How do Audit Committees Support Audit Engagement Teams and Encourage Professional Skepticism? A Survey and Experimental Evidence

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ABSTRACT

We explore how audit committees (ACs) support audit engagement teams and whether AC support can improve auditors' professional skepticism. We first survey audit practitioners and find that AC support is multidimensional, varies between engagements, and often is not communicated to the entire engagement team. We then experimentally investigate whether the explicit communication of AC support to the entire engagement team (by the partner vs. the AC chair) impacts the skepticism of auditors. While skeptical judgments are consistently high, auditors vary in their skeptical actions. When management attitudes towards the engagement team are poor, AC support communicated by the audit partner increases skeptical actions. Direct communication of support by the AC chair does not increase skepticism relative to when the partner conveys AC support. Our findings highlight the importance of AC support for audit teams, and the lack of AC support (or communication thereof) that exists on many audit engagements.

JEL codes: G34, M40, M41, M42

Keywords: audit committee; social support; fraud red flag; management attitude; auditor professional skepticism

Data Availability: Contact the authors

1. Introduction

Audit committees (ACs) oversee auditing and financial reporting in most public companies and many private companies globally (AFM [2021], PCAOB [2021]). Research finds that ACs can increase financial reporting quality, and often assumes that ACs do so by challenging management and supporting auditors in negotiations over financial reporting issues (e.g., DeZoort and Salterio [2001], DeZoort, Hermanson, and Houston [2008], Beck and Mauldin [2014], Cohen, Krishnamoorthy, and Wright [2010]; Cohen, Hoitash, Krishnamoorthy, and Wright [2014], Draeger, Haislip, and Sterin [2021]). However, there is limited evidence on the degree to which ACs actually offer support to audit teams and the types of support they offer.

Accordingly, we first survey experienced auditors in the US and the Netherlands to explore the current state of AC support in practice. Auditors report having supportive ACs on about half of their engagements, suggesting substantial real-world variance in support. Further, auditors regard AC support as multidimensional, consistent with theory on social support that characterizes support as a communication process involving the exchange or perceived availability of respect, help, or information (e.g., Schwarzer, Knoll, and Rieckman [2003]). When ACs provide support, the majority of auditors report receiving *emotional support* in the form of respect and appreciation (e.g., AC openness, appreciation of the audit) in addition to *instrumental support* that is closer to the views of prior AC studies (e.g., AC challenging management in meetings). Auditors indicate that *informational support* (e.g., AC sharing pertinent facts or insights) occurs less frequently. Further, survey results reveal that ACs rarely communicate with engagement team members below the partner and senior manager level and AC support is often not communicated to the entire team. Thus, to the extent that ACs *do* support

audit teams, this support may not always reach the managers, seniors, and staff who perform most risk assessments and substantive testing.

Our survey findings suggest auditors believe AC support manifests in many ways and can be beneficial to audit quality. To validate and extend these findings, we conduct an experiment with a separate group of experienced auditors to examine the effects of AC support in a key domain: the exercise of professional skepticism when a fraud red flag is present.[1] Skepticism is a bedrock of audit quality, and insufficient skepticism is a global issue that is often cited as a root cause of audit failures (e.g., EC [2010], PCAOB [2012a, 2012b], IAASB [2012]). Importantly, there are significant barriers to skepticism because its application often increases audit testing and costs, and thus conflicts with auditors' motivations to meet their budgets, satisfy clients, and avoid negative interactions (Nelson [2009], Brazel, Jackson, Schaefer, and Stewart [2016], Bauer, Hillison, and Mokhtar [2020]). While auditors decrease skepticism in order to avoid these interactions (Bennett and Hatfield [2013, 2018]), a supportive AC could alleviate many of the barriers to skepticism (e.g., intervene when relations with management are strained). However, there is considerable tension as to whether AC support can affect skepticism because, when asked in our survey, about half of our auditors responded that ACs *do not affect* the professional skepticism of audit engagement teams.

In our experiment, audit seniors perform a substantive analytical procedure related to sales where other financial information supports the account balance (e.g., prior year balances, industry trends), but a large inconsistency exists between sales and related nonfinancial measures (e.g., Brazel, Jones, and Zimbelman [2009]). The auditors must decide whether or not to investigate the sales account further. We manipulate a likely barrier to skepticism by describing

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[1] Professional skepticism is an attitude that involves a questioning mind and a critical assessment of audit evidence (e.g., IAASB [2008], Nelson [2009], PCAOB [2012a]).

the client's attitude toward the audit team as either rude and condescending (poor) or friendly and respectful (good). To manipulate AC support, we vary the presence versus absence of commonly mentioned dimensions of support from our survey, such as the AC's openness and availability to the auditor, encouraging management responsiveness to auditor requests, and stating appreciation for the auditor's work. Given that direct communication between the AC and the entire audit team is rare, we manipulate AC support as either (1) the audit partner *indirectly* conveys AC support to the audit team or (2) the AC chair *directly* conveys it to the team. Our control condition provides no mention of support. Absent AC support, we predict that skepticism will be lower when management attitudes are poor, as opposed to good, but that AC support conveyed by the partner will mitigate this effect. Consistent with theory that direct communication is more credible (Pornpitakpan [2004]), we predict that AC support will increase skepticism to an even greater degree when the AC chair conveys it.

We find no effect of AC support on auditors' skeptical *judgments* (identifying the inconsistency), but we do find that support affects auditors' skeptical *actions* (investigating the inconsistency). When there is no AC support, auditors are significantly less likely to take skeptical action when management has a poor attitude towards the audit team. However, AC support conveyed by the audit partner increases auditors' skeptical action when management has a poor attitude. Encouragingly, increased skeptical action is driven by an increased willingness to question management directly about the fraud red flag. We also find that the presence of a partner conveying the AC's support increases the *consistency* between skeptical judgments and actions—i.e., auditors are more likely to act on their judgments, a link that research suggests is tenuous (e.g., Brazel, Leiby, and Schaefer [2021], Barr-Pulliam, Brazel, McCallen, and Walker [2021]). Contrary to our prediction, we do not find that the AC chair directly conveying support

to the audit team increases skepticism beyond that observed when the partner indirectly expresses the AC's support to the team.

