

The effects of expert  
status on the audit  
of complex  
estimates

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Justin Leiby - Illinois

FOUNDATION FOR  
**AUDITING**  
RESEARCH

*This research is made possible by funding and data provided  
through/by the Foundation for Auditing Research*

# Does Status Equal Substance? The Effects of Specialist Social Status on Auditor Assessments of Complex Estimates

Anna Gold – VU Amsterdam

Kathryn Kadous – Emory

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*Paper names tend to change during the process of review and receiving feedback. Like “Prince” becoming “The Artist Formerly Known as Prince,” the names tend to get longer.*

# Project Timeline – Time Flies When the World is On Fire



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- 2017 FAR awards us a grant (thank you!)
- 2018 Survey data collection
- 2018 Experiment 1 data collection
- 2019 **FAR Conference Presentation**
- 2020 Experiment 2 data collection
- 2021 Submit to *The Accounting Review*
- 2022 Resubmit to *The Accounting Review*
- 2023 Resubmit (again) to *The Accounting Review*
- 2023 **Second FAR Conference Presentation**



**What characteristics should an expert have? (enter one characteristic at a time so the worldcloud can process it)**

# Does an expert's social status affect auditor reliance on that expert? If so, how and why?

*Social Status*: a comparative social ranking of people, groups, or objects in terms of the social esteem, honor, and respect accorded to them

“A defining characteristic of human interaction that emerges and persists in almost every form of social group”

-Fernandes, Yu, Howell, Brooks, Kilduff, and Pettit 2021, 57

# Our Biggest Hurdle (so far ...)

- Resistance to idea that status & competence are different at all (*stronger in US?*)
- People use this shortcut themselves & don't want to think it's a mistake ...
- ...but we're not saying the behavior we observe is a mistake ... it's just not what auditing standards envision

# PREDICTIONS

## H1

High expert social status inflates perceptions of expert competence (H1a) and expert influence (H1b).

This increases auditor reliance on high status experts when there is uncertainty, especially...

## H2

When experts disagree with a client's estimate, auditors rely on expert more when experts' social status is high.

Facilitates “pushing back” on aggressive client estimates!

## H3

When experts agree with client but offer poor justification, auditors rely on expert more when experts' social status is high.

This can lead to *less* pushback!

# Our Main Experiment

- Experiment with 170 Dutch Auditors
  - Fair value case assessing aggressive discount rate estimate
  - Each auditor receives input from expert (6 “conditions”)
- Half see high social status expert, half moderate status
  - Survey prior to experiment validates *status* characteristics
- Each auditor sees one of three expert reports

# Expert Input Manipulation

Condition	Test Mathematical validity?	WACC Analysis	Macro-Economic Risks	Reasonable Range (client = 4.7%)
Strongly Justified Agreement	Yes	Independent, new validated data	Quantifies effects as small	4.7% – 5.8%
Weakly Justified Agreement	Yes	Use client's model & data	Does not quantify effects	4.7% – 5.8%
Strongly Justified Disagreement	Yes	Independent, new validated data	Quantifies effects as large	5.3% – 6.5%

# OUR FINDINGS

## H1

High expert social status inflates perceptions of expert competence (H1a) and influence (H1b).

This increases auditor reliance on high status experts when there is uncertainty, especially...

## H2

When experts disagree with a client's estimate, auditors rely on expert more when experts' social status is high.

