuasion literature views the workpaper preparer as the initiator, the advice literature views the
workpaper reviewer as the initiator. Workpaper reviewers initiate the process in order to improve the quality of their judgments.

2.5.3 Advice Utilization

Auditing procedures vary in terms of difficulty and complexity. Some tasks (e.g., confirmation of cash or accounts receivable) are relatively simple and straightforward while other tasks, such as auditing accounting estimates, are significantly more complicated. When the audit evidence is objectively obtained and verifiable, reviewers can focus on the appropriateness of the audit procedures, the sufficiency of the sample size, and the clarity of the audit documentation. Accounting estimates often require auditors to make judgments about the reasonableness of assumptions for which objectively verifiable data is not available. It is in the context of these subjective judgments that the workpaper preparer provides recommendations to the reviewer regarding the reasonableness of an estimate and its underlying assumptions.

Bonaccio and Dalal (2006) identify the inputs to and outputs from the Judge-Advisor System (JAS). In the context of the audit review process, the workpaper preparer is the advisor and the reviewer is the judge. A key output of the JAS is advice utilization. Advice utilization is the extent to which a reviewer follows the recommendations of the workpaper preparer. The converse of device utilization is discounting, which is the extent to which reviewers ignore preparer recommendations.
Previous research in the JAS literature has consistently found evidence of egocentric advice discounting (Bonaccio and Dalal 2006, Yaniv 2004). There are several factors that have been shown to impact the extent of advice discounting: relative knowledge and experience of the judge and advisor; the quality of advice; the presence of performance-contingent financial incentives; whether the holder of reward power is the judge or the advisor; whether the judge pays for the advice or receives it for free; the judge’s trust in the advisor; whether the judge solicited the advice, and task complexity (Bonaccio and Dalal 2006). Given the hierarchical nature of the review process, reviewers are more experienced and tend to have more knowledge relative to workpaper preparers. The knowledge differential in favor of the reviewer should result in discounting of workpaper preparer recommendations.

Previous auditing research provides evidence of advice discounting by workpaper reviewers (e.g., Tan and Yip-Ow 2001, Frank and Hoffman 2015). For example, Frank and Hoffman (2015) conducted an experiment in which participants reviewed a memo containing a hypothetical workpaper preparer’s recommendation regarding the risk of inventory obsolescence and the amount of required write-down. In the control conditions, reviewers made similar write-down conclusions whether the preparer recommended a very large write-down or no write-down. Their result is consistent with advice discounting found in the JAS literature.
Although previous research consistently demonstrates advice discounting, people generally do take advice (Gino and Moore 2007). Feng and MacGeorge (2006) identified factors that influence one’s receptiveness to advice. In particular, they found that a person’s receptiveness to advice is highly correlated with relational closeness. Previous research suggests that reviewers are more likely to rely on recommendations received from workpaper preparers who they like and who are similar to them. Reviewers should perceive themselves to be relationally closer and more similar to a workpaper preparer from their own office and with whom they have worked previously than a workpaper preparer from another office and with whom they have not worked.

Hypotheses 4a-d predict that unfamiliar reviewers will discount a preparer’s recommendations to a greater extent than will familiar reviewers. When asked to state whether they agree with the preparer’s recommendation, H4a and H4b predict that familiar reviewers will be more likely than unfamiliar reviewers to agree (see Figure 14). In the experimental task, the workpaper preparer makes relatively extreme judgments regarding the risk of inventory obsolescence and the size of required inventory write-down. Hypothesis 4c predicts that familiar reviewers will make risk assessment judgments that are closer to the preparer’s extreme risk assessment than unfamiliar reviewers (see Figure 15). Similarly, Hypothesis 4d predicts that, compared to unfamiliar reviewers, familiar reviewers will require larger write-downs that are more
consistent with the preparer’s recommended write-down (see Figure 16).

The hypotheses are stated formally below:

**H4a:** Familiar reviewers will be more likely to agree with the preparer recommendation regarding the risk of inventory obsolescence than unfamiliar reviewers.

**H4b:** Familiar reviewers will be more likely to agree with the preparer’s write-down recommendation than unfamiliar reviewers.

**H4c:** Familiar reviewers will conclude that risk is higher than unfamiliar reviewers.

**H4d:** Familiar reviewers will conclude a larger write-down is necessary than unfamiliar reviewers.

2.5.4 Advice Utilization and Workpaper Preparer Affect

Workpaper preparers are often relatively less experienced than the client personnel with whom they interact, creating a social mismatch (Bennett and Hatfield 2013). Workpaper preparers may perceive client personnel who are more experienced to be arrogant and condescending. In some situations, client personnel may intentionally respond to workpaper preparers in rude and condescending ways (Guenin-Paracini et al. 2015). Workpaper preparers may experience negative affective reactions to client personnel who are rude, arrogant, or condescending. Other client personnel may be very kind and responsive to workpaper preparers, generating a positive affective reaction.
Bhattacharjee et al. (2012) conducted an experiment in which auditors evaluated the likelihood of inventory obsolescence.\(^8\) In the negative affect condition, the client’s assistant controller was described as arrogant and unpleasant to interact with. In the positive affect condition, the assistant controller was described as humble, pleasant, and sincere. Manipulation checks demonstrated that participants experienced affective reactions to the assistant controller consistent with the research design. Bhattacharjee et al. (2012) also manipulated the competence of the assistant controller.\(^9\) Although workpaper preparers in the higher competence conditions made similar judgments regardless of their affect, workpaper preparers in the lower competence conditions made judgments consistent with their affective reactions. In other words, auditors assessed the likelihood of inventory obsolescence lower when they liked the assistant controller and higher when they did not like the assistant controller.

Previous research shows that workpaper preparers may be biased by their positive or negative affect (e.g., Bhattacharjee and Moreno 2002; Bhattacharjee et al. 2012). The workpaper review process should identify and correct preparer bias (Asare and McDaniel 1996; Bamber 1983;  

\(^8\) The participants in this Bhattacharjee et al.’s (2012) experiment were staff and seniors.  
\(^9\) In the higher competence condition, the assistant controller had strong accounting skills, significant industry experience and a strong reputation in the industry. In the lower competence condition, the assistant controller had minimal accounting experience and no previous industry experience.
Solomon 1987). Reviewers should discount the advice of preparers who are likely to provide biased recommendations.

Hypotheses 5a-d predict that reviewers will be more likely to discount preparer recommendations when they are aware of the preparer’s negative affect compared to when they are unaware of it. H5a and H5b predict that reviewers who are unaware of the preparer’s negative affect will be more likely to agree with the preparer’s recommendations than reviewers who are aware (see Figure 17). In the experimental task, the workpaper preparer makes relatively extreme judgments regarding the risk of inventory obsolescence and the size of required inventory write-down. Hypothesis 5c predicts that reviewers who are unaware of the preparer’s negative affect will make risk assessment judgments that are closer to the preparer’s extreme risk assessment than reviewers who are unaware (see Figure 18). Similarly, Hypothesis 5d predicts that, compared to reviewers who are aware of the preparer’s negative affect, unaware reviewers will require larger write-downs that are more consistent with the preparer’s recommended write-down (see Figure 19). The hypotheses are stated formally below:

**H5a:** Reviewers will be less likely to agree with the risk assessment recommendation of a negative affect preparer than that of a no affect preparer.

**H5b:** Reviewers will be less likely to agree with the write-down recommendation of a negative affect preparer than that of a no affect preparer.
H5c: Reviewers who are aware of the preparer’s negative affect will conclude that risk is lower than reviewers who are unaware of the preparer’s negative affect.

H5d: Reviewers who are aware of the preparer’s negative affect will conclude a smaller write-down is necessary than reviewers who are not aware of the preparer’s negative affect.

2.5.5 Mitigating the Ironic Rebound Effect

Another dimension of preparer risk relates to preparer bias that may arise in more subjective tasks such as auditing accounting estimates. Previous research suggests that reviewers may be influenced by biased preparers (e.g., Yip-Ow and Tan 2000; Asare and Wright 2008; Richiutte 1999). For example, reviewers identify fewer plausible hypotheses for analytical procedures fluctuations when provided with a memo that justified the workpaper preparer’s hypothesized cause (Yip-Ow and Tan 2000). Reviewers should discount the recommendations of a workpaper preparer who is known to be biased. However, reviewers may find it difficult to determine the extent of a workpaper preparer’s bias and therefore, the extent to which they should discount a workpaper preparer’s recommendation (Cain et al. 2005).10 Recent research in accounting suggests that reviewers may be susceptible to the ironic rebound effect.

10 Cain et al. (2005) investigated the effect of disclosure of an advisor’s bias on the judgments of advisees. In their experiment, the advisor had a conflict-of-interest. While advisees discounted the advice of advisors with a conflict-of-interest, they did not discount the advice sufficiently.
Frank and Hoffman (2015) examined the ability of reviewers to recognize and appropriately discount recommendations from biased workpaper preparers. Participants reviewed a workpaper in which the preparer made recommendations regarding the risk of inventory obsolescence and the required write-down due to inventory obsolescence. The workpaper preparer recommended a low risk assessment and no write-down or high risk and a very large write-down.11 Frank and Hoffman also manipulated whether reviewers received information regarding the workpaper preparer’s affective reaction to the client’s controller which was very positive in the “no write-down” condition and very negative in the “large write-down” condition. The information regarding the preparer’s positive or negative affect towards the client’s controller suggests that the preparer’s recommendation may be biased. Thus, it is reasonable to expect more discounting of the preparer’s recommendation in the affect conditions than in the no affect conditions. The results were opposite: reviewers appeared to rely on the preparer’s recommendation more in the affect conditions than in the no affect conditions.

Ironic Process Theory posits two processes that work together to achieve normal and successful mental control: an intentional operating process and an ironic monitoring process (Wegner 1994; Wegner et al. 1993). The intentional operating process is an effortful mental process

11 The preparer recommended a write-down of two-thirds of the account balance. The account balance was $1.8 million and the preparer recommended a write-down of $1.2 million.
that requires effort and can be intentionally initiated or inhibited. The ironic monitoring process is an automatic process that works outside of conscious awareness and cannot be intentionally inhibited.

In the context of Frank and Hoffman’s (2015) experiment, reviewers in the affect conditions should ignore the workpaper preparer’s potentially biased recommendation and draw their conclusions based on the factual information contained in the workpaper. According to Ironic Process Theory, the reviewer’s intentional operating process (IOP) will attempt to focus on relevant information other than the preparer’s recommendation. At the same time, the reviewer’s ironic monitoring process (IMP) works in the background to prevent the preparer’s recommendation from influencing the reviewer’s judgment. The two systems work together to focus on the evidence the reviewer wants to consider in his or her judgment.

Since the IOP is an effortful process that requires conscious awareness, the reviewer’s attention to relevant factual information regarding potential inventory obsolescence will fade under cognitive load (e.g., distraction, ego-depletion). In contrast to the IOP, the monitoring process is automatic and continues to operate despite distraction. Because the IMP is focused on the preparer’s recommendation, it will increase the accessibility of the preparer’s recommendation in the reviewer’s consciousness. The ironic rebound effect occurs under cognitive load because the reviewer is distracted from focusing on the
relevant facts while the monitoring process makes the potentially biased recommendation accessible to consciousness.

Frank and Hoffman (2015) did not manipulate cognitive load in their experiment, but argue that participants in the affect conditions were under higher levels of cognitive load due to the uncertainty regarding the extent to which the preparer’s recommendation should be discounted. They suggest that uncertainty about the probability of preparer error (i.e. the likelihood that the preparer provided a biased recommendation) unleashed the ironic rebound effect. The experiment in this dissertation is intended to manipulate the level of uncertainty about preparer risk and therefore, the level of reviewers’ cognitive load.

Reviewers should have less uncertainty about preparer risk when they are familiar with the workpaper preparer than when they are unfamiliar with the workpaper preparer. Asare and McDaniel (1996) found that reviewers reperformed less work of a hypothetical workpaper preparer with whom they were familiar than the work of a hypothetical workpaper preparer with whom they were unfamiliar. Familiarity with the workpaper preparer may mitigate the ironic rebound effect.

2.5.6 Advice Utilization and Social Bond Theory

Hypothesis 6a is based on ironic rebound theory and predicts that familiarity with the preparer will reduce reviewers’ uncertainty and cognitive load, allowing the intentional operating process to operate
effectively to discount the preparer’s potentially biased recommendation.

An alternative hypothesis is based on the trust heuristic arising from social
bonds. The alternative hypothesis predicts that reviewers will discount the
advice of a familiar preparer less than they will discount the advice of
unfamiliar preparers when there are indications of preparer bias.

Kadous et al. (2013) examined advice utilization in the context of
auditors receiving informal advice from an advisor. They manipulated the
strength of the auditors’ social bonds with the advisor. Kadous et al.
(2013) found that the extent of auditor advice utilization varied with
justification strength when the advice was received from a weaker social
bond advisor. However, auditor advice utilization was unrelated to
justification strength for stronger social bond advisors. In other words,
when the auditor had a stronger social bond with the advisor, they
weighed poorly justified advice as heavily as they weighted well justified
advice.

Kadous et al. (2013) suggest their results provide evidence of a
trust heuristic. Reviewers may use a trust heuristic if they weight a
recommendation from a preparer with a negative affect towards the client
similarly to when they have no information regarding the preparer’s affect.
If reviewers rely on a trust heuristic, they will be insensitive to the potential
bias arising from a workpaper preparer’s negative affect. Consistent with
Kadous et al. (2013), reviewers are expected to apply a trust heuristic for
recommendations received from familiar preparers but not for recommendations received from unfamiliar preparers.