This study makes multiple contributions to the literature. First, our survey findings open up the "black box" on the topic of AC support by providing important descriptive data and illustrative anecdotes from audit practitioners using a novel lens – social support theory. By definition, support is a form of communication, and substantially all stakeholders agree that communication is a dimension of AC effectiveness (e.g., Deloitte [2018], IFAC [2019], PCAOB [2021]). Supporting audit teams—and communicating this support through effective channels— may be an overlooked dimension of AC effectiveness in the academic literature. It is noteworthy that our participants believe AC support is absent on many engagements, consistent with prior interview evidence in which auditors perceive ACs as having a reactive, as opposed to proactive role (e.g., Cohen et al. [2010, 2014]; Dodgson, Agoglia, Bennett, and Cohen [2020]). Additionally, auditors view AC support more broadly than prior literature would suggest, encompassing not only direct assistance but also encouragement and appreciation (e.g., Gendron, Bedard, and Gosselin [2004]; Rummell, DeZoort, and Hermanson [2019]). This broader form of support is likely to help auditors in the field cope with the array of stressors they confront, such as poor management attitudes, high workloads, and long busy season hours.

Our experiment has an encouraging finding: audit partners indirectly conveying AC support appears as effective as AC chairs doing so in a direct way. From a practical perspective, a partner conveying this support is a low-cost, practical intervention that can enhance audit quality. While it is possible that the AC chair directly conveying support would be beneficial, it is less feasible in light of the increasingly global nature of audits and dispersed audit teams that may not personally encounter AC members.

Related to professional skepticism, our survey and experimental findings are also encouraging. Prior research finds that, in general, auditors are reluctant to exercise skepticism (Shaub and Lawrence [1999], Earley [2001], Brazel et al. [2021]). Even an audit partner's instruction to exercise skepticism can be relatively ineffective at increasing auditor skepticism (Peecher [1996], Carpenter and Reimers [2013]). Our results suggest such explicit skepticism instructions may not be necessary if AC support is effectively communicated. If AC support proactively insulates auditors from the stress associated with skeptical action, then it is possible that supportive ACs may also be able to improve audit quality in other contexts.

2. Survey Study

2.1 RESEARCH QUESTIONS

The AC oversees external financial reporting and auditing in all public companies and many private companies in the U.S., as well as internationally (e.g., U.S. House of Representatives [2002], Monitoring Committee Corporate Governance Code [2016], AFM [2021]). A large body of research finds that ACs can improve financial reporting and audit quality, specifically when AC expertise, effort, or independence is high (e.g., Abbott, Parker, and Peters [2004], Cohen et al. [2014], Lhudhair, Al-Zubaidi, and Raji [2019]). However, research also suggests that AC oversight varies widely in practice—even when it comes to activities such as interacting with the auditor (DeZoort and Salterio [2001], DeZoort, Hermanson, and Houston [2003, 2008], Brazel and Schmidt [2019]). For instance, Beasley, Carcello, Hermanson, and Neal [2009, 77] interview 42 U.S. AC members who report that the AC often "has limited contact with and oversight of [the] external audit and gathers no information to evaluate auditor performance." Other studies suggest there are differences in the ways ACs support the auditor (Turley and Zaman [2007]).

In brief, little is known about whether and how ACs support external auditors or how this support affects auditor judgment and decision making. We address this issue by surveying auditing professionals regarding the degree to which, and methods by which, ACs support auditors in practice. Our overarching research questions formally stated are as follows:

RQ1: Do audit committees provide support for audit engagement teams?
RQ2: If so, how do audit committees support audit engagement teams?

2.2 SURVEY METHOD

To investigate our research questions, we developed a survey that captured audit professionals' experiences and thoughts related to AC support. The survey, which contained both open-ended and closed questions, was administered by both the Center for Audit Quality (CAQ) in the United States (US) and the Foundation for Auditing Research (FAR) in the Netherlands (NL), and resulted in 104 total responses. Audit practitioners and representatives from both the CAQ and FAR provided extensive feedback on the survey instrument to ensure its clarity and that the questions would elicit meaningful responses. U.S. survey participants were employed by all of the largest eight auditing firms, and Dutch participants were employed by one Big Four auditing firm. The survey was hosted by Qualtrics and completed online by participants.[2]

Participant demographic data is presented in Table 1. Of the 104 audit professionals who responded to our survey, 46 and 58 work for U.S. and NL firms, respectively.[3] We obtained a diverse sample of participants with 23% being partners, 7% directors, 30% senior managers/managers, and 40% seniors.[4] The participants served a variety of industries, with the

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[2] We obtained Institutional Review Board approval for the survey and experiment used in this study.
[3] For each of our survey questions, a small portion of our sample chose not to respond. As such, the total number of respondents in Tables 2-5 are below 104.
[4] We include audit seniors in our sample because one of our research interests is to determine the extent to which AC support is conveyed to the *entire* engagement team (vs. just the audit partners and senior managers who often deal directly with ACs). We are also interested in how such support can affect the professional skepticism applied by audit engagement teams. Audit seniors are often tasked with performing/overseeing the risk assessments and substantive tests where skepticism is most often applied.

three most common industries being Financial Institutions, Retail, and Manufacturing. On average, participants reported that the engagements on which they primarily serve were both publicly traded companies (58%) and privately held companies (40%).

2.3 SURVEY FINDINGS RELATED TO RQ1

To address RQ1 ("Do audit committees provide support for audit engagement teams?") we first asked participants: "On what percentage of your engagements have you experienced a *supportive* audit committee?" Figure 1 presents descriptive statistics and a frequency distribution of the responses. The mean percentage response provided in Panel A of Figure 1 is 61%, indicating that the AC is supportive of the engagement team on more than half of respondents' engagements. Importantly, Panel B indicates substantial variation in auditors' experiences of AC support.

