Practice note: Copycat behavior by junior auditors – The impact of their senior’s working style and the role of promotion incentives

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Executive Summary

As a key attribute to audit quality, regulators specify that more experienced staff (i.e. managers, senior auditors) should provide less experienced staff with appropriate coaching and on-the-job training (IAASB 2014). It is fairly common for junior auditors to start their auditing career by mimicking a more senior person who performs similar tasks; as the saying goes, “Monkey see, monkey do” (Cannon, 2016). Yet, while imitation is an inherent human tendency, limited evidence exists on the impact of such imitative behavior on the quality of an individual auditor’s judgment. The objective of our research project is to examine the extent to which mimicking behavior occurs in junior–senior auditor relationships and its consequences for audit quality. In particular, we advance the argument that this imitation tendency may lead junior auditors to follow seniors’ auditing practices, even when those practices are not always ideal. We also examine whether promotion opportunities for the junior can be an important contributor in mimicking an audit style of a senior (which in turn would affect audit quality). The tendency to imitate their senior – even though his working practices might not be ideal - might be higher when the direct senior has a strong voice in the promotion decision of the junior. The findings of this study are expected to provide valuable insights and recommendations for practice.
Research Synthesis

I. Motivation of the study

This study examines the extent of mimicking behavior in junior-senior auditor relationships and the consequences of mimicking for audit quality. Auditing standards require an audit to be performed by competent experts with appropriate tacit knowledge of the audit procedures, the company and its environment. Such knowledge enables auditors to assess audit risks and obtain sufficient evidence to support the audit opinion. Although inexperienced auditors are typically hired based on their education, they generally have insufficient experience in making the judgments required to properly complete an audit (Wedemeyer, 2010). To compensate for this, junior auditors, who are relatively new to the profession, are typically supervised by a more experienced senior throughout the entire audit engagement. The senior auditor has the responsibility to oversee and monitor the juniors’ work, and providing them with guidance when necessary.

Prior literature suggests that coaching and on-the-job training are highly important in training and educating new employees (e.g. Goldstein & Ford, 2002). In this context, a natural tendency for junior auditors is to rely heavily on observing more experienced staff and to follow their working style (Cannon, 2016). However, how juniors adhere to or disregard the working styles of more expert colleagues in the audit firm, and its impact on audit quality, is a topic that has received scant attention. In this study, we investigate whether new employees, i.e. junior-auditors, are led by the decision-making style of their direct senior. We also consider whether promotion-based incentives can be an important factor that may affect audit quality through mimicking. In doing so, we respond to Knechel et al.’s (2013) call for more research related to the way in which promotion policies within audit firms influence individual auditor decisions. Specifically, one could expect this tendency to materialize more strongly when the stakes for the junior are high, such as in case of an opportunity for a promotion. Due to the way in which promotions happen within audit firms, we expect juniors to be more likely to mimic and adhere to the example set by the senior when the latter has a decisive voice in his or her final promotion decision. Mimicking the senior can be considered as an effort made by the junior to become ingratiated and please their senior and, thus, to positively influence promotion prospects.

The goal of the study is thus to gather detailed insights on the occurrence of mimicking behavior within junior-senior relationships, the impact of such mimicking behavior on audit quality, and the role of promotion-based incentives as a potential contributor to this. While imitation is generally considered useful as a learning tool and strategy to acquire new skills (e.g.
Bandura 1977; Hopper, 2010; Leonard, Barton & Barton, 2013), mimicking is not always advantageous. We consider junior auditors’ tendency to imitate their seniors as potentially detrimental to audit quality, especially if senior auditors do not apply sufficient professional skepticism and criticism, and junior auditors blindly follow their lead. When senior auditors, however, apply more rigor, junior auditors may adopt a more appropriate working style and deliver a higher quality audit in return. Furthermore, junior auditors often face significant career concerns, and pressures from senior management. We expect mimicking behavior to occur more strongly when career concerns are at play. That is, absent any career concerns, junior auditors may be willing to go against their senior, and apply more stringent or critical analyses when this is warranted. However, when strong promotion pressure is present, such critical thinking might be replaced by mimicking styles. The reason for doing so is that juniors tend to believe that through mimicking the senior’s style they increase their chance on a promotion. In fact, the more senior person who evaluates the working papers of junior colleagues might render positive evaluations, when juniors follow the style of their direct senior.

II. Hypothesis Development

Among others, Cannon (2016) argues that it is common practice for juniors to start their career as an auditor by means of mimicking a more senior person performing a similar job. Hence, the popular saying ‘monkey see, monkey do’ seems to be somewhat indicative of what occurs in practice. To develop skills and knowledge for conducting audit tasks properly, guidance by experts is essential. According to Wedemeyer (2010), unexperienced juniors’ lack of on-the-job experience in making audit judgments can be advanced as an important reason why senior lead auditors are important. Indeed, training and expertise are identified as two crucial resources for audit firms to deliver high-quality audits (Francis, 2011; DeFond & Zhang, 2014) and audit firms encourage seniors to share their working papers or to document their working style to enhance knowledge development among junior auditors. Remarkably, even though learning through imitation seems innocent and even desirable at first, it can have devastating implications. Given the fact that people mirror others as a way to develop new skills (e.g. Yale University, 2007), undesirable outcomes are likely to emerge in case the role model has insufficient knowledge, applies a less rigorous working style or allows commercial considerations to interfere with the application of professional skepticism. In particular, junior auditors might end up adopting an inappropriate working style which, in turn, would compromise audit quality. As such, it is expected that a senior’s working style will have an impact on the average audit quality delivered by the junior, if the junior
adopts the senior’s way of working. In the study, we hypothesize that juniors exposed to the working style of a diligent senior (i.e. someone who rigorously applies all auditing standards and examines every detail) deliver on average higher audit quality compared to those facing a commercially-oriented senior auditor in their training. Ideally juniors should abstain from blindly following a senior auditor who takes commercial considerations into account and hence, is willing to abstain from sufficient substantive testing to please the client. If they don't deviate and thus follow the style of the less diligent auditor, this can be regarded as indirect evidence for imitation to have taken place.