Ironic rebound theory and Social Bond lead to the following competing hypotheses (see Figures 20 and 21):

**H6a:** When a workpaper preparer has negative affect toward client personnel, unfamiliar reviewers will conclude a larger write-down is necessary than familiar reviewers.

**H6b:** When a workpaper preparer has negative affect toward client personnel, unfamiliar reviewers will conclude a smaller write-down is necessary than familiar reviewers.
3.1 Experimental Design

The experiment is a 2x2 between-participants design in which familiarity with the preparer and the presence of information on the affect the preparer has towards the client are manipulated (see Figure 4). Participants assume the role of workpaper reviewer and read a memo prepared by a hypothetical workpaper preparer who is either familiar or unfamiliar to the reviewer. In the familiar preparer condition, participants are asked to assume that the workpaper preparer is from their same office and that they have worked with the preparer on previous engagements. In the unfamiliar condition, participants are asked to assume that the workpaper preparer is from a different office than theirs and that they have never previously worked with the preparer. Participants are then either told about the preparer’s negative affect toward the client or not. In the “negative affect” conditions, participants are informed that the workpaper preparer dislikes the controller because the controller is arrogant and condescending and unpleasant to work with. Those in the no affect condition are told nothing about the workpaper preparer’s feelings about the client.

The experimental instrument was administered online through Qualtrics. The participating firm emailed a link to the auditors they identified to participate. The author emailed a link to the online instrument
to the participants who were recruited through personal contacts. Participants were randomly assigned to one of the four treatment conditions automatically by Qualtrics.

3.2 Participants

Participants were eighty-nine audit managers and senior managers recruited from various accounting firms in the United States. One firm provided participants and the rest were recruited through the author’s personal contacts. Participants had a mean of 10.29 years of audit experience.

3.3 Experimental Task

The experimental task is adapted from Frank and Hoffman (2015). Subjects assume the role of reviewer in an inventory obsolescence task. After reading the introductory screen with language required by the Institutional Review Board (IRB), subjects read background information regarding the audit client and their audit history. The client is described as a publicly held corporation located in Pittsburgh, PA. The client is a mid-sized manufacturer of electronic components. The company has been the firm’s audit client for five years and has consistently received unqualified audit opinions. The control environment is effective and there have never been any disputes between the auditor and the client. Finally, subjects are provided information that all accounting personnel are competent and
experienced. All of the accounting personnel have been with the company for at least two years, except for the controller who joined the company within the past year.

After reading the background information, reviewers are provided information about the workpaper they are about to review and the preparer of the workpaper. Reviewers are asked to assume that they have reviewed the procedures performed by the in-charge with respect to inventory and that, with the exception of the valuation assertion, the inventory balance is free of misstatements. There is a concern about the valuation assertion due to potential inventory obsolescence.

The description of the workpaper preparer is manipulated between subjects. In the familiar preparer condition, the in-charge is described as follows:

Chris is a senior from your office. Chris has been with your firm for four years and has prior experience on inventory engagements. You have personally worked with Chris on three other engagements and have found Chris to be both conscientious and cooperative.

In the unfamiliar preparer condition, the in-charge is described as follows:

Chris is a senior from a different office than yours. Chris has been with your firm for four years and has prior experience on inventory engagements. You have not personally worked with Chris although you can assume that Chris is both conscientious and cooperative.

After reading information about the client and the workpaper preparer, subjects answer three attention check questions. The three
attention check questions were displayed in random order for each subject. One question relates to the competence of the client’s accounting department, including the controller. The purpose of this question is to reinforce the background information that indicated the individuals in the accounting department are competent and experienced. Another attention check question involves identified misstatements. The purpose of this question is to determine that subjects understood that the only remaining issue relates to potential inventory obsolescence and no other misstatements have been identified. Finally, an attention check question asks the participant to identify the workpaper preparer’s office location (i.e. same as subject or different). After responding to each attention check question, the correct answer is displayed. The correct answer is displayed whether the subject answered the attention check question correctly or incorrectly.

Once subjects completed the three attention check questions, they read the workpaper preparer’s memo regarding potential inventory obsolescence. Reviewers in all four treatment conditions received the exact same memo. In the memo, the preparer assesses the risk of inventory obsolescence as 8 on a scale of 0 (very low risk) to 10 (very high risk). The preparer also recommends a write-down of $1.2 million,

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12 The memo is unchanged from that used by Frank and Hoffman (2015) in their experiment. Two audit partners from a Big 4 accounting firm read the case and told Frank and Hoffman that the case was realistic. They also agreed that the task was fairly subjective and that the appropriate write-down was less than $1.2 million, but more than zero.
which is two-thirds of the inventory balance of $1.8 million. After the two recommendations, the memo provides support for the recommendation. The client’s competitor has developed a new product that is technologically superior to the client’s product. When it is released, the competitor’s product is expected to sell below the price that the client sells its product.

After reading the memo, reviewers responded to the questions, beginning with the dependent variables described in the next section. In addition to the dependent variables, additional questions were asked to help interpret the results. The instrument also included manipulation check questions and background information.

3.4 Dependent Variables

The primary dependent variables are the reviewers’ assessment of preparer risk and the reviewers’ judgment regarding the appropriate amount of required inventory write-down. With the exception of the write-down judgment, the dependent variables were in the form of likert-type scales. Likert-type scales are the most commonly used design in behavioral science research (Eutsler and Lang 2015). An 11-point scale is appropriate because it is commonly used in accounting research (Eutsler and Lang 2015) and because an 11-point rating scale should maximize variance (Friedman and Friedman 1986).
Previous research has used performance evaluation information to manipulate preparer risk (e.g., Asare et al. 2007; Tan and Jamal 2001). For example, the preparer was ranked in the top 5% among staff accountants and in the 50th percentile in the low and high preparer risk conditions, respectively. Tan and Jamal (2001) used performance evaluation information to identify outstanding seniors and average seniors. In contrast to previous studies that have manipulated preparer risk as a dependent variable, this study examines factors that influence preparer risk (i.e. preparer risk is a dependent variable). Participants were asked “If you had to provide a performance rating for Chris, based solely on the workpaper you reviewed, what rating would you assign?” Subjects responded to this question on a scale of 0 “not meeting expectations” to 10 “exceeding expectations” where 5 was captioned “meeting expectations”. This is the primary measure of preparer risk. In addition to providing an overall performance evaluation, participants were asked to “rate the quality of Chris’ recommendations regarding the risk and likely amount of inventory obsolescence” on a scale of 0 (very low quality) to 10 (very high quality).

In addition to measuring preparer risk, reviewers’ assessments of preparer objectivity were also measured. Reviewers were asked to “rate Chris, the in-charge, in terms of objectivity with regard to BDRM” on a scale of 0 (completely biased) to 10 (completely unbiased).
Multiple questions were used to measure reviewers’ reliance on workpaper preparer’s recommendations. First, reviewers were asked separately whether they agreed with the senior’s recommended risk assessment and write-down amount. These questions provide nominal measurements of the reviewers’ decision whether to rely on the preparer’s recommendation (Kerlinger and Lee 2000). Reviewers have only two alternatives – accept the preparer’s recommendation or reject it. Second, reviewers were asked to provide their own judgments regarding risk assessment (on a scale of 0-10 where 0 was “very low risk”, 5 was “moderate risk”, and 10 was “very high risk”) and the dollar amount of write-down they believed to be appropriate. Reviewers’ risk assessments provide an interval measurement and the write-down judgments provide a ratio measurement (Kerlinger and Lee 2000). These measurements provide more data regarding the extent to which reviewers utilize preparer recommendations.
CHAPTER FOUR
RESULTS

4.1 Manipulation checks

The instrument included manipulation checks to provide evidence that reviewers attended to the materials. It is important to test whether the independent variables “alter what they are meant to alter” (Cook and Campbell 1979, 60). The manipulation checks were included after the dependent measures in the instrument in order to avoid demand effects (Perdue and Summers 1986). Two manipulation checks were included in the instrument.

The first manipulation check question related to the affect manipulation. Reviewers were asked to respond “yes” or “no” to the following question: “According to the case materials, Chris, the engagement in-charge, personally dislikes BDRM’s controller, Pat”. Only one of the eighty-nine participants answered this manipulation check question incorrectly. Removing this one participant has no impact on the results, so reported results include this participant’s responses.

The second manipulation check question related to the familiarity manipulation. Reviewers were asked to indicate whether the following statement was true or false: “According to the case materials, you have previously worked with the engagement in-charge, Chris.” Three (3.4%) of the eighty-nine participants failed to accurately respond to this question.
Removing these three participants has no impact on the results, so reported results include the responses from these participants.

4.2 Descriptive Statistics

Descriptive statistics are shown in Table 1. All of the participants in the experiment had a minimum of five years of experience. The mean (standard deviation) experience was 123 (59.389) months or 10.25 (4.95) years. Reviewer’s experience levels did not differ significantly across treatment conditions. The mean (standard deviation) experience was 9.15 (4.53), 10.81 (3.58), 9.48 (3.53), and 11.58 (6.94) in the familiar-no affect, familiar-negative affect, unfamiliar-no affect, and unfamiliar-negative affect conditions, respectively.

Participants were asked to rate their prior experience auditing inventory on an 11-point scale with endpoints 0 (no experience) and 10 (extensive experience). The average (standard deviation) participant rating of their own inventory experience was 4.78 (3.29). Reviewers’ inventory experience did not differ significantly across treatment conditions. The mean (standard deviation) participant ratings of participants’ own inventory experience were 4.83 (3.34), 5.14 (3.27), 5.35 (3.33) and 3.92 (3.24) in the familiar-no affect, familiar-negative affect,

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13 The equality of means was tested through ANOVA. There were no main effects for familiarity or affect and the interaction was not significant.

14 The equality of means was tested through ANOVA. There were no main effects for familiarity or affect and the interaction was not significant.
unfamiliar-no affect, and unfamiliar-negative affect conditions, respectively.

Fifty-seven (64%) of the eighty-nine participants were male and thirty-two (36%) were female. There were 16 (70%) males and 7 (30%) females in the familiar-no affect condition, 17 (77%) males and 5 (23%) females in the familiar-negative affect condition, 13 (65%) males and 7 (35%) females in the unfamiliar-no affect condition, and 11 (46%) males and 13 (54%) females in the unfamiliar-negative affect condition. The distribution of gender is not significantly different among treatment conditions ($\chi^2 = 5.441$, $df = 3$, $p=0.142$). Gender was added as a covariate to the main analyses but was not significant in any of them. Therefore, it does not appear that gender is influencing the results.

Reviewers spent approximately twenty-minutes completing the instrument.\(^{15}\) The mean (standard deviation) was 20.03 (10:01) minutes and the median was 16.5 minutes. The participant who completed the instrument the fastest completed it in 7.57 minutes. There was no significant difference in the average time spent completing the survey across treatment conditions.

Overall, approximately half (45 or 50.6%) of reviewers agreed with the preparer’s assessment of the risk of inventory obsolescence. The preparer recommended an assessment of eight on a scale of zero to ten.

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\(^{15}\) Eight observations were excluded from the mean time reported because the elapsed time for those surveys exceeded one hour. It is unlikely that participants spent more than an hour in uninterrupted time on the survey. The time elapsed for two of the surveys cross multiple days.
When reviewers made their own risk assessment, the average (standard deviation) was 6.28 (1.88). When reviewers who responded that they agreed with the workpaper preparer’s risk assessment had the opportunity to make their own risk assessment, the mean (standard deviation) and median is 7.24 (1.282) and 8.0, respectively. The mean (standard deviation) and median risk assessment for reviewers who disagreed with the workpaper preparer’s recommendation was 5.30 (1.90) and 5.0, respectively. The mean risk assessment for reviewers who agreed with the preparer is significantly higher than the mean risk assessment for reviewers who disagreed with the preparer (t=5.685, p<.001, two-tailed test with 87 degrees of freedom). Similarly, the median risk assessment for reviewers who agreed with the preparer were significantly higher than that of reviewers who disagreed ($\chi^2 = 25.062, 1 \, df, \, p < .001$).

Only eight of the eighty-nine reviewers (9%) agreed with the workpaper preparer’s recommendation that a $1.2 million write-down was necessary.\(^{16}\) Forty-four respondents (49.4%) concluded that the appropriate write-down amount was zero, including two of the eight respondents who had previously indicated they agreed with the workpaper preparer’s write-down recommendation of $1.2 million. For the forty-five

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\(^{16}\) While approximately half (50.6%) of reviewers agreed with the preparer’s risk assessment, only 9% agreed with the preparer’s write-down recommendation. This may be due to relative consequences of a risk assessment (i.e. relatively low) and a write-down recommendation (relatively high). For example, management would be unlikely to complain about a relatively conservative (i.e. high) risk assessment, in part because management is not typically aware of auditor risk assessments. On the other hand, management would likely object to the auditor’s conclusion that the inventory balance is misstated and needs to be adjusted by a large amount.
respondents who concluded some amount of write-down was necessary, the average (standard deviation) write-down was $730,578 ($412,035).