Table 2 illustrates audit team interactions with the AC. As shown in Panel A of Table 2, we find that direct interactions with the AC are typically limited to the audit partner (98%) or upper-level members of the engagement team (director 67%; senior manager 67%). While the low frequency of interactions between audit seniors and AC members is unsurprising, it was interesting to note the relatively low percentage for audit managers (25%). This lack of interaction is consistent with some guidance to AC members that focuses on building relationships *with partners*, but do not stress doing so at lower levels (e.g., PwC [2020]). Audit managers interact extensively with corporate management and fulfill a significant portion of the supervisory duties on audit engagements (Westermann, Bedard, and Earley [2015]). Thus, the lack of interaction with the AC at the manager level may be a missed opportunity.

Given the lack of direct communication between the AC and the entire engagement team, we asked participants to indicate the percentage of their engagements in which the audit partner or manager explicitly communicated the AC's support to the entire engagement team.

Participants indicated that such support was conveyed, on average, on 44% of audit engagements

(Table 2, Panel B). When we asked how the support was conveyed and if there was any effect on

the audit, one participant responded:

> During an audit committee meeting, we reported various findings and deficiencies that had been discovered during the audit. These findings had been discussed with management prior to the meeting, and management had disagreed with several of them, leading to some tense moments. However, during the audit committee meeting, certain committee members were very receptive to the findings and reiterated just how important it was for management to address these items in a timely manner. They also complimented the thoroughness of the audit to find these items and voiced their pleasure with the team. Due to the significant level of stress and hours put into the engagement, the manager and partner informed the rest of the engagement team of the positive comments. The team was very happy that their efforts were appreciated by the audit committee, as it seemed they had not been by management. In subsequent engagements, it seemed that the team was even more thorough and were not as affected when management disagreed with a finding/deficiency (Manager, US).

Appendix A contains additional examples of participant responses to the aforementioned and

upcoming qualitative questions we describe in this study.

We further asked on what percentage of their engagements a member of the AC had

directly expressed the AC's support to the entire engagement team. Participants indicated that

such support was directly conveyed, on average, on only 13% of audit engagements (Table 2,

Panel B). When we asked how the support was directly conveyed and if there was any effect on

the audit, one participant said:

> The audit committee chairman personally thanked the engagement team for their hard work and attention to detail/quality. It was a rewarding feeling for the audit team and we felt that we were ultimately serving the needs of the users of the financial statements with our best efforts in an objective and independent manner (Partner, NL).

On the other hand, on 41% of engagements, *no* mention of AC support is conveyed to the

engagement team (Table 2, Panel B). Audit seniors report a significantly higher percentage of

engagements where no AC support is mentioned (Mean = 54.1%) compared to partners,

directors, and managers (Mean = 32.7%; t = 2.975, p < 0.01, not tabulated).[5] Thus, the AC

support illustrated in Figure 1 may not always be trickling down to lower levels of the

engagement team.

2.4 SURVEY FINDINGS RELATED TO RQ2

2.4.1 Social Support Categories. RQ2 asks *how* ACs show support for an audit

engagement team. To explore this question, we define support and its categories based on the

social support literature. Social support is the exchange (or perceived availability) of respect,

help, and information between two or more people (Veiel [1985], Schwarzer, Knoll and

Rieckman [2003]). Social support is fundamentally a communication process encompassing the

request, offer, delivery, and receipt of support that typically comes from spouses, friends, co-

workers, and other peers (Goldsmith and Fitch [1997]). Importantly, support can refer both

retrospectively to what has been received and prospectively to what is available if needed.

Importantly, social support requires only the *perception* such support exists. The primary

function of social support is to insulate people from the negative effects of social or work stress

(e.g., Cohen and Wills [1985]). That is, support is most needed and most beneficial in stressful or

high-risk scenarios. Aligned with this view, studies find that social support helps individuals

cope with job demands, raises morale, and improves decision-making (Demerouti, Bakker,

Nachreiner, and Schaufeli [2001], Bakker, Demerouti, and Verbeke [2004], Taylor [2011],

Rains, Peterson, and Wright [2015]).

According to a review of the social support literature by Taylor (2011), social support can

be categorized as: informational, instrumental, and emotional. *Informational support* is

characterized by the provision of facts, guidance, or advice. *Instrumental support* offers direct

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[5] All p-values described in this study are two-tailed except for our directional tests of hypotheses which are one-tailed.

aid in completing a task. *Emotional support* involves the provision of nurturance, reassurance of one's value, empathy, or encouragement.

We asked our practitioners how audit committees can show support for the audit team and Panel A of Table 3 provides the frequency of responses for each of the three categories.[6] Although responses ranged across categories, participants mentioned emotional support most frequently (68% of participants), followed by instrumental (53%) and informational (19%) support. These responses suggest that ACs provide a range of social support to engagement teams, which is consistent with AC support being a multifaceted construct.

It is noteworthy that audit managers, directors, and partners cited emotional support more frequently than seniors (81% and 47%, respectively). This suggests that upper-level engagement team members believe that they confront significant stressors related to emotional regulation and relationship management, and AC support can be beneficial in this regard. In addition, managers, directors, and partners rarely mentioned informational support (10%). On the other hand, seniors, who are tasked with assessing risks and performing substantive tests, mentioned informational support more often (32%). Taken as a whole, engagement team members seem to differ in their perceptions regarding how support is shown, which aligns with the differences in interactions we noted in RQ1 and the differences in responsibilities across engagement team levels.

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[6] Results reported in Panels A of Table 3 and 5 are based on the coding of participants' responses to our open-ended questions according to the Social Support Behavior Code (Cutrona and Suhr [1992], Taylor [2011]). For each question, two of the researchers reviewed the responses and independently sorted each response into the relevant categories. The researchers then reconciled their categorizations. Qualitative responses ranged from a few words to a paragraph, such that responses could be coded into one or more categories. Before reconciliation, the two coders achieved an initial intercoder agreement of between 88.2% and 97.9% for all categories, with Cohen's Kappa measures between 0.766 and 0.951 (all p's< 0.001), which is considered 'substantial agreement' to 'almost perfect agreement' (Landis and Koch [1977]). Data presented in Panels A of Tables 3 and 5 are based on the reconciled coding of the open-ended survey questions. We were unable to use coders that were independent of the research team because the FAR only allows members of the research team to access the data through a secure portal.