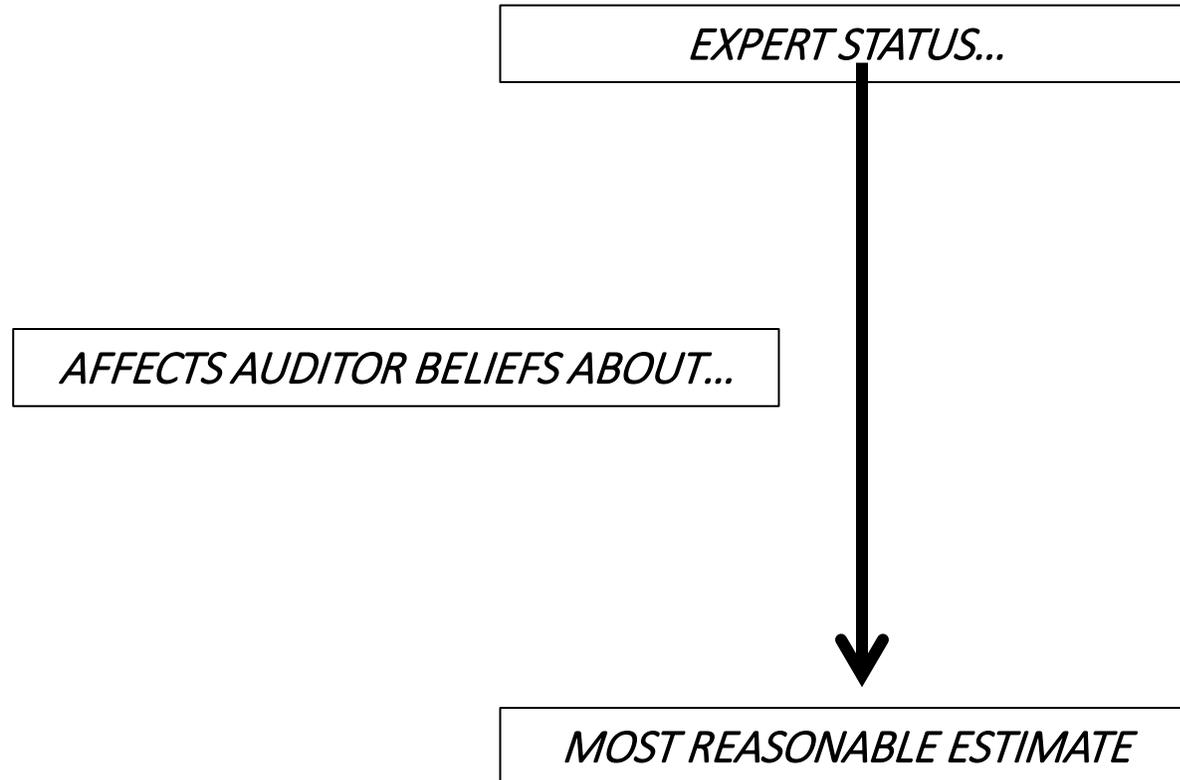
Facilitates "pushing back" on aggressive client estimates!