Reviewers also assessed the workpaper preparer’s objectivity, rated the quality of the preparer’s recommendations, and provided an overall performance evaluation. All three were measured on 11-point likert-type scales. The endpoints for the objectivity scale were labeled “0-completely biased” and “10-completely unbiased”. On average, reviewers assigned an objectivity rating of 5.01 (standard deviation is 2.16). Then endpoints for the recommendation quality scale were “0-very low quality” and “10-very high quality”. The average (standard deviation) preparer recommendation rating was 4.06 (1.54). This relatively low average rating is consistent with the fact that 91% of reviewers (i.e. 81 reviewers) disagreed with the preparer’s write-down recommendation. Finally, reviewers provided an overall performance evaluation for the preparer with endpoints “0-not meeting expectations” and “10-exceeding expectations”. The midpoint, 5, was labeled “meeting expectations”. The average (standard deviation) performance evaluation rating was 4.21 (1.54).

4.3 Tests of Assumptions

The hypotheses were tested using a 2x2 analysis of variance (ANOVA) because the research question involves comparison of the means for each treatment group and is concerned with both main and interaction effects. Three assumptions underlie the ANOVA model:
independence of observations, homogeneity of variance, and normality (Howell 1997). Since participants were randomly assigned to treatment conditions, the observations are expected to be independent.

In order to test the normality assumption, descriptive statistics were calculated for the dependent variables, separately for each treatment condition. The means and standard deviations for each variable are presented in Table 1. The ANOVA is a robust statistical procedure and can withstand violations of the normality assumption provided that all the populations are similar in shape and the largest variance is no more than four times the smallest (Howell 1997, p. 321). The author visually compared histograms of each dependent variable across treatment conditions and concluded that the distributions appear similar. In addition, the skewness and kurtosis of each treatment condition fall within reasonable ranges (i.e. between -3 and +3 for skewness and between -8 and +8 for kurtosis, Kline 2010). The normality assumption is met for all relevant variables.

The final ANOVA assumption is homogeneity of variance. Levene’s (1960) test was performed for each ANOVA to determine whether the assumption was appropriate. The homogeneity of variance assumption was met in all cases except for the ANOVA where the reviewers’ assessments of preparer objectivity was the dependent

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17 A distribution is normal if the skew and kurtosis values are zero (Field 2013).
variable.\textsuperscript{18} Welch’s (1951) F score is reported for that ANOVA (see Table 4).

4.4 Results of Hypothesis Testing

4.4.1 Familiarity and Preparer Risk

The reviewers who participated in this experiment were either familiar or unfamiliar with the workpaper preparer. In the familiar condition, the workpaper preparer from the reviewers’ office and they had worked together on three previous audit engagements. In the unfamiliar condition, the workpaper preparer was from an office different from the reviewer and they had never worked together. Reviewers in all treatment conditions read the same memo with the same recommendations.

Reviewers were asked to rate the performance of the workpaper preparer on a scale of zero to ten, where zero is “not meeting expectations”, 5 is “meeting expectations”, and 10 is “exceeding expectations”. Hypothesis 1a predicts that reviewers in the familiar condition will assign higher performance evaluation ratings to the workpaper preparer than reviewers in the unfamiliar conditions (See Figure 5). Consistent with Hypothesis 1a, the average performance rating is higher for familiar preparers (mean = 4.58, standard deviation = 1.658)

\textsuperscript{18} The standard deviations were higher in the no affect conditions (2.299) and lower in the negative affect conditions (1.586). Since there was not a significant interaction, a simple ANOVA was calculated with only affect as the independent variable. The Welch (1951) procedure was used to correct for the heterogeneity of variance.
than for unfamiliar preparers (mean = 3.84, standard deviation = 1.328).\textsuperscript{19} The difference in these means is statistically significant ($t=2.31, df = 87$, $p=.012$, based on unequal variances).

Hypothesis 1a was tested formally in an ANOVA model with performance rating as the dependent variable and familiarity with the preparer and preparer affect as the independent variables (See Table 2). There is a significant main effect for familiarity ($F=5.139, df = 1$, $p=0.026$, based on homogeneous variances), which is consistent with predictions. Although the memo was identical across treatment conditions, familiar reviewers rated the preparer’s performance higher than unfamiliar reviewers did.

In addition to providing an overall performance evaluation for the workpaper preparer, reviewers also rated the quality of the workpaper preparer’s recommendations (See Table 3). The workpaper preparer provided two recommendations: the assessed risk of inventory obsolescence and the amount of required write-down. In all treatment conditions, the workpaper preparer assessed the risk of inventory obsolescence to be relatively high, 8 on an 11-point scale. Similarly, the workpaper preparer recommended a large write-down of $1.2 million, which is two-thirds of the inventory balance. Reviewers rated the quality

\textsuperscript{19} The performance evaluation ratings were relatively low across all treatment conditions. This may be due to the large write-down recommendation equal to two-thirds of the account balance. The recommended write-down may have seemed extreme to reviewers, causing them to rate the preparer low, even in the familiar preparer treatment conditions.
of the preparer’s recommendation on an 11-point scale endpoints of 0 (very low quality) and 10 (very high quality). On average, reviewers rated the recommendations of the familiar preparer higher (mean = 4.40, standard deviation = 1.763) than the unfamiliar preparer (mean = 3.70, standard deviation = 1.608). The difference in means is statistically significant based on a t-test (t=1.943, df = 87, p=0.028, based on homogeneous variances). These results are consistent with Hypothesis 1b (See Figure 6).

Accounting estimates are required when there are one or more factors impacting the outcome that cannot be known at the time financial statements are prepared. While preparer objectivity is always important, it is especially important when the determination of the account balance is relatively subjective (i.e. the evidence for the determination of the account balance cannot be objectively verified). Reviewers should discount recommendations from preparers whom they perceive to be less objective (i.e. biased). Reviewers rated the workpaper preparer in terms of objectivity with respect to the client on an 11-point scale with endpoints of 0 (completely biased) and 10 (completely unbiased). Contrary to Hypothesis 1c, there was no significant difference between familiar and unfamiliar reviewers in their ratings of preparer objectivity (the means were 5.13 and 4.89, the standard deviations were 2.18 and 2.15, and t=0.538, df = 87, p=.296, based on homogeneous variances). Thus, it
appears that reviewers did not perceive familiar preparers to be more objective than unfamiliar preparers (See Table 4).

In sum, Hypothesis 1a and Hypothesis 1b predict that reviewers will assess preparer risk to be lower when they are familiar versus unfamiliar with the workpaper preparers. Reviewers' perceptions of preparer risk was measured in two ways: reviewers provided a performance rating and a rating of the quality of the preparer's recommendation. Although reviewers rated preparer objectivity similarly across treatment conditions, they assigned higher performance ratings and recommendation quality ratings to familiar workpaper preparers than unfamiliar workpaper preparers.

4.4.2 Preparer Affect and Preparer Risk

The expression of negative affect by a workpaper preparer may suggest that the preparer's recommendations may be biased. In the negative affect conditions, reviewers were told that the workpaper preparer dislikes the client's controller. It is expected that a reviewer would assign a lower performance evaluation to a preparer who appears to be biased (see Figure 8). It is interesting that although reviewers in the negative affect conditions believed the workpaper preparer was less objective, this lack of objectivity did not appear to impact the preparer performance ratings. Contrary to Hypothesis 2a, reviewers' average rating of preparer recommendations were similar regardless of the affect
condition (means were 4.16 and 3.96, standard deviations were 1.785 and 1.659, \( t=0.565, df = 87, p=0.287 \), based on homogeneous variances).

Contrary to Hypothesis 2b, there is not a significant difference between the performance ratings assigned to preparers in the no affect and negative affect conditions (means were 4.42 and 4.02, standard deviations were 1.607 and 1.468, \( t=1.218, df = 87, p=0.114 \), based on homogenous variances).

Hypothesis 2c predicts that reviewers in the negative affect conditions will assess the preparer to be less objective than reviews in the no affect conditions (See Figure 10). Consistent with H2c, reviewers rated the objectivity of preparers who expressed negative affect lower than they rated the objectivity of preparers for whom no affective information was provided (means are 4.13 and 5.95, standard deviations are 1.586 and 2.299, \( t=4.379, df = 87, p<.001 \), based on heterogenous variances). The ANOVA results reveal a significant main effect for affect condition (\( F=18.609, p<.001 \)). See Table 4 for ANOVA results.

In sum, it appears that reviewers perceive that workpaper preparers who express their affective reaction to client personnel are less objective with respect to the client, but this did not affect their assessments of preparer risk. Specifically, reviewers assigned the same average performance evaluation ratings and recommendation quality ratings regardless of their awareness of the preparer’s affect.
4.4.3 Interaction of Familiarity and Preparer Affect on Preparer Risk

When workpaper preparers express negative affect toward client personnel, reviewers view those preparers as less objective (see results of testing of H2). Hypothesis 3c predicts that reviewers will assess the objectivity of familiar preparers who express negative affect higher than they assess the objectivity of unfamiliar preparers who express negative affect toward client personnel (see Figure 13). Contrary to H3c, the interaction of familiarity and affect on reviewers’ ratings of preparer objectivity was not statistically significant (F=0.950, df = 1, p=0.332, based on homogenous variances, see Table 4). Similar nonsignificant results were found for preparer evaluation and preparer recommendation ratings (see Figures 11 and 12). In summary, the results are inconsistent with Hypotheses 3a, 3b, and 3c.

4.4.4 Familiarity and Utilization of Preparer Recommendations

Hypotheses 4a-4d predict that reviewers will be influenced more by the recommendations of familiar preparers than recommendations of unfamiliar preparers. In this experiment, reviewers received two recommendations: the risk of inventory obsolescence and the amount of required write-down. Reviewers were asked whether they agreed with the preparer’s recommended risk assessment rating (See Figure 14). Overall, 45 (50.6%) of reviewers agreed with the preparer’s recommended risk assessment and 44 (49.4%) disagreed. However, 29 (64.4%) of the 45
familiar reviewers agreed with the workpaper preparer’s risk assessment compared to 16 (36.4%) of the 44 unfamiliar reviewers ($\chi^2 = 7.018, df = 1, p=.008$). Thus, consistent with H4a, familiar reviewers were more willing than unfamiliar reviewers to accept the preparer’s risk assessment recommendation.

In the experimental task, the workpaper preparer recommended a large write-down of $1.2$ million, or two-thirds of the account balance. Reviewers were asked whether they agreed with the preparer’s recommendation. Overall, 81 (91%) of reviewers disagreed with the workpaper preparer’s write-down recommendation. Only one (2.3%) of the eight reviewers who agreed with the workpaper preparer’s write-down recommendation was unfamiliar with the preparer. In other words, while only 2.3% of unfamiliar reviewers agreed with the preparer’s write-down recommendation, 15.6% of familiar reviewers agreed with the recommendation ($\chi^2 = 4.798, df = 1, p=.028$). This provides additional evidence that, in subjective areas of the audit, reviewers are more likely to utilize the recommendations of workpaper preparers with whom they are familiar. These results are consistent with Hypothesis 4b.

In addition to stating whether they agreed with the workpaper preparer’s recommendation, reviewers provided their own assessment of the risk of inventory obsolescence on the same 11-point scale used to present the preparer’s recommendation (the preparer recommended a risk rating of 8). Hypothesis 4c predicts that reviewers who are familiar with
the preparer will make risk assessments that are more closely aligned to
the preparer’s recommendation than reviewers who are not familiar with
the preparer (see Figure 15). The mean (standard deviations) risk
assessments were 6.33 (1.931) and 6.23 (1.854) for familiar and
unfamiliar reviewers, respectively. Contrary to Hypothesis 4c, there was
no significant difference in the mean risk ratings (t=0.264, df = 87,
\( p=0.396, \) based on homogenous variances). The ANOVA results show that
there is not a significant main effect for familiarity when the reviewers’ risk
assessment is the dependent variable (see Table 5).

In the experimental task, the workpaper preparer recommends a
large write-down. Reviewers were asked to provide the amount of write-
down that they believed was appropriate.\(^{20}\) The mean (standard
deviation) write-down was $451,022 ($500,231) and $285,909 ($423,926)
for the familiar reviewers and unfamiliar reviewers, respectively (see
Figure 16). The difference between these means is significant (t=1.678,
\( df = 87 \) \( p=0.049, \) based on homogenous variances), consistent with
Hypothesis 4d (see Figure 16).

Hypothesis 4d was formally tested in an ANOVA with familiarity
with the preparer and preparer affect as the independent variables (See
Table 6). There is a marginally significant main effect for preparer

\(^{20}\) Nearly half of the reviewers (i.e. 44 or 49.4%) believed that no write-down was
necessary. The mean write-down for the 45 reviewers who concluded some write-down
was necessary was $730,578.
familiarity ($F=2.698$, $df = 1$, $p=0.104$, based on homogeneous variances). This provides weak evidence for Hypothesis 4d.

4.4.5 Affect and Utilization of Preparer Recommendations

Reviewers who are aware of the workpaper preparer’s negative affect should consider whether any recommendations received from that preparer are biased. The results of the tests of H2a demonstrate that reviewers assess preparer objectivity lower when preparers communicate that they have negative affect toward client personnel. Reviewers should be less likely to accept the recommendations of a preparer known to have negative affect toward the client or its personnel since they perceive those preparers to be less objective (see Figure 17). However, contrary to Hypothesis 5a, there was no difference between affect conditions with respect to acceptance of the preparer’s risk assessment recommendation ($\chi^2 = 1.911$, $df = 1$, $p=0.167$). Similarly, contrary to Hypothesis 5b, there was not a significant difference in reviewers’ acceptance of the preparer’s write-down recommendation across affect conditions ($\chi^2 = .412$, $df = 1$, $p=0.521$).21

Reviewers assessed the risk of inventory obsolescence on an 11-point scale with endpoints 0 (very low risk) and 10 (very high risk). The

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21 It is important to note that only eight of the eighty-nine reviewers who participated in the experiment said they would accept the preparer’s write-down recommendation of $1.2 million. Thus, the lack of statistical significance across affect conditions is likely because, in general, most reviewers disagreed with the preparer’s write-down recommendation.
preparer recommended a risk assessment of 8. Hypothesis 5c predicts that reviewers’ mean risk assessment will be lower in the negative affect conditions than in the no affect conditions. Consistent with Hypothesis 5c, reviewers in the no affect condition provided a mean (standard deviation) risk assessment of 6.67 (1.554) while reviewers in the negative affect condition assessed the risk at 5.91 (2.096). This difference is significant (t=1.936, df = 87, p=.028, based on homogenous variances) providing some evidence that reviewers discounted the recommendation of a potentially biased workpaper preparer. The ANOVA (Table 5) shows a marginally significant main effect for affect (F=3.596, df = 1, p=.061).