2.4.2 Social Support from an Applied Perspective. We examine RQ2 more closely by analyzing how the most frequently mentioned AC support behaviors occur in *audit practice*, as listed in Panel B of Table 3.[7] Examples of responses with related social support categories (not italicized) and audit practice behaviors (*italicized*) are:

> Audit committees can be supportive of the engagement team by showing appreciation of the audit function in front of management (setting a tone that they value the work of the auditor). They can also show support by scheduling an appropriate amount of time for the auditors during their meeting and not rushing through the audit portion of the meeting. Lastly, I think it's important that when auditors come with problems to report, such as a material weakness, the audit committee seeks to understand the auditor concerns rather than only echo the positions of management (Manager, US: Emotional; *Openness, Appreciation, Stands with Auditor*).

> In my opinion receiving support from the audit committee can be expressed in the following ways: 1. Be open and thankful if we discover red flags, misstatements, and control deficiencies. They should see this as a way to improve the organization. 2. Make sure that management and staff share also the same views. Most of the time we see that top management is happy with our work but the actual employees that we talk to see us as a burden because we cause them more work. 3. Having challenging conversations with them with respect to how we do things. This could give us new ideas and perspectives and could lead to efficiencies in our work. 4. Ensure a smooth process over fees discussion. At one of my clients, this is a recurring and painful topic that creates a lot of frictions. There is mismatch between time spent, fees received, and quality of the work (Senior, NL: Instrumental, Emotional; *Management Cooperation, Appreciation, AC Challenges Auditor, Fees*).

Results in Table 3 Panel B illustrate that the AC's openness to the auditor, ability to stress to management their need to cooperate with the auditor, and expression of appreciation for the role of the audit were the top 3 topics.[8] Interestingly, one common theme arises amongst the

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[7] Results reported in Panels B of Table 3 and 5 as well as Table 4 are based on the coding of participants' responses to our open-ended questions similar to the method employed by Glover, Taylor, and Wu [2017]. For each question, two of the researchers reviewed the responses and independently developed respective inductive coding schemes with typically between 7 to 12 response topics (and related descriptions) per question. The researchers then reconciled their coding schemes to develop one set of response topics per question. Subsequently, they independently coded the open-ended responses in accordance with the reconciled coding scheme. Qualitative responses ranged from a few words to a paragraph, such that responses could be coded into one or more topics. Before reconciliation, the two coders achieved an initial intercoder agreement of between 92.2% and 94.3% for all topics, with Cohen's Kappa measures between 0.727 and 0.739 (all p's < 0.001), which is considered 'substantial agreement' (Landis and Koch [1977]). Finally, the two coders met and reconciled all coding differences. Data presented are based on the reconciled coding of the open-ended survey questions. We were unable to use coders that were independent of the research team because the FAR only allows members of the research team to access the data through a secure portal.

[8] Overall, as shown in Panel B of Table 3, findings pertaining to RQ2 are mostly consistent across lower (seniors) and higher ranks (managers and above). However, there are two notable differences when it comes to the top three topics: for seniors, rather than appreciation, they mention the importance of obtaining insights from the AC as their

top 3 responses: the role of the AC in insulating and supporting the auditor when tensions with management and their accounting staff are present (e.g., meetings without management present, pushing management and staff to provide timely evidence, and expressing appreciation in front of management). Again, our findings indicate that AC support is a multifaceted construct. Starting with AC expertise, nine different topics in Panel B of Table 3 were mentioned by 10 or more respondents. It is worth noting that all mentions of AC expertise related to the AC having sufficient knowledge to appreciate the work that auditors do. None of our participants noted AC expertise as being critical to either instrumental or informational support. Last, given prior research linking audit fees to audit quality, budget overages being a primary cost of skepticism, and the profession's current focus on audit data analytics (e.g., Nelson [2009], Austin, Carpenter, Christ, and Nielson [2021]), it is noteworthy that few respondents mentioned audit fees or audit innovation (5% and 4%, respectively).

2.4.3 AC Support Related to Professional Skepticism. In auditing, the critical activity of exercising skepticism is likely to benefit from AC support, as applying skepticism can activate a variety of stressors for auditors. For instance, Brazel et al. [2016, 2021] find that audit firms' performance evaluation systems discourage skeptical behavior in some consequential settings. When skepticism does not identify a misstatement, supervisors view the incremental costs of skeptical acts negatively and, as a result, subordinates engage in lower levels of skeptical actions. Situational factors can similarly increase auditors' reluctance to exercise skepticism, such as feelings of accountability to clients (Hackenbrack and Nelson [1996], Kadous, Kennedy, and Peecher [2003]), excessive workloads (Cohn [2013], Persellin, Schmidt, Vandervelde, and Wilkins [2019]), and unpleasant social interactions with client management (Nelson [2009],

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third most cited topic. Meanwhile, auditors at higher ranks additionally describe the AC challenging management as an important topic.

Bennett and Hatfield [2013]). Consistent with the idea that social support insulates people from stress (Cohen and Wills [1985]) and that support should be provided by credible sources (Wright [2000]), AC support may proactively insulate auditors from many of the costs of skepticism.

As such, we considered RQ2 more specifically in the context of professional skepticism. Table 4 reports the six categories of participant responses when asked how ACs have affected the professional skepticism exercised by engagement teams.[9] Most notably, 45% of our respondents indicate that ACs have *no impact* on the professional skepticism of engagement teams. This percentage is higher for seniors (62%) than for those ranking above senior (35%; p = 0.05, Fisher's Exact Test, not tabulated). Given our finding that *no* mention of AC support is conveyed to the engagement team on 41% of engagements (Panel B, Table 2), this difference in perception may reflect *a lack of communication* of AC support. For example, one participant noted:

> I don't feel the audit committees I have interacted with increase or decrease skepticism exercised by teams. The teams in the day-to-day detail work do not have direct interaction with the committees (Manager, US: *No Impact*).