## H3

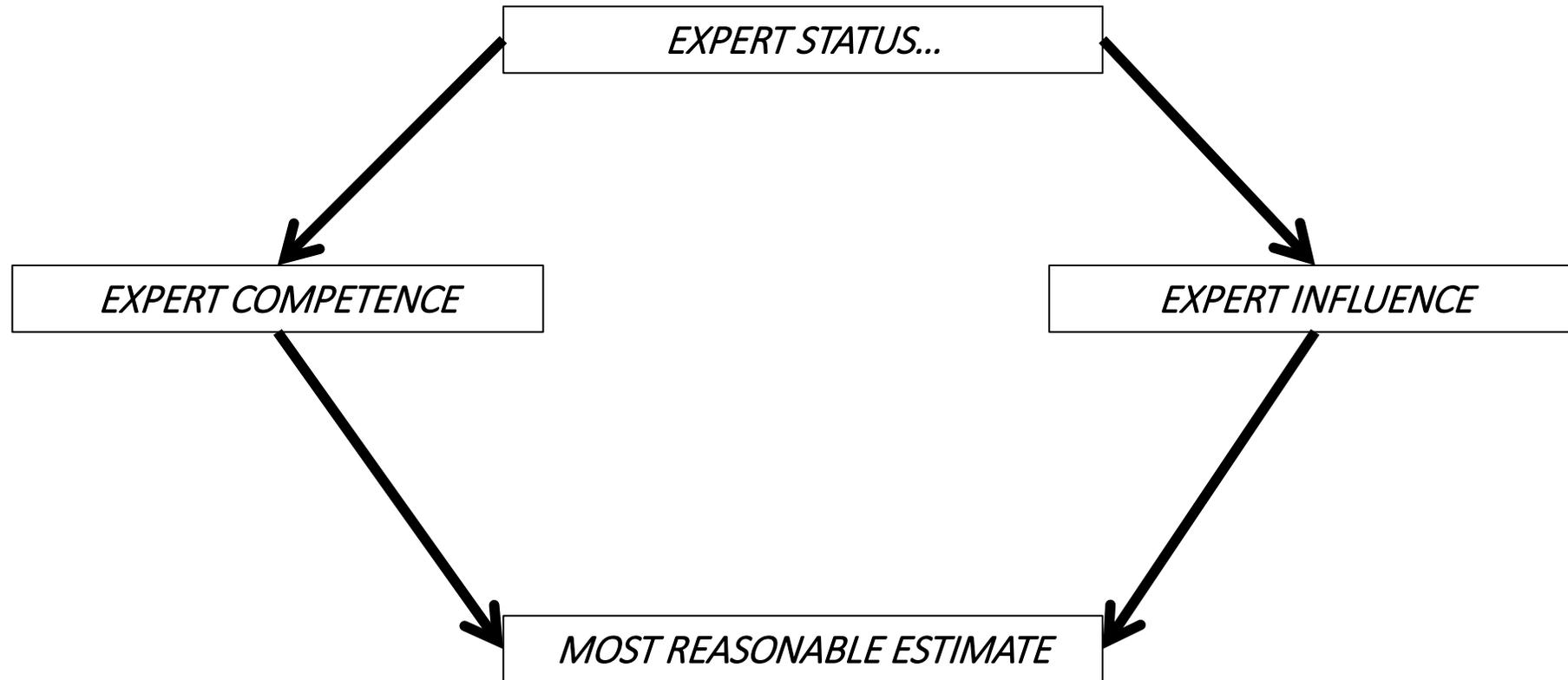
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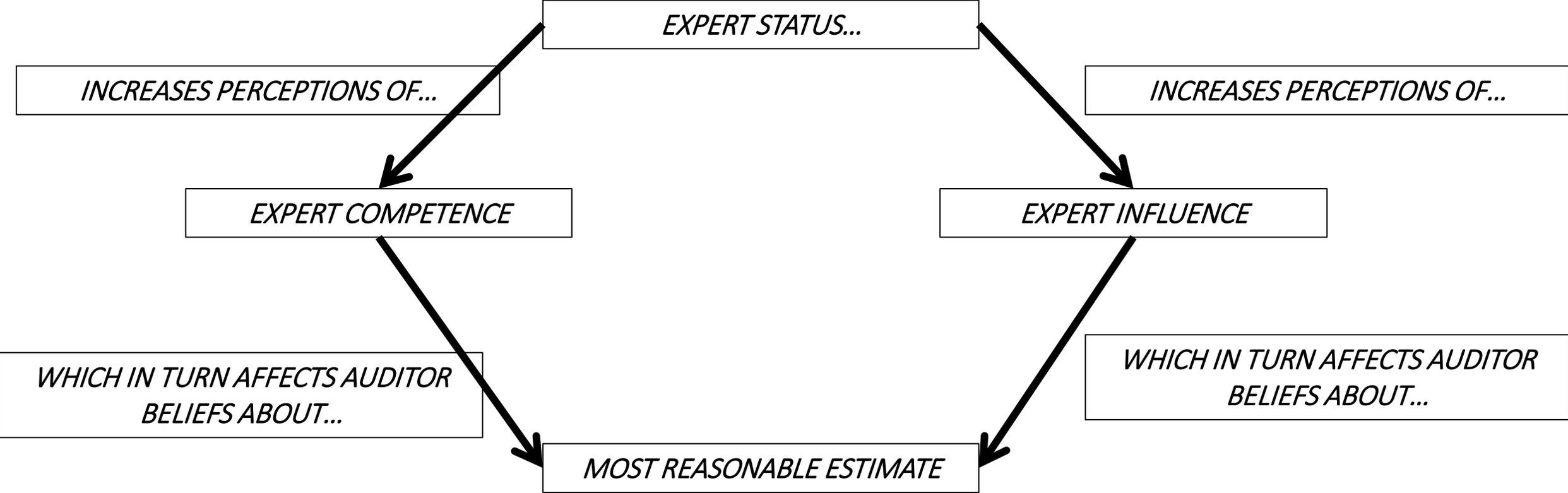
# It's About the Journey, Not the Destination