Hypothesis 5d predicts that reviewers will discount the write-down recommendation of preparers who show signs of bias (i.e. they express negative affect toward the client). Since the workpaper preparer recommends are very large write-down, H5d predicts that reviewers will rely less on the preparer’s recommendation in the negative affect condition than in the no affect condition (see Figure 19). Consistent with H5d, the mean write-down for reviewers in the no affect condition (mean = $427,116, standard deviation = $505,729) was larger than the mean write-down for reviewers in the negative affect condition (mean = $315,435, standard deviation = $430,120), however, the difference was not significant (t=1.125, df = 87, p=0.132, based on homogenous variance).

Hypothesis 5d was formally tested using ANOVA with familiarity and preparer affect as the independent variables. Contrary to H5d, there
is not a main effect for preparer affect (F=1.055, \( df = 1 \), p=0.307, based on homogenous variance). The ANOVA results are presented in Table 6.

4.4.6 Interaction of Familiarity with the Preparer and Preparer Affect

Reviewers should discount the recommendations they receive from biased preparers. Reviewers may conclude that a preparer’s recommendation is biased if that preparer expresses negative affect toward the client or the client’s personnel. Based on ironic rebound theory, Hypothesis 6a predicts that familiarity with the workpaper preparer will reduce the reviewer’s uncertainty and therefore, mitigate the ironic rebound effect (See Figure 20). In contrast, Hypothesis 6b predicts that reviewers’ social bond with familiar workpaper preparers will make them insensitive to potential bias (see Figure 21). In contrast to both hypotheses, there was not a significant interaction (see Figure 22 and Table 8).

4.5 Supplemental Analysis

Supplemental analysis was performed to provide additional information about the data collected. First, the relationship between preparer risk and the utilization of preparer recommendations is examined. Reviewers who assessed preparer risk lower were more likely to agree with preparer recommendations. Second, a path analysis was performed. Third, questions were included in the instrument to examine whether
reviewers’ negotiation strategies might impact their write-down recommendations. Reviewers reported that they were unlikely to propose larger than necessary write-down recommendations as a negotiation tactic. Finally, reviewers were asked whether the presence or absence of preparer affect information would have impacted their decisions. Reviewers indicated that preparer affect information would not impact their decisions.

4.5.1 Preparer Risk and Utilization of Preparer Recommendations

Reviewers should be more accepting of the recommendations from workpaper preparers whom they rate higher than the recommendations of preparers they rate lower. Consistent with this expectation, reviewers who agreed with the preparer’s risk assessment assigned an average (standard deviation) performance of rating of 4.62 (1.56) compared to an average performance rating of 3.80 (1.42) assigned by reviewers who disagreed with the preparer’s recommendation (t=2.613, df = 87, p=.006, based on homogeneous variances). Similarly, reviewers who agreed with the workpaper preparer’s write-down recommendation rated the preparer’s performance and recommendations significantly higher than reviewers who disagreed with the preparer’s write-down recommendations (see Table 9.

In the experimental task, the workpaper preparer recommended a relatively high rating (8 on a scale of 0-10) for the risk of inventory
obsolescence. Reviewers were asked to provide their own rating for the risk of inventory obsolescence. Reviewers who assessed preparer risk higher (i.e. rated preparer higher in terms of objectivity, quality of recommendations, and overall performance), rated the risk of inventory obsolescence higher than reviewers who assessed preparer risk lower. See Table 8.

4.5.2 Path Analysis

Based on the theory presented in this dissertation, reviewers’ familiarity with the preparer and reviewers’ knowledge of preparer affect are expected to impact reviewers’ assessments of preparer risk and reviewers’ willingness to utilize preparer recommendations. A path analysis was performed to examine these relationships. The initial path includes all possible paths (see Figure 23). The standardized coefficients for the initial path model is presented in Figure 24.

Path models can be simplified by removing paths that are not statistically significant, in a process known as trimming (Klem 1995). The insignificant paths were removed from the model in an iterative manner until all remaining paths are significant (see Table 11, Panel A for the deleted paths). Goodness of fit indices (e.g., Comparative Fit Index, Root Mean Square Residual, and Tucker-Lew Index) are not reported due to insufficient sample size (Smith and Langfield-Smith 2004).

22 A minimum sample size of 200 is generally necessary to generate valid fit measures (Smith and Langfield-Smith 2004, p. 66).
According to the final path model, the preparer’s performance rating (i.e. the inverse of preparer risk) is positively related to the utilization of the preparer’s recommendation (standardized beta is 0.40). The preparer’s performance rating is positively related to the reviewers’ familiarity with the preparer (standardized beta is 0.22) and the reviewers’ assessment of preparer objectivity (standardized beta is 0.41). Finally, preparer objectivity is negatively related to reviewers’ awareness of preparer negative affect (standardized beta is -0.42).

4.5.3 Negotiation Tactics

Previous research has characterized the audit as a negotiation process between management and the auditor (e.g., Salterio 2012). Perreault (2011) investigated various tactics that auditors could employ in their negotiations with management over proposed audit adjustments. Hatfield et al. (2010) finds that auditors proposed smaller audit adjustments when the judgmental misstatement was larger than when the judgmental misstatement was smaller. This suggests that management may record smaller estimates as a negotiation tactic. Reviewers in this study were asked about the likelihood they would propose a larger adjustment than they deemed necessary as a negotiation tactic. Overall, reviewers indicated they would be unlikely to use this negotiation tactic. On an 11-point likert-type scale with endpoints of 0 (extremely unlikely)
and 10 (extremely likely), the mean (standard deviation) for all participants was 2.81 (2.42).

4.5.4 Counterfactuals

Reviewers who knew about the workpaper preparer’s negative affect toward the client assessed the risk of inventory obsolescence lower (i.e. 5.91) than reviewers who were unaware of the preparer’s negative affect (i.e. 6.67). After responding to all of the dependent measures and manipulation check questions, reviewers in the “no affect” conditions were told about the preparer’s negative affect and asked whether this information would change their risk assessment or write-down judgment on a scale of 0-10 where 0 was labeled “I would rate the risk to be much lower”, 5 was labeled “it would not affect my judgment” and 10 was labeled “I would rate the risk to be much higher”. The average (standard deviation) ratings were 4.78 (0.95) and 5.04 (0.80) for risk assessment and write-down judgment, respectively. Neither rating is significantly different from 5 ($t=1.568$, $df = 84$, $p=0.124$, based on homogeneous variance and $t=0.374$, $df = 44$, $p=0.710$, based on homogeneous variance, respectively).

Reviewers who were aware of the workpaper preparer’s negative affect toward the client were asked if there judgments would have been different in the absence of the preparer’s negative affect toward the client. The questions were similar to those described in the preceding paragraph.
The mean ratings were 5.05 for both the risk assessment and the write-down judgment (the standard deviations were 1.18 and 1.03, respectively). Neither rating is significantly different from 5 (t=0.255, \( df = 43 \), p=0.80, and t=0.292, \( df = 43 \), p=0.772, respectively, both tests based on homogenous variances).
CHAPTER FIVE
CONCLUSION

The workpaper review process is an essential component of audit quality. The workpaper review process promotes audit quality in multiple ways including training of less experienced auditors, identifying missing procedures, detecting errors in the performance of procedures, recognizing preparer bias, correcting erroneous conclusions, and clarifying documentation. The review process also provides reviewers a basis for compensation and promotion decisions.

The workpaper process has evolved in response to the changing landscape of public accounting. In the mid-1990s, public accounting firms sought to streamline the review process as a cost-cutting measure in an increasingly competitive market. At the same time, there was less to review as workpaper files were pruned of potentially damaging (i.e. contradictory) evidence in reaction to litigation risk. After the financial frauds at the turn of the millennium and the creation of the PCAOB, workpaper files have expanded. Further, regulatory pressures have trumped litigation risk as auditors now document both supporting and contradictory evidence. Meanwhile, competition for audit clients has not subsided.

There is no doubt that the PCAOB has had a profound impact on the audit profession and the workpaper review process. However, the changing business environment and accounting standard-setting has also
impacted the preparation and review of audit workpapers. The measurement basis for many accounts has shifted from historical cost to fair value. More estimates are required in accounting today than at any previous time. The financial reporting frameworks have shifted emphasis from reliability to relevance, increasing the need for auditors to exercise professional judgment. In the past, workpapers primarily consisted of objective, verifiable information that supported management's assertions. Today, auditors rely much more on subjective information, some of which supports and some of which contradicts management's assertions. In these situations, the workpaper reviewer receives the preparer's recommendation along with evidence that could potentially support an alternative conclusion if the preparer weights the evidence differently.

Workpaper reviewers are subject to a variety of constraints that push them to the limits of their bounded rationality. The competitive environment for audit services and price competition creates time and deadline pressures as well as incentives to reallocate time from workpaper reviews to growth activities. Regulators and litigation risks pull reviewers in the opposite direction, creating tensions that also tax cognitive load. When reviewers reach the constraints of their bounded rationality, it is plausible that they would employ heuristics as a coping mechanism. This dissertation demonstrates that even experienced reviewers employ heuristics when assessing preparer risk and utilizing preparer recommendations in subjective areas requiring professional judgment.
In this study, an experiment was conducted to determine the impact of two factors, reviewers’ familiarity with workpaper preparers and preparer’s affective reactions to client personnel, on reviewers’ acceptance of preparer recommendations in the context of subjective areas of financial statement audits. Results indicate that experienced reviewers employ heuristics to assess preparer risk and the extent to which they should utilize preparer recommendations. Specifically, rather than systematically processing the knowledge and skills of the workpaper preparer, reviewers assess preparer risk based on their familiarity with the workpaper preparer. Compared to reviewers who are unfamiliar with workpaper preparers, familiar reviewers assign higher performance evaluation ratings, concluding that preparer risk is lower for familiar preparers. Reviewers are more likely to accept the recommendations of workpaper preparers with whom they are familiar than recommendations of unfamiliar workpaper preparers.

Workpaper preparers are typically the least experienced members of the engagement team. There is often a considerable “mismatch” between the workpaper preparer and the client personnel with whom they interact. Workpaper preparers may be intimated by the knowledge/experience gap and client personnel may engage in behaviors intended to exacerbate, rather than curb these feelings. At times, client
personnel are overtly hostile in their interactions with workpaper preparers. When client hostility reaches a crescendo, workpaper preparers may experience negative affect towards client personnel, which in turn, may result in biased judgments. One workpaper review objective is to identify and correct bias. Therefore, it is important to understand whether reviewers can detect biased recommendations and discount them accordingly.

When workpaper preparers outwardly express negative affect towards client personnel, reviewers perceive they are less objective. However, awareness of the preparer’s negative affect had no impact on the performance evaluation rating assigned by reviewers. This finding is concerning because the PCAOB continues to report inspection findings they attribute to a lack of objectivity and professional skepticism. If objectivity is not a factor that impacts auditors’ performance evaluations, it is less likely that auditors will make efforts to be more objective in the performance of their duties. Supplemental analysis suggests that the impact of preparer affect on evaluation ratings may be mediated by the reviewers’ objectivity assessment.

Previous research has found evidence consistent with an ironic rebound effect, whereby reviewers relied more, rather than less, on the recommendation of a potentially biased workpaper preparer. The results of this experiment show no evidence of an ironic rebound effect. In fact, preparer affect information did not have a statistically significant impact on
the likelihood of accepting a workpaper preparer’s recommendation, regardless of whether the reviewer was familiar or unfamiliar with the workpaper preparer. It is conceivable that the information provided about the workpaper preparer for purposes of the familiarity manipulation was sufficient to reduce the reviewer’s uncertainty and mitigate the ironic rebound affect.

Previous research suggests that reviewers will be more influenced by recommendations received from stronger social bond workpaper preparers than weaker social bond preparers. The results of this experiment are consistent with this expectation. However, contrary to expectations, reviewers were sensitive to potential bias in stronger social bond workpaper preparers. There are at least two possible explanations for this result. First, the social bond manipulation in this experiment was not as intense as Kadous et al. (2013). Whereas Kadous et al.’s (2013) participants identified a specific person with whom they had a strong social bond and participated in a thought listing activity to increase elaboration, this study only manipulated the office location of the preparer and whether the reviewer and preparer had previously worked together. Second, the knowledge differential between reviewers and preparers likely mitigated the extent to which reviewers utilized the preparer’s recommendation, regardless of the strength of the social bond. Future research can investigate whether a reviewers would be more willing to
accept the recommendations of preparers with a stronger social bond than was present in this experiment.