We also find that when ACs *do* affect the professional skepticism on audits, they likely affect the scope of testing/substantive testing phase of the audit. Managers and partners (but not seniors) report that they *increase* risk assessment efforts in response to AC support. Some managers and partners (but not seniors) bring up the notion of accountability to the AC in response to support. Related to the scope of testing and a questioning mind, respondents said:

> Obtaining positive feedback from the AC on our audit procedures has provided assurance that we are doing the right procedures. Also, where the audit committee has requested we increase our audit scope - e.g. requesting we bring more component locations into scope (Manager, NL: *Scope of Testing*).

> In one of my past engagements, there was a very involved and "strong personality" as the head of the AC, who was previously a corporate turnaround executive. When he took over, there were a few issues: 1. over 20 passed adjustments due to materiality, 2. the audit team was testing different

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[9] See footnote 7 for details on how the responses were coded in an inductive manner.

controls than management, and 3. the company had little, if any, infrastructure around their income taxes and had a material weakness in the controls. Because of his leadership and holding management accountable, all three of these items were corrected/fixed in less than two years after building up over a number of years. The AC involvement and drive to challenge management allowed the engagement team the "blessing" to challenge the status quo, to ask deeper fundamental questions, and opened the dialog of skepticism for the audit team. Bottom line - the tone and leadership from the AC chair is a fundamental element of allowing auditors to be viewed as more than a year-long compliance audit (Senior Manager, US: *Scope of Testing, Questioning Mind*).

Overall, there does not appear to be a consensus amongst audit professionals on the role ACs play in enhancing the professional skepticism applied by audit engagement teams.

2.4.4 Best Practices Related to Audit Committee Support. To learn more about the types of support that auditors desire, we asked our participants to share their beliefs about best practices and ideal AC-audit team dynamics.[10] Similar to our approach above, we first examine participant responses to this question through the lens of social support theory.

Panel A of Table 5 provides the frequency of responses for each of the three Social Support Behavior Code categories. Results were similar to those reported in Table 3 in that participants mentioned all three categories, with *emotional support* cited most frequently (59% of participants), followed by *instrumental support* (47%), and finally *informational support* (23%) was again the least commonly noted. The results differed, however, in that responses differed less on *emotional support* between more junior and more senior engagement team members (50% versus 64%, respectively). While more junior and more senior team members report different *experiences* with AC support, they report more commonality on their *desired* types of support. Further, the variation in responses suggests that auditors see value in ACs expressing multiple types of social support to the engagement team.

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[10] As noted in Table 5, we obtained best practices and desired dynamics using two separate questions. For each participant, we coded responses to both questions under the topics listed in Table 5. If a participant mentioned a specific topic in both of their responses, that topic was only counted once for the purposes of Table 5. For coding, we used the same approach as described in footnotes 6 (results reported in Table 5, Panel A) and 7 (results reported in Table 5, Panel B), respectively.

In Panel B of Table 5, we analyze the identified topics describing AC best practices as they occur in *audit practice*. The top 12 topics are listed, and responses are largely consistent with the types of AC support mentioned in Table 3, with an emphasis on openness, mediating management conflicts, and insulating the auditor from management pressure and attitudes. New in Table 5 is that several respondents describe the AC interacting with the entire engagement team.[11] Responses included:

> In a perfect world, audit committees would stress to management the importance of the audit process and ensuring proper responses to any audit findings/deficiencies. They would further provide a more intricate analysis of the company and where there may be risks that the auditor wouldn't specifically identify. Further, by being amenable to additional fees and stressing that if extra hours are incurred to ensure that a proper audit is performed, it would lead to teams being more thorough instead of focusing largely on keeping engagement hours down and profitability up (Manager, US: Informational, Instrumental, Emotional; *Management Cooperation, Insights, Fees*).

> Have frequent communication with the audit team, not only with the partners and the directors, but occasionally with the lower-level members of the team, since they are more involved with the day-to-day audit work (Manager, US: Emotional; *Openness and Involvement, Interact with Whole Team*).

> Ideally, I would want audit committees to be involved in the important high-risk areas in an audit. If management does not take certain requests serious enough, I would like to see an ideal situation where the engagement team can discuss those issues with the audit committee and get them more involved in certain aspects of high-risk areas (Senior, US: Instrumental, Emotional; *Openness and Involvement, Management Cooperation*).

2.5 OVERARCHING THEMES AND MOTIVATION FOR EXPERIMENTATION

Taken as a whole, our survey results indicate that the extent of AC support varies substantially between engagements and that ACs demonstrate this support to engagement teams in a variety of ways. We also find that senior members of the engagement team (e.g., partners) are often the target of social support offered by ACs, but this support may not spread to the entire engagement team in the same way. Related to the primary costs of skepticism, our participants

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[11] Considering rank differences, we again note that seniors note the importance of AC insights, while managers and partners are relatively more focused on the importance of an AC that stands with the auditor (i.e., an instrumental or tangible form of support).

were apt to note the importance of ACs insulating the engagement team when management

attitudes toward the engagement team are negative, responses to auditor requests are delayed,

and conflicts arise. Finally, we found no consensus among our respondents as to whether AC

support could actually impact the professional skepticism exercised by engagement teams. If AC

support were to impact the skepticism of auditors, our respondents indicated that it was most

likely to occur during the substantive testing phase of the audit. In the next section, we describe

an experimental study that is informed by these survey findings and attempts to further examine

the relation between AC support and the application of professional skepticism.

3. Experimental Study

In this section, we conduct an experimental study focusing on the skeptical judgments

and actions (hereafter, skepticism) of audit seniors (hereafter, auditors) during the substantive

testing phase of an audit engagement. Consistent with theory and our survey responses indicating

AC support being most important in the presence of stressors, we (1) utilize a generally higher

stress setting for individual auditors where a fraud red flag is present and skepticism is

warranted, and (2) manipulate a key impediment, or cost, to skepticism: the attitudes of

management and its staff with respect to the audit team. We then investigate whether social

support provided by the AC can mitigate the detrimental effect of poor management attitudes on

skepticism.

Our survey results also suggest that (1) even if ACs provide support, the support may not

have its intended effects and (2) AC support may not always trickle down to the lower levels of

the audit team. We examine one possible determinant of the effectiveness of social support

offered by ACs. Specifically, we examine if *how the AC support is communicated*, either

indirectly by the audit partner or directly from the AC chair, affects auditors' skepticism.