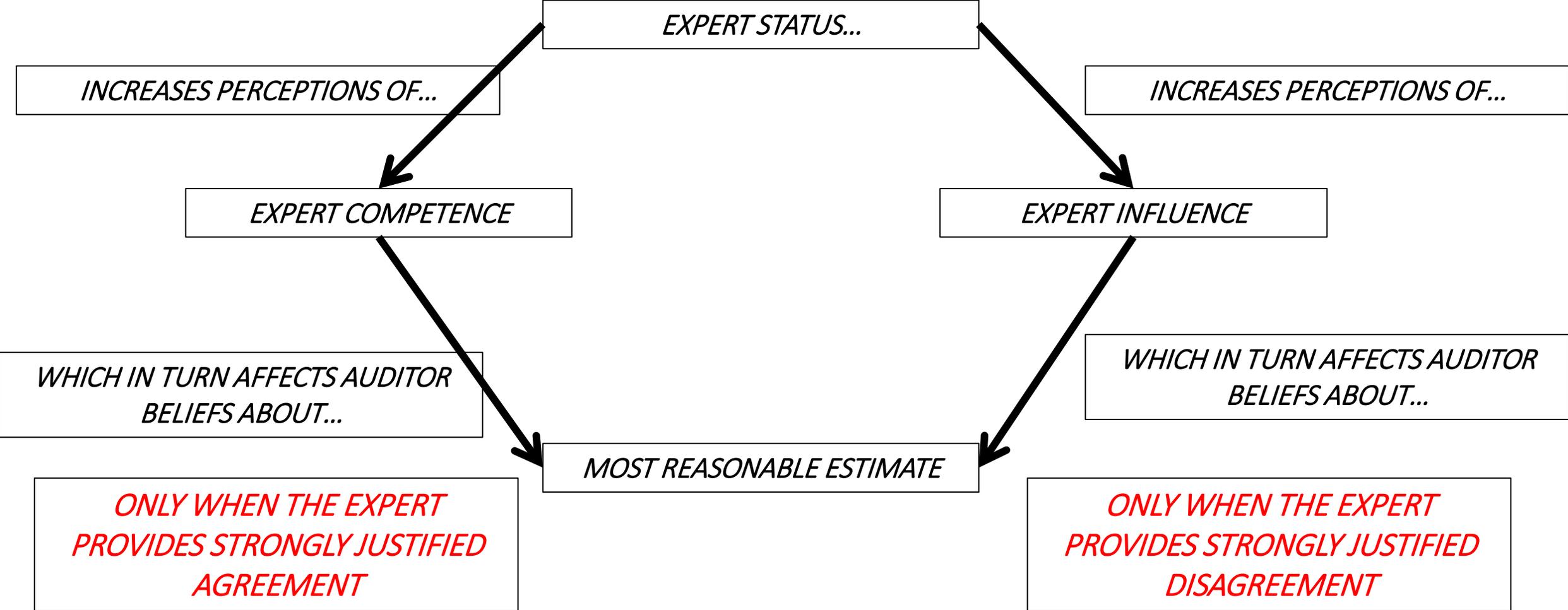
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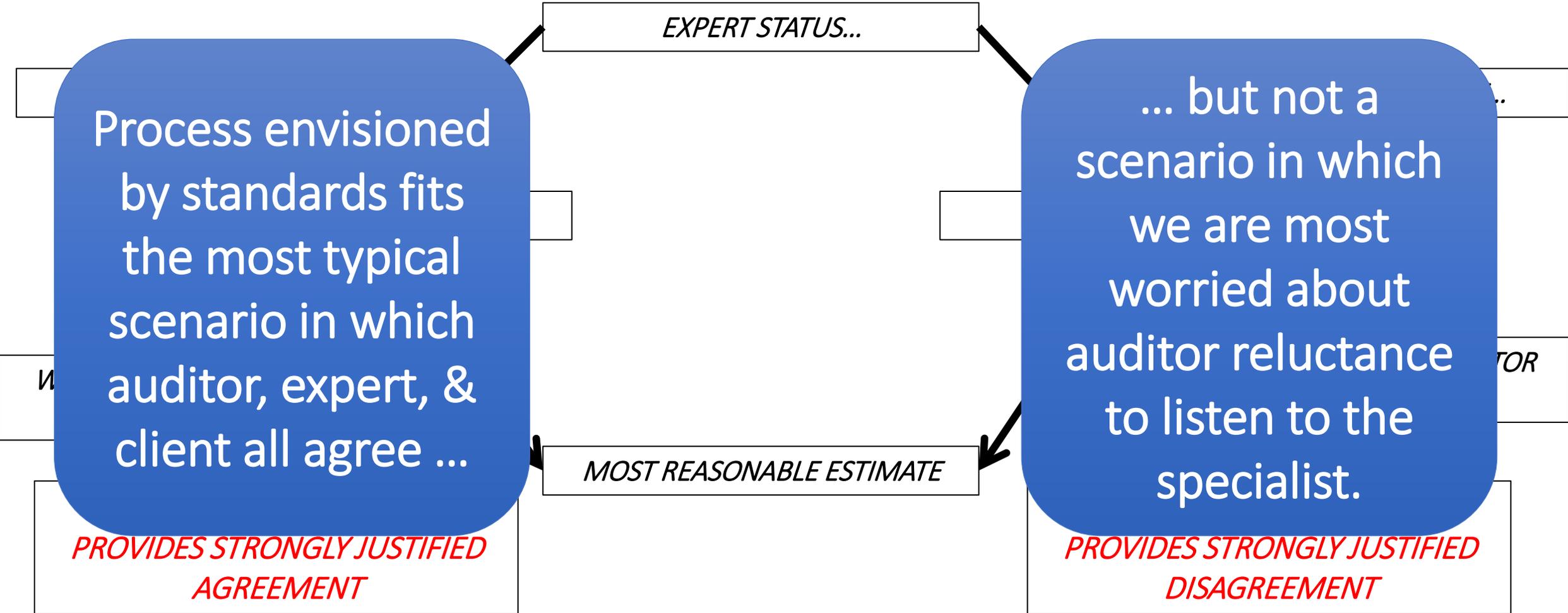
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Next, we provide additional information that the expert ...