There are several limitations to this study. The first limitation relates to the familiarity manipulation. Reviewers in this study made judgments based on the recommendations of a hypothetical preparer. Reviewers in the “familiar” condition were asked to assume that the preparer was from their office and that they had worked together previously. While the results show that the manipulation was effective and that reviewers made different decisions based on this information, the results might be stronger in real life situations where the reviewer and preparer have actually worked together on previous engagements.

Another limitation relates to the measure of advice utilization. Advice research typically measures the advice recipient’s views before and after receiving the advice in order to measure the extent of advice utilization. In this experiment, a design choice was made not to measure reviewers’ decisions prior to receiving the preparer’s recommendation to better reflect the auditing environment. Reviewers may be more or less accepting of preparer recommendations if they had time to evaluate the evidence before receiving the preparer’s recommendations. Reviewers typically receive preparer recommendations at the time they review the evidence. This study measured advice utilization in multiple ways, including asking reviewers whether they agreed with the preparer’s recommendations and separately asking for their own assessments.
In order to test whether familiarity with the preparer would mitigate the ironic rebound effect, the experimental instrument provided the same preparer recommendations and supporting information as a previous experiment (Frank and Hoffman 2015). Although this design choice provided the opportunity to investigate the limits to the ironic rebound effect, nearly half of the reviewers concluded that no write-down was necessary, regardless of treatment condition and 91% of reviewers disagreed with the preparer’s write-down recommendation. The results may have been different if the preparer’s recommendation had been less extreme. This question can be addressed in future research.
### Table 1
Descriptive Statistics

#### Panel A: Demographic Variables – Mean (Standard Deviation)

<table>
<thead>
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<th>Familiarity</th>
<th>Condition 1</th>
<th>Condition 2</th>
<th>Condition 3</th>
<th>Condition 4</th>
<th>All Conditions</th>
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<td>Negative</td>
<td>None</td>
<td>Negative</td>
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<tr>
<td>Sample size</td>
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<td>22</td>
<td>20</td>
<td>24</td>
<td></td>
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<tr>
<td>Experience</td>
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<td>113.75 (42.360)</td>
<td>139.00 (83.287)</td>
<td>123.48 (59.389)</td>
</tr>
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<td>5.14 (3.270)</td>
<td>5.35 (3.329)</td>
<td>3.92 (3.243)</td>
<td>4.78 (3.285)</td>
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<tr>
<td></td>
<td>16 [70%]</td>
<td>7 [30%]</td>
<td>17 [77%]</td>
<td>5 [23%]</td>
<td>57 [64%]</td>
</tr>
<tr>
<td></td>
<td>7 [30%]</td>
<td></td>
<td>13 [65%]</td>
<td>7 [35%]</td>
<td>32 [36%]</td>
</tr>
<tr>
<td>Time spent on instrument</td>
<td>19:59 (10:18)</td>
<td>19:38 (11:34)</td>
<td>19:21 (10:40)</td>
<td>21:05 (8:11)</td>
<td>20:03 (10:01)</td>
</tr>
</tbody>
</table>

#### Panel B: Dependent Variables

<table>
<thead>
<tr>
<th>Agree with Risk Assessment</th>
<th>Condition 1</th>
<th>Condition 2</th>
<th>Condition 3</th>
<th>Condition 4</th>
<th>All Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>23</td>
<td>22</td>
<td>20</td>
<td>24</td>
<td>89</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>15/23</td>
<td>14/22</td>
<td>10/20</td>
<td>6/24</td>
<td>45/89</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>66.2%</td>
<td>63.6%</td>
<td>50.0%</td>
<td>25.0%</td>
<td>50.6%</td>
</tr>
<tr>
<td>Write-down</td>
<td>6.83 (1.435)</td>
<td>5.82 (2.260)</td>
<td>6.50 (1.701)</td>
<td>6.00 (1.978)</td>
<td>6.28 (1.883)</td>
</tr>
<tr>
<td>Agree with Write-down</td>
<td>3/23</td>
<td>4/22</td>
<td>0/20</td>
<td>1/24</td>
<td>8/89</td>
</tr>
<tr>
<td>Agree with Write-down</td>
<td>10.0%</td>
<td>18.2%</td>
<td>4.2%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Write-down</td>
<td>$540,696 (568,107)</td>
<td>$357,273 (410,078)</td>
<td>$296,500 (397,602)</td>
<td>$277,083 (453,004)</td>
<td>$369,393 (468,852)</td>
</tr>
<tr>
<td>Preparer Objectivity</td>
<td>6.22 (2.173)</td>
<td>4.00 (1.543)</td>
<td>5.65 (2.455)</td>
<td>4.25 (1.648)</td>
<td>5.01 (2.156)</td>
</tr>
<tr>
<td>Quality of Preparer</td>
<td>4.65 (1.824)</td>
<td>4.14 (1.699)</td>
<td>3.60 (1.603)</td>
<td>3.79 (1.641)</td>
<td>4.06 (1.541)</td>
</tr>
<tr>
<td>Recommendation Performance Rating</td>
<td>4.87 (1.714)</td>
<td>4.27 (1.579)</td>
<td>3.90 (1.334)</td>
<td>3.79 (1.351)</td>
<td>4.21 (1.541)</td>
</tr>
</tbody>
</table>
Note: Panel A provides descriptive statistics (i.e. means and standard deviations for continuous variables, frequencies and percentages for discrete variables) for key demographic variables including reviewers’ years of experience, self-ratings of reviewer inventory experience, and gender. Panel A also includes the average time reviewers took to complete the experimental instrument. Reviewers were randomly assigned to treatment conditions. There are no significant differences in any of the demographic variables across treatment conditions. Panel B provides descriptive statistics for the dependent variables which include the percentage of reviewers who agree with the preparer’s risk assessment and write-down recommendations, reviewers’ own judgments regarding risk and write-down, and reviewer ratings of the preparer (i.e. overall performance rating, rating of preparer recommendation, and rating of preparer objectivity). The reviewer ratings of the preparer were measured using 11-point, likert-type scales.
### Table 2
Preparer Risk – Performance Evaluation

**Panel A: Reviewers’ Evaluations of Workpaper Preparer Performance – Mean (Standard Deviation) {Sample Size} Responses across Treatment Conditions**

<table>
<thead>
<tr>
<th>Familiar with Preparer</th>
<th>No Affect</th>
<th>Negative Affect</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.87</td>
<td>4.27</td>
<td>4.58</td>
</tr>
<tr>
<td></td>
<td>(1.714)</td>
<td>(1.579)</td>
<td>(1.658)</td>
</tr>
<tr>
<td></td>
<td>{23}</td>
<td>{22}</td>
<td>{45}</td>
</tr>
<tr>
<td>Unfamiliar with Preparer</td>
<td>3.90</td>
<td>3.79</td>
<td>3.84</td>
</tr>
<tr>
<td></td>
<td>(1.334)</td>
<td>(1.351)</td>
<td>(1.328)</td>
</tr>
<tr>
<td></td>
<td>{20}</td>
<td>{24}</td>
<td>{44}</td>
</tr>
<tr>
<td>Column Total</td>
<td>4.42</td>
<td>4.02</td>
<td>4.21</td>
</tr>
<tr>
<td></td>
<td>(1.607)</td>
<td>(1.468)</td>
<td>(1.541)</td>
</tr>
<tr>
<td></td>
<td>{43}</td>
<td>{46}</td>
<td>{89}</td>
</tr>
</tbody>
</table>

**Panel B: t-tests**

<table>
<thead>
<tr>
<th></th>
<th>t-value</th>
<th>df</th>
<th>p value</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Familiar (4.58)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>versus unfamiliar</td>
<td>2.310</td>
<td>87</td>
<td>0.012</td>
<td>No</td>
</tr>
<tr>
<td>(3.84)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affect:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No affect (4.42)</td>
<td>1.218</td>
<td>87</td>
<td>0.114</td>
<td>Yes</td>
</tr>
<tr>
<td>versus affect</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4.02)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Panel C: ANOVA Results**

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity</td>
<td>11.652</td>
<td>1</td>
<td>11.652</td>
<td>5.139</td>
<td>0.026</td>
</tr>
<tr>
<td>Affect</td>
<td>2.753</td>
<td>1</td>
<td>2.753</td>
<td>1.214</td>
<td>0.274</td>
</tr>
<tr>
<td>Familiarity x Affect</td>
<td>1.321</td>
<td>1</td>
<td>1.321</td>
<td>.583</td>
<td>0.447</td>
</tr>
<tr>
<td>Error</td>
<td>192.731</td>
<td>85</td>
<td>2.267</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: This table reports the results of the 2x2 ANOVA used to test H1a. The dependent variable measures reviewers’ performance evaluation of the
workpaper preparer on an 11-point Likert-type scale with endpoints of 0 “not meeting expectations” and 10 “exceeding expectations”. The midpoint 5, was labeled “meeting expectations”. Panel A reports cell means for reviewers’ performance evaluation of the work paper preparer. Panel B reports the results of simple t-tests which indicate a significant difference in the DV between reviewers who were familiar and those who were unfamiliar with the workpaper preparer, with those they are familiar with receiving higher performance evaluations. This is consistent with the expectation of H1a. Contrary to H2a, there is not a significant difference in the performance evaluations assigned to workpaper preparers when the reviewers are or are not aware of their negative affect toward client personnel. Panel C reports the results of the 2x2 ANOVA, indicating a significant main effect for familiarity, consistent with H1a, but no main effect for affect, inconsistent with H2a, and no interaction effect, contrary to H3a.
Table 3
Preparer Risk – Rating of Preparer Recommendation

Panel A: Reviewers’ Evaluations of Workpaper Preparer Recommendation – Mean (Standard Deviation) {Sample Size} Responses across Treatment Conditions

<table>
<thead>
<tr>
<th></th>
<th>No Affect</th>
<th>Negative Affect</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar with Preparer</td>
<td>4.65 (1.824) {23}</td>
<td>4.14 (1.699) {22}</td>
<td>4.40 (1.763) {45}</td>
</tr>
<tr>
<td>Unfamiliar with Preparer</td>
<td>3.60 (1.603) {20}</td>
<td>3.79 (1.641) {24}</td>
<td>3.70 (1.608) {44}</td>
</tr>
<tr>
<td>Column Total</td>
<td>4.16 (1.785) {43}</td>
<td>3.96 (1.659) {46}</td>
<td>4.06 (1.715) {89}</td>
</tr>
</tbody>
</table>

Panel B: t-tests

<table>
<thead>
<tr>
<th></th>
<th>t-value</th>
<th>df</th>
<th>p value</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Familiar (4.40) versus unfamiliar (3.70)</td>
<td>1.943</td>
<td>87</td>
<td>0.028</td>
<td>Yes</td>
</tr>
<tr>
<td>Affect:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No affect (4.16) versus affect (3.96)</td>
<td>0.565</td>
<td>87</td>
<td>0.287</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Panel C: ANOVA Results

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Familiarity</td>
<td>10.804</td>
<td>1</td>
<td>10.804</td>
<td>3.755</td>
<td>0.056</td>
</tr>
<tr>
<td>Affect</td>
<td>0.582</td>
<td>1</td>
<td>0.582</td>
<td>.202</td>
<td>0.654</td>
</tr>
<tr>
<td>Familiarity x Affect</td>
<td>2.771</td>
<td>1</td>
<td>2.771</td>
<td>.963</td>
<td>0.329</td>
</tr>
<tr>
<td>Error</td>
<td>244.567</td>
<td>85</td>
<td>2.877</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The dependent variable measures reviewers’ rating of the workpaper preparer’s recommendations on an 11-point Likert-type scale with endpoints of 0 “very low quality” and 10 “very high quality”.*
Note: This table reports the results of the 2x2 ANOVA used to test H1b. The dependent variable measures reviewers’ rating of the workpaper preparer’s recommendations on an 11-point Likert-type scale with endpoints of 0 “very low quality” and 10 “very high quality”. Panel A reports cell means for reviewers’ ratings of the preparer’s recommendations. Panel B reports the results of simple t-tests which indicate a significant difference in the DV between reviewers who were familiar and those who were unfamiliar with the workpaper preparer, with those they are familiar with receiving higher performance evaluations. This is consistent with the expectation of H1b. Contrary to H2b, there is not a significant difference in recommendation ratings when the reviewers are or are not aware of their negative affect toward client personnel. Panel C reports the results of the 2x2 ANOVA, indicating a marginally significant main effect for familiarity, consistent with H1b, but no main effect for affect, inconsistent with H2b, and no interaction effect, contrary to H3b.
Table 4
Preparer Risk – Assessment of Workpaper Preparer Objectivity

Panel A: Reviewers’ Evaluations of Workpaper Preparer Objectivity\(^a\)
– Mean (Standard Deviation) \{Sample Size\} Responses across Treatment Conditions

<table>
<thead>
<tr>
<th>Familiar with Preparer</th>
<th>No Affect</th>
<th>Negative Affect</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Standard Deviation</td>
<td>Sample Size</td>
</tr>
<tr>
<td>Unfamiliar with Preparer</td>
<td>5.65</td>
<td>(2.455)</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>(2.299)</td>
<td>(1.586)</td>
<td>43</td>
</tr>
<tr>
<td>Column Total</td>
<td>5.95</td>
<td>(2.299)</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(2.299)</td>
<td>(1.586)</td>
<td>43</td>
</tr>
</tbody>
</table>

Panel B: t-tests

<table>
<thead>
<tr>
<th></th>
<th>t-value</th>
<th>df</th>
<th>p value</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Familiar (5.13) versus unfamiliar (4.89)</td>
<td>0.538</td>
<td>87</td>
<td>0.296</td>
<td>Yes</td>
</tr>
<tr>
<td>Affect:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No affect (5.95) versus affect (4.13)</td>
<td>4.326</td>
<td>87</td>
<td>&lt;0.001</td>
<td>No</td>
</tr>
</tbody>
</table>