In addition, we study the impact that promotion incentives or opportunities have on junior auditors’ tendency to mimic their senior. It appears logical that incentives alter people's behavior as they act as an extrinsic motivator. Vanstraelen (2002), for instance, observed that auditors are less likely to issue a going-concern opinion when their client pays a higher audit fee or when there is pressure on the demand from clients for audit services. This suggests that economic incentives can have an impact on audit behavior. Furthermore, Bandura (1969), argues that an individual's behavior is a function of this person's expectation of the reward that will be obtained by engaging in that behavior, which advocates that behavior similarity increases as the stakes become higher. As such, when people are aware that they are eligible for a promotion, they will likely want to safeguard this opportunity, which, among others, implies ingratiating themselves with their senior. In absence of strong incentives, junior auditors may adhere to their professional skepticism, and be less likely to blindly mimic their senior. Hence, we hypothesize that the effect of the senior’s working style on the delivered audit quality by the junior will be more outspoken in case the senior has a decisive influence on the promotion decision of the junior.

III. Methodology

To empirically test the hypotheses developed in the previous section, we will use an experiment with junior auditors from the big four audit firms as participants. We will use a scenario based setting, where juniors receive guidance from a senior on a less common task. Consistent with prior work, we use a more complex fair value estimation case where participants are requested to solve the case to their best knowledge. The case includes various seeded cues which juniors need to detect to form an unbiased audit opinion. Next to a control condition, we manipulate two variables leading to four experimental treatments. The first variable concerns the senior’s working style to which the junior can refer. Junior are assigned to a diligent senior auditor in one condition. In the other condition they receive the working paper of a more commercially-
oriented senior. In the case junior auditors need to apply their own standards but they can consult the working paper of a senior auditor that can offer some guidance as the senior has worked for the company in the year before the current engagement. If juniors would apply their own standards, they should be able to detect that blindly following the procedures of in particular the more commercially-oriented senior, might not be best for audit quality. This case study allows us to assess the level of imitation that juniors do when faced with a certain working style of a senior. Do auditors mimic procedures of their exemplar auditor, when such mimicking may not be appropriate? The second variable concerns the promotion opportunity where the importance of the senior’s voice in the promotion decision is manipulated. The senior can either have a decisive influence versus a non-decisive influence in the final promotion round that is coming up for the junior. Our main variables of interest are the quality of the juniors’ solution (as an indirect measure of imitation) and the extent to which they have followed the senior’s example (as a direct measure of imitation). In addition, information on the participants’ background and traits, that should have an additional effect on the delivered audit quality, is also acquired and can be controlled for. To address our first hypothesis, we will test the impact of the senior’s working style on the two key variables of interest. To test our second hypothesis, we will examine whether these effects differ depending on the promotion opportunity.

IV. Practical Relevance

The study will deliver important insights to both regulators and auditing practitioners, not only by identifying the imitation phenomenon, but also by highlighting the conditions under which it is likely to occur and is potentially detrimental to audit quality. IAASB (2014) requires auditors to exercise professional skepticism and hence they should adopt a questioning mind in the execution of their duties. However, the tendency of juniors to imitate their senior might interfere with this requirement, if the latter does not set the right example. We intend to contribute to auditing practice by providing insights on the occurrence and magnitude of auditors’ imitation tendencies, and the corresponding implications for audit quality. This allows to provide valuable suggestions and recommendations on how to best organize juniors’ on-the-job training within audit firms, which, in turn, can be used as input for the development of new regulation. In particular, should it turn out that mimicking behavior is widespread and severely affects audit quality, new auditing standards might have to be developed such as to impose some sort of ‘senior rotation’ mechanism so that people are exposed to different working styles of various experts, which could lead to more discussion and professional skepticism in application of audit procedures. This would also limit the
influence from one particular senior and allow the junior to get a broader understanding on how certain procedures need to be best applied.

In addition, developing expert knowledge databases in which multiple working papers of experts can be consulted might help to increase exposure to different examples and, hence, reduce narrow mimicking of potentially suboptimal approaches. Such expert databases could consider best practices or documentation of guidelines which auditors should keep in mind when performing their audit tasks. Furthermore, by considering promotion opportunities as a reinforcing factor, we also examine the way in which promotion policies within audit firms influence individual auditor decisions. Our findings in this regard can be used by both audit firms and regulators to fine-tune current promotion processes and where necessary improve them. Our results could trigger discussions on how promotion committee structures should best be set up, and what factors can potentially undue undesirable pressures from senior management.

References


