



Is Auditor Judgment (Still) Relevant?

Kathryn Kadous
Goizueta Business School
Emory University

Foundation for Accounting Research Conference
June 2023



EMORY

GOIZUETA
BUSINESS
SCHOOL

Goals of JDM Research in Accounting

Describe Judgment

```
graph TD; A[Describe Judgment] --> B[Explain/Predict Judgment]; B --> C[Improve Judgment];
```

Explain/Predict Judgment

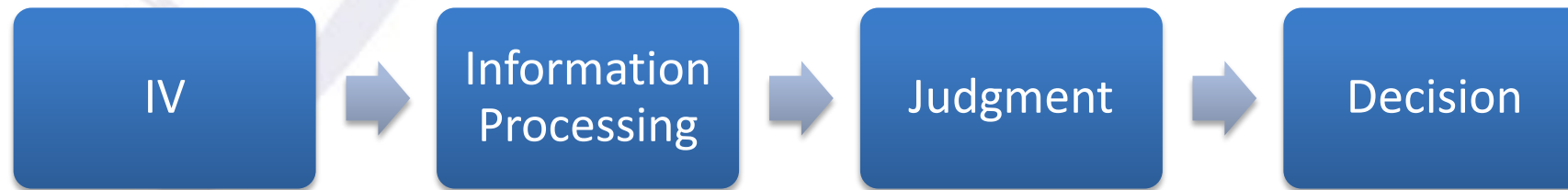
Improve Judgment

Keys to Explanation/Prediction

Antecedent

Causality

Judgment



Process



EMORY

GOIZUETA
BUSINESS
SCHOOL

Themes from Recent Past Research



Theme #1: Auditors are Flexible Decision Makers

- Auditors have multiple modes of thinking, and different modes are needed for different tasks.
 - Routinized thinking makes routine tasks efficient.
 - Scan, verify, check
 - Critical thinking is needed to perform complex tasks well.
 - Consider broad information set, integrate information, evaluate jointly
 - ✓ Identify inconsistencies
 - ✓ Identify management bias
 - ✓ Understand the implications for FS

The Bad News

- Unless critical thinking is prompted, auditors don't tend to use it.
- Critical thinking mode is costly and can't always be maintained.
- Environmental factors can prevent or undermine critical thinking mode.
 - Information overload
 - Time pressure, budget pressure
 - Task switching
 - Fatigue



The Good News

- Improving judgment can be a matter of restoring the match between task demands and processing mode.
 - Provide the big picture goal/view
 - Remind auditors about their intrinsic motivation for the job
 - Adjust the mindset
 - Break the habitual response



Theme #2: Auditors are Social Animals

- Actions of others and relationship with others affect behaviors related to audit quality.
- The bad news:
 - Auditors can be reluctant to work with or collect evidence from clients who intimidate them.
 - Auditors can be reluctant to speak up about audit issues if their colleagues will get into trouble or if doing so might reflect badly on themselves.
 - Auditors over-rely on social cues such as friendship and status.

Theme #2: Auditors are Social Animals

- The good news:
 - Supervisors can counteract these effects by creating positive work environments and modeling positive behaviors.
 - Reminding auditors of their identity as an auditor or the importance of the job can restore audit quality behaviors.



What Can Technology Do for Auditors?

- Offload some routine tasks
- Answer queries
- Identify trends, patterns, anomalies in data sets
- Prevent bias from conflicts of interest and other relationships



Implications for Auditor Judgment (Theme #1)

- Auditors will spend more of their time on complex tasks.
- They will have access to more cues, more “advice”, more information.
- Being in the “right” cognitive processing mode may be all the more important.
- ...or will it? ...can technology provide what we have relied on critical thinking to provide?



Some Open Questions

- Technology has the potential to improve auditors' complex judgments by identifying inconsistencies and bias in data.
- Will auditors extract full value from “warnings” from technology?
 - What is the role/importance of “engagement” aspects of prior interventions to prompt auditors' critical thinking?
 - Will such interventions improve judgments even with conflicts and anomalies identified?
 - Are there alternative interventions that might serve this purpose better?

Implications for Auditor Judgment (Theme #2)

- The ability to get queries answered without exposing oneself to criticism may better calibrate speaking up.
- Automated data collection and analysis can reduce the effects of attitudes towards and conflicts of interest with clients.
- Reliance on irrelevant social cues may be reduced.
- Attitudes towards automated tools likely influence decision quality.



Some Open Questions

- Technology has the potential to improve judgments and actions related to audit quality by reducing the negative effects of relationships and social cues on those judgments.
- How can technology best be utilized for this purpose?
 - What kind of attitude towards technological tools should firms aim to create?
 - What aspects of traditional auditor expertise remain important?
 - Can the audit-quality improving aspects of irrelevant social cues be maintained?
- How can strong auditor identity/intrinsic motivation be maintained?



Is Auditor Judgment Relevant?





EMORY

GOIZUETA BUSINESS SCHOOL

EMORY
BUSINESS SCHOOL
→ BEST Baking and
Desserts Shop
→ Best Coffee
Management Center
→ Best Architecture
Exhibition Reception
→ Best Office
Program Office
→ Best Program Office
→ Best Architecture
Program Office