Panel C: ANOVA Results \(^b\)

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity</td>
<td>0.558</td>
<td>1</td>
<td>0.558</td>
<td>0.143</td>
<td>0.706</td>
</tr>
<tr>
<td>Affect</td>
<td>72.456</td>
<td>1</td>
<td>72.456</td>
<td>18.609</td>
<td>0.000</td>
</tr>
<tr>
<td>Familiarity x Affect</td>
<td>3.700</td>
<td>1</td>
<td>3.700</td>
<td>.950</td>
<td>0.332</td>
</tr>
<tr>
<td>Error</td>
<td>330.963</td>
<td>85</td>
<td>3.894</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Panel D: One-way ANOVA Results \textsuperscript{b}

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>Welch F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affect</td>
<td>73.864</td>
<td>1</td>
<td>73.864</td>
<td>18.717</td>
<td>0.000</td>
</tr>
<tr>
<td>Error</td>
<td>335.124</td>
<td>87</td>
<td>3.852</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: This table reports the results of the 2x2 ANOVA used to test H1c. The dependent variable measures reviewers’ assessment of the preparer’s objectivity on an 11-point Likert-type scale with endpoints of 0 “completely biased” and 10 “completely unbiased”. Panel A reports cell means for reviewers’ evaluation of preparer objectivity. Panel B reports the results of simple t-tests which indicate there is no significant difference in the DV between reviewers who were familiar and those who were unfamiliar with the workpaper preparer, contrary to H1c. Consistent with H2c, there is a significant difference in reviewers’ perceptions of the workpaper preparer’s objectivity when the reviewers are or are not aware of their negative affect toward client personnel – reviewers who are aware of the workpaper preparer’s negative affect assess objectivity lower than reviewers who are unaware of the preparer’s negative affect. Panel C reports the results of the 2x2 ANOVA, indicating no main effect for familiarity, contrary to H1c, a significant main effect for affect, consistent with H2c, and no interaction effect, contrary to H3c. Panel D reports the results of the Welch procedure performed due to heterogeneity of variance. The main effect for preparer affect remains significant (p<.001).

\textsuperscript{a} The dependent variable measures reviewers’ rating of the workpaper preparer’s objectivity with respect to the client on an 11-point Likert-type scale with endpoints of 0 “completely biased” and 10 “completely unbiased”.

\textsuperscript{b} One of the underlying assumptions of the ANOVA model is that there is homogeneity of variance of the dependent variable across treatment conditions. Levene’s test revealed that this assumption was violated. Since there was only a main effect for affect (i.e. no main effect for familiarity and no significant interaction), the ANOVA was re-run with affect as the only independent variable (see Panel D). The Welch procedure was used to address the heterogeneity of variance. The main effect for affect remains statistically significant (p<0.001).
Table 5
Impact of Familiarity with the Preparer on Reviewers’ Agreement with Preparer Recommendations

Panel A: Agreement with Preparer’s Recommendation regarding the Risk of Inventory Obsolescence

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar with Preparer</td>
<td>29</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>64.4%</td>
<td>36.4%</td>
</tr>
<tr>
<td>Unfamiliar with Preparer</td>
<td>16</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>35.5%</td>
<td>63.6%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>50.6%</td>
<td>49.4%</td>
</tr>
</tbody>
</table>

\(\chi^2 = 7.018, df = 1, p=.008\)

*After reading the participant’s memo which included a recommendation regarding the risk of inventory obsolescence, reviewers indicated whether they agreed with the preparer’s recommendation.*

Panel B: Agreement with Preparer’s Recommendation regarding the Amount of Required Write-down

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar with Preparer</td>
<td>7</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>15.6%</td>
<td>84.4%</td>
</tr>
<tr>
<td>Unfamiliar with Preparer</td>
<td>1</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>2.3%</td>
<td>97.7%</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>9.0%</td>
<td>91.0%</td>
</tr>
</tbody>
</table>

\(\chi^2 = 4.798, df = 1, p=.028\)

Note: This table reports the results of chi-square tests used to test H4a and H5a. The dependent variable is reviewers’ decision whether to agree with the preparer’s recommendation regarding the risk of inventory obsolescence (H4a) and the appropriate amount of inventory write-down (H5a). Panel A reports the number and percentage of reviewers who agreed with the preparer’s risk assessment recommendation. Consistent with H4a, familiar reviewers were more likely than unfamiliar reviewers to agree with the preparer’s risk assessment recommendation. Panel B
reports the number and percentage of reviewers who agreed with the preparer’s write-down recommendation. Consistent with H5a, familiar reviewers were more likely than unfamiliar reviewers to agree with the preparer’s write-down recommendation.
Table 6
Impact of Preparer Affect on Reviewers’ Agreement with Preparer Recommendations

Panel A: Agreement with Preparer’s Recommendation regarding the Risk of Inventory Obsolescence\(^a\)

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Affect</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>58.1%</td>
<td>41.9%</td>
</tr>
<tr>
<td>Negative Affect</td>
<td>20</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>43.5%</td>
<td>56.5%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>50.6%</td>
<td>49.4%</td>
</tr>
</tbody>
</table>

\(\chi^2 = 1.911, df = 1, p=0.167\)

\(^a\) After reading the participant’s memo which included a recommendation regarding the risk of inventory obsolescence, reviewers indicated whether they agreed with the preparer’s recommendation.

Panel B: Agreement with Preparer’s Recommendation regarding the Amount of Required Write-down

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Affect</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>7.0%</td>
<td>93.0%</td>
</tr>
<tr>
<td>Negative Affect</td>
<td>5</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>10.9%</td>
<td>89.1%</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>9.0%</td>
<td>91.0%</td>
</tr>
</tbody>
</table>

\(\chi^2 = 0.412, df = 1, p=0.521\)

Note: This table reports the results of chi-square tests used to test H4b and H5b. The dependent variable is reviewers’ decision whether to agree with the preparer’s recommendation regarding the risk of inventory obsolescence (H4b) and the appropriate amount of inventory write-down (H5b). Panel A reports the number and percentage of reviewers who agreed with the preparer’s risk assessment recommendation. Contrary to H4b, reviewers were no less likely to agree with a negative affect preparer than a no affect preparer. Panel B reports the number and percentage of
reviewers who agreed with the preparer’s write-down recommendation. Contrary to H5b, the likelihood of reviewer agreement with the preparer’s write-down recommendation was unaffected by knowledge of the preparer’s negative affect.
Table 7  
Reviewer Risk Assessment

Panel A: Reviewers’ Assessment of the Risk of Inventory Obsolescence* – Mean (Standard Deviation) {Sample Size} Responses across Treatment Conditions

<table>
<thead>
<tr>
<th></th>
<th>No Affect</th>
<th>Negative Affect</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar with Preparer</td>
<td>6.83 (1.435)</td>
<td>5.82 (2.260)</td>
<td>6.33 (1.931)</td>
</tr>
<tr>
<td></td>
<td>{23}</td>
<td>{22}</td>
<td>{45}</td>
</tr>
<tr>
<td>Unfamiliar with Preparer</td>
<td>6.50 (1.701)</td>
<td>6.00 (1.978)</td>
<td>6.23 (1.854)</td>
</tr>
<tr>
<td></td>
<td>{20}</td>
<td>{24}</td>
<td>{44}</td>
</tr>
<tr>
<td>Column Total</td>
<td>6.67 (1.554)</td>
<td>5.91 (2.096)</td>
<td>6.28 (1.883)</td>
</tr>
<tr>
<td></td>
<td>{43}</td>
<td>{46}</td>
<td>{89}</td>
</tr>
</tbody>
</table>

Panel B: t-tests

<table>
<thead>
<tr>
<th></th>
<th>t-value</th>
<th>df</th>
<th>p value</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Familiar (6.33) versus unfamiliar (6.23)</td>
<td>0.264</td>
<td>87</td>
<td>0.396</td>
<td>Yes</td>
</tr>
<tr>
<td>Affect:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No affect (6.67) versus affect (5.91)</td>
<td>1.936</td>
<td>87</td>
<td>0.028</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Panel C: ANOVA Results

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity</td>
<td>0.115</td>
<td>1</td>
<td>0.115</td>
<td>0.033</td>
<td>0.856</td>
</tr>
<tr>
<td>Affect</td>
<td>12.590</td>
<td>1</td>
<td>12.590</td>
<td>3.596</td>
<td>0.061</td>
</tr>
<tr>
<td>Familiarity x Affect</td>
<td>1.428</td>
<td>1</td>
<td>1.428</td>
<td>0.408</td>
<td>0.525</td>
</tr>
<tr>
<td>Error</td>
<td>297.577</td>
<td>85</td>
<td>3.894</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: This table reports the results of the 2x2 ANOVA used to test H4c and H5c. The dependent variable measures reviewers’ rating of the risk of
inventory obsolescence on an 11-point Likert-type scale with endpoints of 0 “very low risk” and 10 “very high risk”. Panel A reports cell means for reviewers' risk assessments. Panel B reports the results of simple t-tests which indicate there is no difference in the DV between reviewers who were familiar and those who were unfamiliar with the workpaper preparer, contrary to the expectation of H4c. Consistent with H5c, reviewers who were aware of the preparer’s negative affect rated the risk of inventory obsolescence lower than reviewers who were unaware of the preparer’s negative affect. Panel C reports the results of the 2x2 ANOVA, indicating no main effect for familiarity, contrary to H4c. However, consistent with H5c, there is a marginally significant main effect for affect.

* The dependent variable measures reviewers' rating of the risk of inventory obsolescence an 11-point Likert-type scale with endpoints of 0 “very low risk” and 10 “very high risk”. The midpoint, 5, was labeled "moderate risk".
Table 8

Reviewers’ Write-Down Conclusions

Panel A: Reviewers’ Write-Down Conclusion a – Mean (Standard Deviation) {Sample Size} Responses across Treatment Conditions

<table>
<thead>
<tr>
<th></th>
<th>No Affect</th>
<th>Negative Affect</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar with Preparer</td>
<td>$540,696 (568,107) {23}</td>
<td>$357,273 (410,078) {22}</td>
<td>451,022 (500,231) {45}</td>
</tr>
<tr>
<td>Unfamiliar with Preparer</td>
<td>296,500 (397,602) {20}</td>
<td>277,083 (453,004) {24}</td>
<td>285,909 (423,926) {44}</td>
</tr>
<tr>
<td>Column Total</td>
<td>427,116 (505,729) {43}</td>
<td>315,435 (430,120) {46}</td>
<td>369,393 (468,852) {89}</td>
</tr>
</tbody>
</table>

Panel B: t-test

<table>
<thead>
<tr>
<th></th>
<th>t-value</th>
<th>df</th>
<th>p value</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Familiar ($451,022) versus unfamiliar ($285,909)</td>
<td>1.678</td>
<td>87</td>
<td>0.049</td>
<td>Yes</td>
</tr>
<tr>
<td>Affect:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No affect ($427,116) versus affect ($315,435)</td>
<td>1.125</td>
<td>87</td>
<td>0.132</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Panel C: ANOVA Results

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity</td>
<td>5.826E+11</td>
<td>1</td>
<td>5.826E+11</td>
<td>2.698</td>
<td>0.104</td>
</tr>
<tr>
<td>Affect</td>
<td>2.278E+11</td>
<td>1</td>
<td>2.278E+11</td>
<td>1.055</td>
<td>0.307</td>
</tr>
<tr>
<td>Familiarity x Affect</td>
<td>1.489E+11</td>
<td>1</td>
<td>1.489E+11</td>
<td>0.390</td>
<td>0.409</td>
</tr>
<tr>
<td>Error</td>
<td>1.836E+13</td>
<td>85</td>
<td>2.159E+11</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: This table reports the results of the 2x2 ANOVA used to test H4d, H5d, H6a, and H6b. The dependent variable is the reviewers’ judgment.
regarding the appropriate write-down amount. Panel A reports cell means for reviewers’ write-down judgments. Panel B reports the results of simple t-tests which indicate there is a significant difference in the DV between reviewers who were familiar and those who were unfamiliar with the workpaper preparer, with familiar reviewers requiring larger write-downs than unfamiliar reviewers, consistent with H4d. Contrary to H5d, reviewers made the same write-down judgments regardless of their awareness of the preparer’s negative affect. Panel C reports the results of the 2x2 ANOVA, indicating a marginally significant main effect for familiarity, consistent with H4d. However, contrary to H5d, there is no effect for preparer affect. Contrary to both H6a and H6b, there is not a significant interaction between familiarity and preparer affect.