Is a Register Valuator



Is a Certified European Financial Analyst



PLAYS TENNIS WITH FIRM LEADERS



VALID COMPETENCE  
SIGNAL



VALID COMPETENCE  
SIGNAL

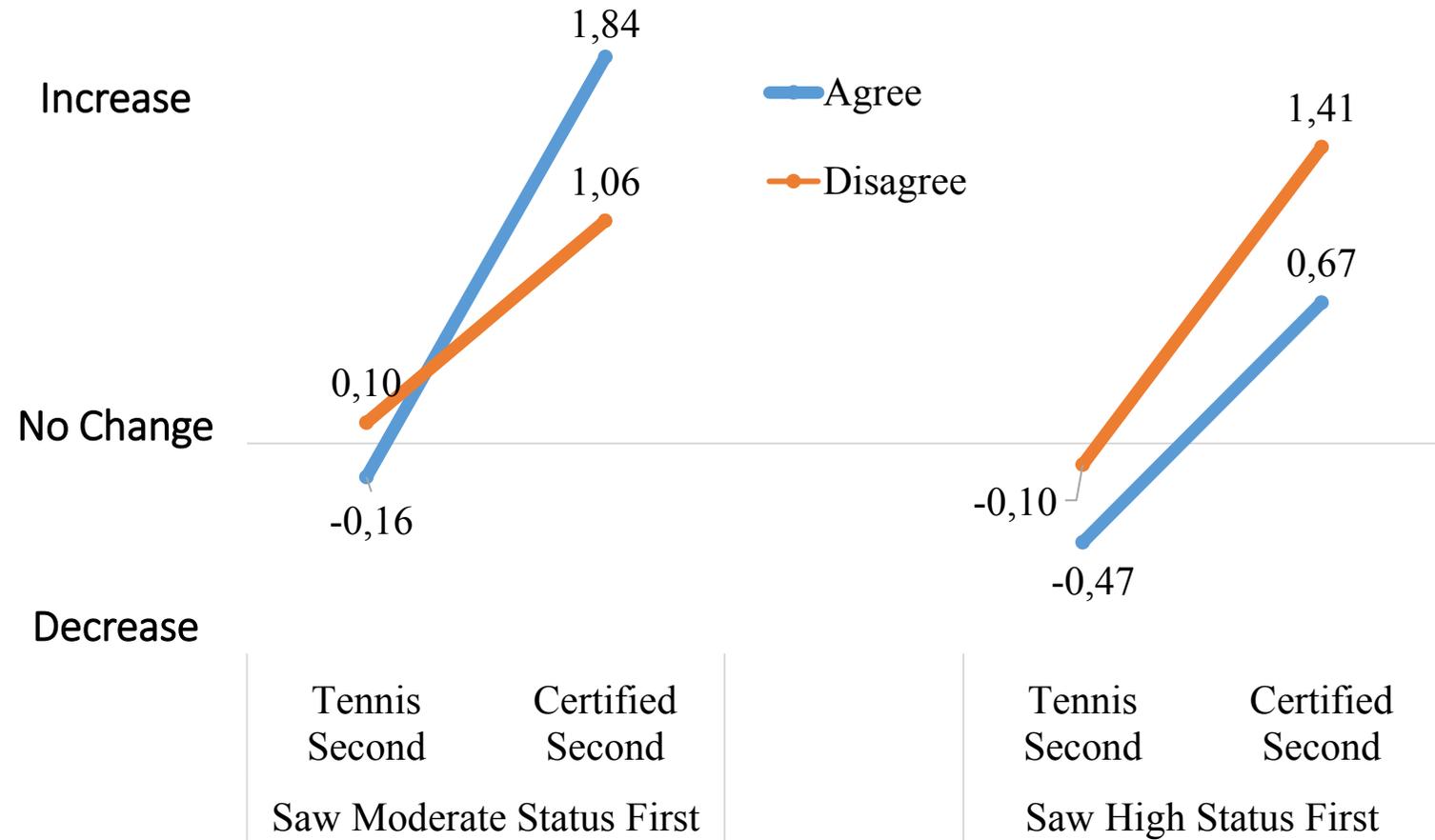


YOU MAY BELIEVE THIS IS  
VALID IF IN REALITY  
YOU PLAY TENNIS WITH  
IMPORTANT PEOPLE &  
WANT TO THINK IT'S  
BECAUSE YOU'RE  
SMART