3.1 HYPOTHESIS DEVELOPMENT

Exercising appropriate professional skepticism, such as performing more testing and/or

gathering more evidence when a red flag is identified, increases the likelihood that material

misstatements are detected and hence improves audit quality. However, exercising skepticism

also has a cost when additional work is performed to obtain sufficient and appropriate evidence,

such as budget overages and conflicts with clients (Nelson [2009], PCAOB [2012a]). Studies by

Brazel et al. [2016, 2021] demonstrate that, even when auditors identify evidence inconsistencies

or red flags (i.e., exercise appropriate skeptical *judgment*), the costs of skepticism are a

significant barrier to the appropriate application of skeptical *action*. Research also demonstrates

that auditors perceive the costs of skepticism to be particularly acute when management attitudes

are poor, serving as a stressor and thus leading auditors to avoid social interactions, collect less

evidence, and decrease their skepticism (e.g., Commerford, Hatfield, Houston, and Mullis

[2017]).

AC support may help to proactively insulate the audit engagement team from such

stressors. ACs have the authority to do so, as they typically hire, fire, and evaluate the auditor,

approve audit fees, consider additional fees for budget overruns, and resolve any disagreements

between management and the auditor (Bierstaker, Cohen, DeZoort, and Hermanson [2012],

Brazel et al. [2016]). However, as our survey responses and prior accounting research indicate,

AC support for the audit team varies substantially between engagements (Agoglia, Tsakumis,

and Doupnik [2011], Bierstaker et al. [2012], Brazel and Schmidt [2019]). In addition, even

when the AC is supportive, it is possible that (1) such support is not formally expressed/made

explicit to lower-ranked members of the engagement team or (2) as our survey responses indicate, may not be received in a way that enhances skepticism.[12] Nonetheless, psychological and medical studies of social support suggest that such support, if deemed credible, could provide auditors with the reassurance and motivation to act skeptically (e.g., Schwarzer et al. [2003], Taylor [2011]).[13]

Consistent with this idea, accounting researchers point to a supportive culture enhancing professional skepticism, and regulators have emphasized the importance of "tone at the top" in relation to skepticism (e.g., PCAOB [2012a], Carpenter and Reimers [2013]). We suggest that AC support for the engagement team can improve this "tone at the top" in several ways. Our survey respondents particularly noted the importance of AC support in easing tensions with management (see Panel B of Table 3). Thus, if management's attitude is poor and auditors avoid exercising skepticism in order to minimize unpleasant interactions with management, then formal expressions of support to the entire audit team should improve the application of skepticism. We expect support to be particularly impactful when client attitudes towards the audit team are poor, as it may not only ease tensions, but also embolden auditors and provide additional motivation to act, rather than engaging in an avoidance strategy. This suggests that AC support mitigates the negative effect of poor management attitudes on auditor skepticism.

We first consider conditions in which the AC communicates its support to the audit partner, who in turn conveys this support to the entire engagement team. This is consistent with

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[12] See our survey responses in Panel B of Table 2 (No mention of AC Support on 41% of engagements) and Table 4 (No Impact on skepticism stated by 45% of respondents).

[13] Social support research distinguishes between perceived and actual support. In stressful times, the perception that help is available if needed often has stronger positive effects on stress-reduction and health/well-being than the actual receipt of support (see Taylor [2011] for a review).

our survey responses that the AC most frequently interacts with the engagement partner (see

Panel A of Table 2). As such, our first hypothesis is as follows:

> **Hypothesis 1:** The audit partner expressing the AC's support to all levels of the engagement team will reduce the negative effects of poor management attitude, improving auditors' application of professional skepticism.

It is possible that the audit partner communicating the AC's support to the engagement

team may not lead to increased skepticism. For example, Brazel et al. [2016] note that a

supportive AC did not improve how audit seniors evaluated the skepticism of their

subordinates. The authors suggest this may be due to the lack of interaction between audit

seniors and the AC. Indeed, our survey data in Table 2 illustrate that audit seniors and staff

directly interact with the AC on less than 2% of engagements. Another explanation, based on

source credibility theory, is that auditors deem the message of AC support as non-credible

because it was not communicated *directly* by a member of the AC (e.g., McGinnies and Ward

[1980]). As noted by Goldsmith and Fitch [1997], the benefits of social support do not accrue

automatically when a person receives support, but rather depend on how recipients interpret the

support.

According to source credibility theory, the *source* of the information – and particularly

the *credibility* of that source – affects how a message is received and acted upon (McGuire

[1969], Birnbaum and Stegner [1979], McGinnies and Ward [1980], DeZoort et al. [2003]).

Receiving a message of support *directly from* the source tends to increase the persuasiveness of

the message (e.g., Whitehead [1968], Pornpitakpan [2004]). Consistent with source credibility

theory, social support is also known to be most effective when it is provided by high credibility

sources (Wright [2000]). These streams of research suggest that having the *chair of the AC*

directly deliver the message of AC support to the engagement team may be the most effective

method of conveyance. This direct conveyance would be particularly crucial in settings where

the management team maintains a poor attitude towards the audit. The direct conveyance should

ensure that the AC would insulate the skeptical auditor from management. While our survey

results indicate that such communications are somewhat rare (see Panel B of Table 2), our survey

participants who did describe such encounters support this conjecture.[14]

Still, it remains possible that communication by the partner would be highly effective.

When support is communicated from an engagement team member, as opposed to someone

outside the team, recipients may perceive it as more genuine or authentic. That is, the audit

partner *indirectly* communicating support on the committee's behalf may be highly effective as

the communication comes from a highly credible, *albeit indirect*, source. This is consistent with

evidence that auditors think and act in a manner that matches the preferences of their

superiors (Bierstaker and Wright [2001, 2005]) and that the audit partner often drives the "tone at

the top" on engagements (e.g., PCAOB [2012a], Carpenter and Reimers [2013]). These

considerations provide tension for our second hypothesis, stated formally:

> **Hypothesis 2:** The negative effects of poor management attitude on auditors' application
> of professional skepticism will be reduced more by the AC chair directly expressing the
> AC's support to all levels of the engagement team (vs. the partner indirectly expressing
> AC support).