* The dependent variable is the amount of write-down of inventory the reviewer indicated would be appropriate.
Table 9
Preparer Risk and Agreement with Preparer Recommendations

Panel A: Reviewer Agreement with Preparer Risk Assessment Recommendation

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
<th>t</th>
<th>df</th>
<th>p value</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Rating</td>
<td>4.62 (1.556)</td>
<td>3.80 (1.424)</td>
<td>2.613</td>
<td>87</td>
<td>0.006</td>
<td>Yes</td>
</tr>
<tr>
<td>Preparer recommendation</td>
<td>4.42 (1.658)</td>
<td>3.68 (1.709)</td>
<td>2.075</td>
<td>87</td>
<td>0.041</td>
<td>Yes</td>
</tr>
<tr>
<td>Preparer Objectivity</td>
<td>5.16 (2.022)</td>
<td>4.86 (2.299)</td>
<td>0.637</td>
<td>87</td>
<td>0.526</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Panel B: Reviewer Agreement with Preparer Write-down Recommendation

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
<th>t</th>
<th>df</th>
<th>p</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Rating</td>
<td>6.13 (0.991)</td>
<td>4.02 (1.458)</td>
<td>3.975</td>
<td>87</td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Preparer recommendation</td>
<td>5.88 (1.126)</td>
<td>3.88 (1.661)</td>
<td>3.319</td>
<td>87</td>
<td>0.001</td>
<td>Yes</td>
</tr>
<tr>
<td>Preparer Objectivity</td>
<td>5.50 (1.309)</td>
<td>4.96 (2.222)</td>
<td>0.670</td>
<td>87</td>
<td>0.505</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Note: This table reports the results of supplemental tests to examine whether reviewers are more accepting of recommendations received from workpaper preparers whom they rate higher than recommendations received from lower rated workpaper preparers. The tables reports cell means for reviewers’ participant evaluation ratings (i.e., overall performance evaluation rating, rating of the quality of the preparer’s recommendation, and rating of the preparer’s objectivity). Panel A reports the results of t tests comparing the ratings assigned by reviewers who agreed with the preparer’s risk assessment to those who disagreed with the preparer’s risk assessment. Reviewers who agreed with the preparer’s risk assessment assigned higher overall performance ratings and recommendation ratings than reviewers who disagreed with the preparer’s risk assessment. However, there is no difference in the objectivity ratings assigned by reviewers who agreed and disagreed with the preparer’s risk assessment. Panel B reports the results of t tests comparing the ratings...
assigned by reviewers who agreed with the preparer’s write-down recommendations to those who disagreed with the preparer’s write-down recommendations. The results are consistent with those reported for Panel A.
### Table 10
Preparer Risk and Utilization of Preparer Recommendations

#### Panel A: Reviewers' Rating of Workpaper Preparer’s Performance

<table>
<thead>
<tr>
<th></th>
<th>Less than 5</th>
<th>5 or higher</th>
<th>t</th>
<th>df</th>
<th>p</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Assessment</td>
<td>5.86</td>
<td>7.00</td>
<td>2.678</td>
<td>87</td>
<td>0.005</td>
<td>Yes</td>
</tr>
<tr>
<td>Write-down</td>
<td>$251,357</td>
<td>$552,727</td>
<td>2.836</td>
<td>87</td>
<td>0.006</td>
<td>No</td>
</tr>
</tbody>
</table>

#### Panel B: Reviewers' Rating of the Quality of the Workpaper Preparer's Recommendations

<table>
<thead>
<tr>
<th></th>
<th>Less than 5</th>
<th>5 or higher</th>
<th>t</th>
<th>df</th>
<th>p</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Assessment</td>
<td>6.00</td>
<td>6.74</td>
<td>1.813</td>
<td>87</td>
<td>0.073</td>
<td>Yes</td>
</tr>
<tr>
<td>Write-down</td>
<td>$260,473</td>
<td>$545,588</td>
<td>2.903</td>
<td>87</td>
<td>0.005</td>
<td>Yes</td>
</tr>
</tbody>
</table>

#### Panel C: Reviewers’ Rating of the Workpaper Preparers’ Objectivity

<table>
<thead>
<tr>
<th></th>
<th>Less than 5</th>
<th>5 or higher</th>
<th>t</th>
<th>df</th>
<th>p</th>
<th>Homogeneity of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Assessment</td>
<td>5.68</td>
<td>6.87</td>
<td>3.111</td>
<td>87</td>
<td>.003</td>
<td>Yes</td>
</tr>
<tr>
<td>Write-down</td>
<td>$251,045</td>
<td>$485,111</td>
<td>2.429</td>
<td>87</td>
<td>.017</td>
<td>No</td>
</tr>
</tbody>
</table>

Note: This table reports the results of supplemental tests to examine whether reviewers are more accepting of recommendations received from workpaper preparers whom they rate higher than recommendations received from lower rated workpaper preparers. The tables report cell means for reviewers’ risk assessments and write-down judgments. Panel A reports the results of t tests comparing the risk assessment and write-down judgments of reviewers who assigned higher performance ratings.
(i.e. 5 or higher) and reviewers who assigned lower performance ratings (i.e. less than 5). Reviewers who assigned higher performance ratings assessed risk of inventory obsolescence higher and required larger write-downs than reviewers who assigned lower performance ratings. Panel B reports the results of t tests comparing the risk assessment and write-down judgments of reviewers who rated the quality of the preparer's recommendation higher (i.e. 5 or higher) and reviewers who assigned lower ratings (i.e. less than 5). Reviewers who assigned higher recommendation quality ratings assessed risk higher and required larger write-downs than reviewers who assigned lower recommendation quality ratings. Panel C reports the results of t tests comparing the risk assessment and write-down judgments of reviewers who assigned higher objectivity ratings (i.e. 5 or higher) to those who assigned lower objectivity ratings. Reviewers who assigned higher objectivity ratings assessed risk higher and required larger write-downs than those who assigned lower objectivity ratings.

a Participants provided a performance evaluation evaluation of the workpaper preparer on an 11-point Likert-type scale with endpoints of 0 “not meeting expectations” and 10 “exceeding expectations”. The midpoint 5, was labeled “meeting expectations”.

b Risk Assessment variable measures reviewers’ rating of the risk of inventory obsolescence an 11-point Likert-type scale with endpoints of 0 “very low risk” and 10 “very high risk”. The midpoint, 5, was labeled “moderate risk”.

c Write-down variable is the amount of write-down of inventory the reviewer indicated would be appropriate.

d Participants assessed the quality of the workpaper preparer's recommendations on an 11-point Likert-type scale with endpoints of 0 “very low quality” and 10 “very high quality”.

e The “objectivity” variable measures reviewers’ rating of the workpaper preparer's objectivity with respect to the client on an 11-point Likert-type scale with endpoints of 0 “completely biased” and 10 “completely unbiased”.
### Table 11
**Path Analysis**

**Panel A: Changes to the Model**

<table>
<thead>
<tr>
<th>Model Iteration</th>
<th>Changes to the Model</th>
<th>Standard Beta</th>
<th>Un-standard Beta</th>
<th>SE</th>
<th>CR</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1 (initial)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Model 2</td>
<td>Removed path: familiarity -&gt; preparer objectivity</td>
<td>0.034</td>
<td>0.144</td>
<td>0.413</td>
<td>0.349</td>
<td>0.727</td>
</tr>
<tr>
<td>Model 3</td>
<td>Removed path: affect -&gt; performance evaluation rating</td>
<td>0.071</td>
<td>0.215</td>
<td>0.317</td>
<td>0.680</td>
<td>0.497</td>
</tr>
<tr>
<td>Model 4</td>
<td>Removed path: familiarity -&gt; risk assessment</td>
<td>-0.069</td>
<td>-0.259</td>
<td>0.367</td>
<td>-0.706</td>
<td>0.480</td>
</tr>
<tr>
<td>Model 5</td>
<td>Removed path: affect -&gt; risk assessment</td>
<td>-0.102</td>
<td>-0.381</td>
<td>0.395</td>
<td>-0.965</td>
<td>0.334</td>
</tr>
<tr>
<td>Model 6 (final)</td>
<td>Removed path: preparer objectivity -&gt; risk assessment</td>
<td>0.184</td>
<td>0.161</td>
<td>0.092</td>
<td>1.745</td>
<td>0.081</td>
</tr>
</tbody>
</table>
## Panel B: Parameter estimates for the Final Model

<table>
<thead>
<tr>
<th>Regression Path</th>
<th>Standard Beta</th>
<th>Unstandard Beta</th>
<th>SE</th>
<th>CR</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affect -&gt; Preparer Objectivity</td>
<td>-0.425</td>
<td>-1.823</td>
<td>0.414</td>
<td>-4.404</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Familiarity -&gt; Performance Evaluation Rating</td>
<td>0.218</td>
<td>0.664</td>
<td>0.287</td>
<td>2.312</td>
<td>0.021</td>
</tr>
<tr>
<td>Preparer Objectivity -&gt; Performance Evaluation Rating</td>
<td>0.413</td>
<td>0.294</td>
<td>0.067</td>
<td>4.382</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Performance Evaluation Rating -&gt; Risk Assessment</td>
<td>0.400</td>
<td>0.491</td>
<td>0.120</td>
<td>4.099</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

## Panel C: Regression R²s

<table>
<thead>
<tr>
<th></th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparer Objectivity</td>
<td>0.181</td>
</tr>
<tr>
<td>Performance Rating</td>
<td>0.218</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>0.160</td>
</tr>
</tbody>
</table>

NOTE: Supplemental analysis included a path analysis. The initial path model included all available paths. The model was trimmed by removing a single path each iteration. The path removed in each iteration of the model is presented in Panel A. The parameter estimates from the final model are presented in Panel B. The regression R²s are presented in Panel C.
Rich et al. (1997a) developed a model of the workpaper review process. According to their model, there are five steps in the workpaper review process. In Step 1, the reviewer plans the nature and extent of review procedures to be performed. In Step 2, the reviewer reviews selected workpapers, questions the workpaper preparer, and obtains additional information as necessary. In Step 3, the reviewer thinks about the evidence obtained and applies other knowledge (e.g., the reviewer’s understanding of the applicable financial reporting framework, understanding of other clients in the industry). In Step 4, the reviewer evaluates the evidence obtained and other knowledge. In Step 5, the reviewer concludes whether the workpapers are adequate or additional efforts are necessary (e.g., perform additional procedures, enhance documentation). The model also specifies two categories of factors that affect the review: reviewer specific attributes and environmental factors. Environmental factors include the probability of preparer error, the topic of this dissertation.
Gibbins and Trotman (2002) developed a model of manager review that includes four inputs: the manager’s expectations about the client, the workpaper preparer, and the partner, and the manager’s own approach and circumstances. These four inputs affect how the manager conducts the workpaper review. This dissertation is focused on one specific input from Gibbins and Trotman’s (2002) model: the reviewer’s expectations about the audit workpaper preparer.

Figure 2
Model of Manager Review
Gibbins and Trotman (2002)
According to models of workpaper review, reviewers consider preparer risk in the performance of the review (Rich et al. 1997a; Gibbins and Trotman 2002). For example, reviewers reperform more of the preparer’s work when they assess preparer risk to be high versus low (Asare and McDaniel 1996). Reviewers may assess preparer risk systematically or heuristically. When familiar reviewers assess preparer risk systematically, they think about their knowledge of the preparer’s strengths and weaknesses based on prior experiences as well as information obtained through review of the workpapers for the current audit. When unfamiliar reviewers assess preparer risk systematically, they obtain knowledge about the preparer through various means including discussions with others and reading the preparer’s personnel file. Rather than processing preparer risk systematically, reviewers may use a simple heuristic: familiarity with the preparer reduces preparer risk.
Note: This figure presents the research design for this study. The boxes on the left are the independent variables and those on the right are the dependent variables. The boxes on top are the constructs while the bottom boxes are the operationalized variables.
Figure 5
Hypothesis 1a

Panel A: Predicted effects of Familiarity with the Workpaper Preparer on Performance Evaluation Rating Assigned to the Workpaper Preparer by the Reviewer

Panel B: Result of Familiarity with the Workpaper Preparer on Performance Evaluation Rating Assigned to the Workpaper Preparer by the Reviewer

Note: Hypothesis 1a predicts that familiar reviewers will assign higher overall performance ratings to workpaper preparers than unfamiliar reviewers. Panel A provides a graph of the prediction. Panel B presents the results. Consistent with H1a, familiar reviewers assigned a higher
performance evaluation rating (4.58) than unfamiliar reviewers (3.84). The
difference is significant ($t=2.310, df = 87, p = 0.012$, based on
nonhomogeneous variances). See Table 2.

$^a$ Reviewers assigned an overall performance evaluation to the workpaper preparer on a scale
from 0 (not meeting expectations) to 10 (exceeding expectations). The midpoint, 5, was labeled
“meeting expectations”.
Hypothesis 1b predicts that familiar reviewers will rate the quality of the preparer’s recommendations higher than unfamiliar reviewers. Panel A provides a graph of the prediction. Panel B presents the results. Consistent with H1b, familiar reviewers assigned a higher quality rating (4.40) than unfamiliar reviewers (3.70). The difference is significant.
(t = 1.943, df = 87, p = 0.028, based on homogeneous variances). See Table 3.