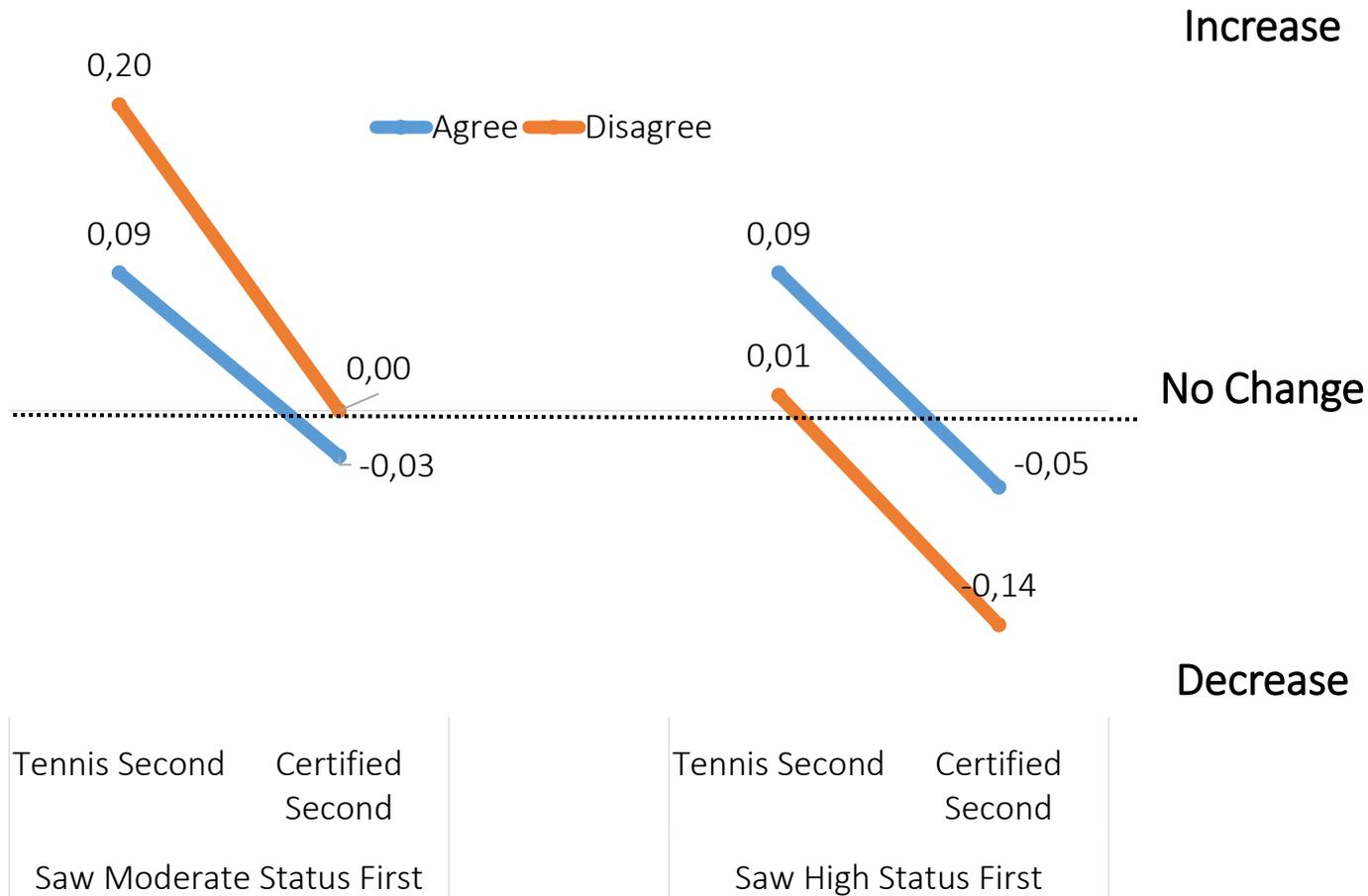


# Change in Competence Assessment

Auditors recognize that certifications signal competence, but playing tennis does not!



# Change in Discount Rate Assessment



**But auditors only change assessments of the client estimate when they learn the expert plays tennis with firm leaders!**

# IMPLICATIONS FOR AUDIT QUALITY

- Auditors don't act as standards envision, but aren't *inconsistent* with standards either
- Embracing the importance of status may help constrain groupthink
  - Prior finding: High status advisors more willing to be contrary & precise
  - This study: auditors more willing to push back when suggested by high status other
- Increasing awareness of status signals seems to help (more justifiable competence assessments, for example)

THANK YOU

*“On a mission to reveal audit quality drivers, one insight at a time”*

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