3.2 PARTICIPANTS AND EXPERIMENTAL DESIGN

To test our hypotheses, we conducted an experiment with 184 practicing audit seniors

from a large international firm in the Netherlands. We focus on audit seniors because they are

tasked with performing/overseeing the risk assessments and substantive tests where the

appropriate application of skepticism is crucial to audit quality. Access to these participants was

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[14] While direct interactions between AC chairs and *entire* engagement teams are currently rare, at the November 2017 PCAOB Standing Advisory Group (SAG) meeting a SAG member explicitly referred to such meetings as a best practice, pointing to the positive impact such encounters could have on the audit team's skeptical mindset. See https://pcaobus.org/News/Events/Pages/SAG-meeting-Nov-2017.aspx; choose video Part 3/3, and scroll to 1:46:50 in the video.

provided by the Foundation for Auditing Research. Four participants were excluded for providing incomplete responses, resulting in 180 usable responses.

Participants completed the experiment during firm-sponsored training sessions. Their task was a substantive analytical procedure for sales, which is appropriate for audit seniors (Trompeter and Wright [2010]) and consistent with our survey findings that AC support may be particularly valuable in the substantive testing stage of the audit. Our experimental instrument was adapted from Brazel et al. [2021]. The average time to complete the instrument was 42 minutes. On average, participants had 58 months of experience, backgrounds in various industries, and conducted analytical procedures related to sales 10 times during their careers. Our experiment was a 2 (Management Attitude: Good, Poor) X 3 (Audit Committee Support: AC Chair conveyed, Audit Partner conveyed, No support conveyed) between-participants design. We randomly assigned participants to one of the six experimental conditions.

3.3 EXPERIMENTAL CONTEXT AND INDEPENDENT VARIABLE MANIPULATIONS

We obtained input on our experimental task from partners at the participating firm and practitioners from several other firms to ensure the task allowed for a strong test of our theory and had practical applicability. The materials first informed participants that they were the audit senior conducting year-end procedures for the audit of Ruiter B.V., a publicly traded manufacturing company. They also read information about Ruiter's management and accounting personnel, which contained the management attitude manipulation (*ATTITUDE*). In all conditions, management was described as relatively competent and as responsive to requests in a timely manner.

In the *GOOD ATTITUDE* condition, participants read: "Also, you and your team have experienced Ruiters' management and accounting personnel as **overall friendly and respectful**

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in responding to your team's inquiries. For example, in your experience client personnel often **wave or say "hello"** when they see you. When you have requested information, they have responded promptly and have been **polite**."

In the *POOR ATTITUDE* condition, participants read: "However, you and your team have experienced Ruiters' management and accounting personnel as **rather unfriendly or even rude** in responding to your team's inquiries. For example, in your experience client personnel **often roll their eyes and look annoyed** when they see you. When you have requested information, they have responded promptly but have been **impolite**."[15][16]

Following the *ATTITUDE* manipulation, participants were informed that their task was to perform substantive analytical procedures related to the company's sales accounts. They were provided with the AC support manipulation (*AC SUPPORT*), which was developed based on the survey results (see Table 3) along with substantial practitioner input. Because auditors' experiences with ACs vary substantially and the support ACs can provide audit teams is multifaceted (per our survey results), our AC support manipulation involved multiple dimensions.

For the *AC CHAIR* and *PARTNER* conveyed conditions of *AC SUPPORT*, participants were informed that the party conveying the support (*AC CHAIR* or *PARTNER*) entered the audit room where the entire engagement team was assembled for a meeting. In the *AC CHAIR* conveys

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[15] We asked participants in the post-experimental questionnaire: "In your own overall past experience, please estimate the percentage of the time client management and accounting personnel had a 'good' attitude toward the audit team (e.g., friendly, respectful), versus a 'bad' attitude (e.g., unfriendly, rude, disrespectful), versus a 'neutral' attitude. The inputted numbers should add to 100%." On average, the participants noted that, in their personal experience, client management and accounting personnel have a good attitude 44% of the time, a bad attitude 22% of the time, and a neutral attitude 34% of the time. This suggests that client attitude varies substantially in practice.
[16] As a manipulation check, we asked participants: "In this case, please describe the Ruiter management's and accounting personnel's attitude toward the audit engagement team." On a scale of 1 to 10, participants in the *GOOD* and *POOR* attitude conditions rated attitudes 8.2 versus 3.0, respectively, which is significantly different in the expected direction ($p < 0.001$). This suggests the attitude manipulation was successful and that neither condition represented an extreme.

condition, participants were told: "The partner finally arrives, and you are surprised to see that the audit committee chair has walked into the audit room as well. The audit committee chair asks for the attention of the entire engagement team, and makes an announcement." In the *PARTNER* conveys condition, participants were informed: "The partner finally arrives, asks for the attention of the entire engagement team, and makes an announcement."

The information (*AC SUPPORT*) communicated by the *AC CHAIR* or *PARTNER* was *the same* in both conditions. The *AC SUPPORT* conveyed was that the AC: (1) acknowledged the responsibility of the AC to protect investors via the audit; (2) stressed the audit's importance to management and encouraged timely responses; (3) mentioned the importance of supporting the audit team if disagreements with management arise; (4) would consider additional fees for justified budget overruns; (5) would check in with the audit team periodically (committed to open lines of communications); and (6) thanked the engagement team for their time. Note that although our predictions relate to the impact of AC support on skepticism, our manipulation says nothing about skepticism. The idea is that perceiving AC support through the availability of respect, appreciation, and perhaps some tangible help can increase the motivation to do something they otherwise would be hesitant to do (i.e., exercise skepticism).[17]

In the *NO SUPPORT* conveyed condition, participants were told that (1) the partner announced that the AC meeting went well and thanks everyone for their hard work and

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[17] In an untabulated analysis, we confirm that perceptions of the audit partner do not vary between the *AC CHAIR* and *PARNTER* conditions. Auditors evaluated the partner's competence, effectiveness at managing the client, and concern for audit quality on scales ranging from 0 to 10. For all three measures, ratings are higher in the *AC CHAIR* and *PARTNER* conditions than in the *NO SUPPORT* condition, but do not differ between the *AC CHAIR* and *PARTNER* conditions. This suggests that the mode of communicating AC support does not affect perceptions of the audit partner.