\(^a\) Reviewers rated the quality of the workpaper preparer's recommendation on a scale from 0 (very low quality) to 10 (very high quality).
Figure 7
Hypothesis 1c

Panel A: Predicted effects of Familiarity with the Workpaper Preparer on Reviewers’ Rating of the Preparer’s Objectivity

Panel B: Result of Familiarity with the Workpaper Preparer on Reviewers’ Rating of the Preparer's Objectivity

Note: Hypothesis 1c predicts that familiar reviewers will assign higher objectivity ratings to workpaper preparers than unfamiliar reviewers. Panel A provides a graph of the prediction. Panel B presents the results. Contrary to H1c, familiar and unfamiliar reviewers assigned similar objectivity ratings (5.13 and 4.89, respectively). The difference is not significant (t=0.538, df = 87, p = 0.296, based on homogeneous variances). See Table 4.
a Reviewers rated the workpaper preparer’s objectivity on a scale from 0 (completely biased) to 10 (completely unbiased).
Hypothesis 2a

Panel A: Predicted effects of Awareness of Preparer Negative Affect on Performance Evaluation Rating Assigned to the Workpaper Preparer by the Reviewer

Note: Hypothesis 2a predicts that reviewers who are aware of the preparer's negative affect will assign lower overall performance ratings to workpaper preparers than reviewers who are unaware of the preparer's negative affect. Panel A provides a graph of the prediction. Panel B
presents the results. Contrary to H2a, the overall preparer performance ratings were the same regardless of reviewers’ awareness of the preparer’s negative affect. The average ratings were 4.42 and 4.02 for the no affect and negative affect conditions, respectively. The difference is not significant ($t=1.218$, $df = 87$, $p = 0.114$, based on homogeneous variances). See Table 2.

a Reviewers assigned an overall performance evaluation to the workpaper preparer on a scale from 0 (not meeting expectations) to 10 (exceeding expectations). The midpoint, 5, was labeled “meeting expectations”.
Figure 9
Hypothesis 2b

Panel A: Predicted effects of Awareness of Preparer Negative Affect on Reviewers' Rating of the Quality of the Preparer's Recommendation

Panel B: Result of Awareness of Preparer Negative Affect on Reviewers’ Rating of the Quality of the Preparer’s Recommendation

Note: Hypothesis 2b predicts that reviewers who are aware of the preparer’s negative affect will rate the quality of the preparer’s recommendations lower than reviewers who are unaware of the preparer’s negative affect. Panel A provides a graph of the prediction. Panel B presents the results. Contrary to H2b, the quality of recommendation ratings were the same regardless of reviewers’ awareness of the preparer’s negative affect. The average ratings were 4.16 and 3.96 for the no affect and negative affect conditions, respectively. The difference is not
significant \( t=0.565, df = 87, p = 0.287 \), based on homogeneous variances). See Table 3.

\(^a\) Reviewers rated the quality of the workpaper preparer’s recommendation on a scale from 0 (very low quality) to 10 (very high quality).
Figure 10
Hypothesis 2c

Panel A: Predicted effects of Awareness of Preparer Negative Affect on Reviewers’ Assessment of the Workpaper Preparer’s Objectivity

Note: Hypothesis 2c predicts that reviewers who are aware of the preparer’s negative affect will view the preparer as less objective than reviewers who are unaware of the preparer’s negative affect. Panel A provides a graph of the prediction. Panel B presents the results.
Consistent with H2c, preparer objectivity was assessed lower by reviewers who were aware of the preparer’s negative affect than reviewers who were not aware. The average ratings were 5.95 and 4.13 for the no affect and negative affect conditions, respectively. The difference is significant (t=4.326, df = 87, p < .001, based on heterogeneous variances). See Table 4.

a Reviewers rated the workpaper preparer’s objectivity on a scale from 0 (completely biased) to 10 (completely unbiased).
Figure 11
Hypothesis 3a

Panel A: Predicted effects of Awareness of Preparer Negative Affect and Familiarity with the Preparer on Performance Evaluation Rating Assigned to the Workpaper Preparer by the Reviewer

Panel B: Result of Awareness of Preparer Negative Affect and Familiarity with the Preparer on Performance Evaluation Rating Assigned to the Workpaper Preparer by the Reviewer

Note: Hypothesis 3a predicts that unfamiliar reviewers who are aware of the preparer’s negative affect assign a lower overall performance evaluation rating to the preparer than unfamiliar reviewers who are unaware, while familiar reviewers will assign the same overall performance evaluation rating regardless of the preparer’s affect. Panel A
provides a graph of the prediction. Panel B presents the results. Contrary to H3a, there is not a significant interaction effect. See Table 2.

a Reviewers assigned an overall performance evaluation to the workpaper preparer on a scale from 0 (not meeting expectations) to 10 (exceeding expectations). The midpoint, 5, was labeled “meeting expectations”. 
Figure 12

Hypothesis 3b

Panel A: Predicted effects of Awareness of Preparer Negative Affect and Familiarity with the Preparer on Reviewers’ Rating of the Quality of the Preparer’s Recommendation

Note: Hypothesis 3b predicts that unfamiliar reviewers who are aware of the preparer’s negative affect assign a lower quality rating to the preparer’s recommendation than unfamiliar reviewers who are unaware, while familiar reviewers will assign the rate recommendation quality the same regardless of the preparer’s affect. Panel A provides a graph of the
prediction. Panel B presents the results. Contrary to H3b, there is not a significant interaction effect. See Table 3.

\(^a\) Reviewers rated the quality of the workpaper preparer’s recommendation on a scale from 0 (very low quality) to 10 (very high quality).
Panel A: Predicted effects of Awareness of Preparer Negative Affect and Familiarity with the Preparer on Reviewers’ Assessment of the Workpaper Preparer’s Objectivity

Panel B: Result of Awareness of Preparer Negative Affect and Familiarity with the Preparer on Reviewers’ Assessment of the Workpaper Preparer’s Objectivity

Note: Hypothesis 3c predicts that unfamiliar reviewers who are aware of the preparer’s negative affect will rate them as less objective than unfamiliar reviewers who are unaware, while familiar reviewers will assess preparer objectivity the same regardless of the preparer’s affect. Panel A provides a graph of the prediction. Panel B presents the results. Contrary
to H3a, there is not a significant interaction effect. Reviewers rate the preparer as less objective when they are aware of the preparer’s negative affect regardless of familiarity. See Table 4.

\(^a\) Reviewers rated the workpaper preparer’s objectivity on a scale from 0 (completely biased) to 10 (completely unbiased).
Figure 14
Hypotheses 4a and 4b

Panel A: Predicted effects of Familiarity with the Workpaper Preparer on Agreement with Preparer’s Recommendations a

Note: Hypothesis 4a and 4b predict that familiar reviewers are more likely to agree with the workpaper preparer’s risk assessment (4a) and write-down recommendation (4b) than unfamiliar reviewers. Panel A provides a graph of the predictions. Panel B presents the results. Consistent with H4a, 46.4% (29 of 45) of familiar reviewers agreed with the preparer’s risk assessment compared to 35.5% (16 of 44) of unfamiliar reviewers. The difference is significant ($\chi^2 = 7.018$, $df = 1$, $p = 0.008$). Consistent with H4b 15.6% (7 of 45) of familiar reviewers agreed with the preparer’s write-
down recommendation compared to 2.3% (1 of 44) of unfamiliar reviewers. The difference is significant ($\chi^2 = 4.798$, $df = 1$, $p = 0.028$). See Table 5.

\(^a\) Reviewers indicated whether they agreed with the preparer’s recommendations regarding the risk of inventory obsolescence and amount of required write-down. The preparer risk recommendation was that the risk was eight on a scale of zero to ten. The preparer’s write-down recommendation was $1.2$ million, or two-thirds of the recorded balance.
Figure 15
Hypothesis 4c

Panel A: Predicted Effects of Familiarity with the Workpaper Preparer on Reviewer's Inventory Obsolescence Risk Assessment

Panel B: Result of Familiarity with the Workpaper Preparer on Reviewer’s Inventory Obsolescence Risk Assessment

Note: Hypothesis 4c predicts that familiar reviewers will assess the risk of inventory obsolescence higher than unfamiliar reviewers. Panel A provides a graph of the prediction. Panel B presents the results. Contrary to H4c, there is not a significant difference between the risk assessments of familiar and unfamiliar reviewers. The mean risk assessments were 6.33 and 6.23 for familiar and unfamiliar reviewers, respectively. The difference is significant (t=0.264, df = 87, p = 0.396, based on homogeneous variances). See Table 7.
After reading the preparer’s recommendation and supporting memo, reviewers assessed the risk of inventory obsolescence on a scale of zero to ten. The preparer’s recommended risk assessment was eight.
Panel A: Predicted Effects of Familiarity with the Workpaper Preparer on Reviewer's Write-down Judgment

Panel B: Result of Familiarity with the Workpaper Preparer on Reviewer's Write-down Judgment

Note: Hypothesis 4d predicts that familiar reviewers will require larger write-downs than unfamiliar reviewers. Panel A provides a graph of the prediction. Panel B presents the results. Consistent with H4d, familiar reviewers required an average write-down of $451,022 compared to an average write-down of $285,909 for unfamiliar reviewers. The difference is significant ($t=1.678, df = 87, p = 0.049$, based on homogeneous variances). See Table 8.
a After reading the preparer’s recommendation and supporting memo, reviewers made a judgment regarding the appropriate write-down amount.
Panel A: Predicted effects of Awareness of Preparer Negative Affect on Agreement with Preparer’s Recommendations

Panel B: Result of Awareness of Preparer Negative Affect on Agreement with Preparer’s Recommendations

Note: Hypothesis 5a and 5b predict that reviewers will be less likely to agree with the workpaper preparer’s recommendations regarding the risk of inventory obsolescence (H5a) and the amount of inventory write-down (H5b) when reviewers are aware of the preparer’s negative affect. Panel A provides a graph of the predictions. Panel B presents the results. Contrary to H5a, there is not a significant difference between reviewers
who are aware of the preparer’s negative affect and those who are not. 58.1% (25 of 43) no affect reviewers and 43.5% (20 of 46) negative affect reviewers agreed with the preparer’s risk assessment. The difference is not significant ($\chi^2 = 1.911, df = 1, p = 0.167$). Contrary to H5b, there is not a significant difference in terms of the preparer’s write-down recommendation. See Table 6.

\[ a \text{ Reviewers indicated whether they agreed with the preparer’s recommendations regarding the risk of inventory obsolescence and amount of required write-down. The preparer risk recommendation was that the risk was eight on a scale of zero to ten. The preparer’s write-down recommendation was $1.2 million, or two-thirds of the recorded balance.} \]
Figure 18
Hypothesis 5c

Panel A: Predicted Effects of Awareness of Preparer Negative Affect on Reviewer’s Inventory Obsolescence Risk Assessment

Panel B: Result of Awareness of Preparer Negative Affect on Reviewer’s Inventory Obsolescence Risk Assessment

Note: Hypothesis 5c predicts that reviewers who are unaware of the preparer’s negative affect will assess the risk of inventory obsolescence higher than reviewers who are aware. Panel A provides a graph of the prediction. Panel B presents the results. Consistent with H5c, there is a
significant difference between the risk assessments of reviewers who are aware versus unaware of the preparer’s negative affect. The mean risk assessments were 6.67 and 5.91 for no affect and negative affect reviewers, respectively. The difference is significant ($t=1.936$, $df = 87$, $p = 0.028$, based on homogeneous variances). See Table 7.

[A] After reading the preparer’s recommendation and supporting memo, reviewers assessed the risk of inventory obsolescence on a scale of zero to ten. The preparer’s recommended risk assessment was eight.
Figure 19
Hypothesis 5d

Panel A: Predicted Effects of Awareness of Preparer Negative Affect on Reviewer’s Write-down Judgment

Panel B: Result of Awareness of Preparer Negative Affect on Reviewer’s Write-down Judgment

Note: Hypothesis 5d predicts that reviewers who are unaware of the preparer’s negative affect will require larger write-downs than reviewers who are aware. Panel A provides a graph of the prediction. Panel B presents the results. Contrary to H5d, there is not a significant difference between the risk assessments of reviewers who are aware versus unaware of the preparer’s negative affect. The mean write-down judgments were $427,116 and $315,435 for no affect and negative affect.
reviewers, respectively. The difference is not significant (t=1.125, \( df = 87, \ p = 0.132 \), based on homogeneous variances). See Table 8.

\[ a \] After reading the preparer’s recommendation and supporting memo, reviewers made a judgment regarding the appropriate write-down amount.
Hypothesis 6a predicts that familiarity with the preparer will mitigate the ironic rebound effect. For unfamiliar reviewers, awareness of the unfamiliar workpaper preparer’s negative affect creates uncertainty leading to ironic rebound effects. The unfamiliar reviewer tries to ignore the preparer’s potentially biased recommendation and ironically over-relies on it. Familiarity with the workpaper preparer reduces uncertainty and thus, mitigates the ironic rebound effect. H6a predicts that evidence of the ironic rebound effect will not appear in the familiar preparer condition.
Hypothesis 6b predicts that reviewers will be sensitive to potential bias when the recommendation is from a weaker social bond preparer, concluding a smaller write-down is required when the unfamiliar preparer expresses negative affect toward client personnel. Due to the stronger social bond with familiar workpaper preparers, reviewers will be less sensitive to the potential bias when familiar preparers have negative affect toward client personnel.
Reviewers required the largest average write-down ($540,696) when the recommendation was received from a familiar preparer for whom no affective information was provided. When reviewers who were familiar with the preparer were also aware of the preparer’s negative affect toward the client (and potential bias), the average write-down was $357,273. Reviewers who received recommendations from unfamiliar preparers required smaller write-downs (average $285,909). See Table 8.
Figure 23 presents a path model of the relationships between the variables examined in this study. There are two exogenous variables: reviewers' familiarity with the workpaper preparer and reviewers' awareness of the preparer's negative affect. The endogenous variables include reviewers' assessment of preparer objectivity, the performance rating assigned to the workpaper preparer, and the reviewers' assessment of the risk of inventory obsolescence.
Note: Figure 24 presents the initial path model, with all paths included. The coefficients presented in this analysis are standardized.
Note: Figure 25 presents the final path model, after systematically removing the insignificant paths. This model shows that reviewers' awareness of preparer affect impacts their assessment of the preparer's objectivity. Reviewers assign higher performance evaluation ratings to preparers whom they perceive to be more objective and also to preparers with whom they are familiar. Finally, the extent to which reviewers align their judgments with preparer recommendations is associated with their assessment of the preparer’s performance.
References