commitment and (2) the partner thanked the team for their time. Refer to Appendix B for the complete manipulation wording for each condition.[18] [19]

Next, participants completed a substantive analytical procedure related to the sales account for one of Ruiter's operating units, the Sporting Goods Division, which reported positive sales growth (9%). The case included a rich set of financial and non-financial data from the sources suggested by auditing standards (e.g., prior year balances, budgets, industry growth rates, ratios, and non-financial measures as described in *ISA 520* and *AS 2305*). All financial measure trends were positive and consistent with the client's current year sales growth of 9%. The trend for all non-financial measures (NFMs), such as the number of customer accounts, patents, and employees, was negative and *inconsistent* with reported sales. Importantly, the NFMs provided to all participants exhibited declines of approximately 21%, reflecting the NFM red flag observed by Brazel et al. [2009] for *fraud* firms (i.e., a 30% difference between sales growth and growth in related NFMs).

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[18] We asked two questions to assess the AC support manipulation. First, we asked participants: "In the background information related to the Ruiter audit, were you explicitly told about how the Ruiter audit committee would support the Ruiter audit engagement team (e.g., the audit committee would likely support the audit team if disagreements arise between the audit team and management and will consider additional fees for budget overruns)." Of the 180 participants, 143 (79%) correctly answered whether or not they were explicitly told about the AC support. In the *NO SUPPORT* condition, 54 of the 60 participants (90%) correctly noted that they were not explicitly told. The second question we asked only to participants who noted that support was expressed. We asked: "In the background information related to the Ruiter audit, who explicitly told you about how the Ruiter audit committee would support the Ruiter audit engagement team?" All 58 (100%) participants in the *AC CHAIR* conditions correctly identified the AC chair as the one conveying the support. Of the 62 participants in the *PARTNER* condition, 60 (97%) correctly identified the partner as the one conveying the support. As such, it appears our manipulation of *AC SUPPORT* was successful.

[19] To ensure our manipulation of *AC SUPPORT* was effective, we performed a factor analysis on the eight measures we collected regarding participant's perceptions of the AC, including whether the AC would: (1) encourage management to respond timely to audit requests, (2) check in with the audit team periodically, (3) keep open lines of communication, (4) take an active interest in the audit, (5) appreciate the audit team, (6) support the audit team if disagreements with management arise, (7) consider additional fees for justified budget overruns, and (8) support the audit team if a material misstatement is found. All eight items loaded on one factor, with an eigenvalue of 4.74 and loadings ranging from 0.54 to 0.70. When factor scores were uses as a dependent variable, *AC SUPPORT* was highly significant ($p < 0.001$) but neither *ATTITUDE* nor the interaction were significant ($p > 0.83$). These analyses suggest our manipulation of *AC SUPPORT* was effective.

3.4 DEPENDENT VARIABLES

After calculating an expectation for sales and computing the difference between their

expectation and reported sales, participants indicated the extent to which additional work would

be required and then provided the two measures used to calculate our primary dependent variable

SKEPTICAL ACTION: ask management *(ASK MGMT)* and inform their audit manager

(INFORM MGR). Specifically, participants responded to the following prompts: "What further

testing would you perform and/or what questions would you ask of Ruiter management? Please

describe here" (*ASK MGT*) and "Please list anything related to your analytical procedure that you

would communicate to your audit manager" (*INFORM MGR*). For each prompt, the response

was coded "1" if participants mentioned communicating or questioning the inconsistency

between sales and NFMs and "0" if nothing related to this red flag was mentioned.

We then coded our primary dependent variable *SKEPTICAL ACTION* as "1" if

participants had a "1" for *either ASK MGT* or *INFORM MGR* and "0" if no further action was

deemed necessary (i.e., no skeptical action). Given the presence of the NFM red flag/inconsistent

evidence, coding further investigation as indicative of an appropriate skeptical action is

consistent with the professional skepticism literature (e.g., IAASB [2008], Nelson [2009], Brazel

et al. [2016]). Importantly, both *ASK MGT* and *INFORM MGR* represent the initial skeptical

actions auditors would undertake before incurring the costs associated with subsequent skeptical

actions (e.g., expanding substantive testing, collecting additional evidence).

For a measure of *SKEPTICAL JUDGMENT*, similar to Brazel et al. [2021], participants

answered the following: "In this case, please describe the *difference or inconsistency* between the

growth in the *Ruiter Sporting Goods Sales* account and the growth in related *non-financial*

measures (e.g., number of employees, square footage of production space, etc.)" on a scale ranging from 1 "Very Small" to 10 "Very Large."

3. 5 EXPERIMENTAL FINDINGS – TESTS OF HYPOTHESES 1 AND 2

In order to ensure that participants recognized the fraud red flag that was seeded in the experimental materials, we first examine *SKEPTICAL JUDGMENT*. Figure 2 provides a graphical representation of the cell means of *SKEPTICAL JUDGMENT* across experimental conditions. Encouragingly, across all conditions, auditors appear to recognize the inconsistency between the decreasing NFMs and increasing sales, providing an average *SKEPTICAL JUDGMENT* of 8.41 (on a scale ranging from 1 to 10, with higher numbers representing more appropriate *SKEPTICAL JUDGMENT*). In addition, in untabulated analyses, we find that neither of our manipulated variables nor their interaction significantly affect *SKEPTICAL JUDGMENT* (all p-values > 0.23), suggesting auditors recognized the red flag in all experimental conditions.

Table 6 Panel A provides the cell means for *SKEPTICAL ACTION* across experimental conditions, and Figure 3 provides a graphical representation of the means. Unlike the results for *SKEPTICAL JUDGMENT*, we note differences for *SKEPTICAL ACTION* between conditions. The overall means of 0.82 and 0.81 for *SKEPTICAL ACTION* under the *POOR* and *GOOD ATTITUDE* conditions, respectively, appear to not differ. However, when looking at these conditions across different types of *AC SUPPORT*, we see a different pattern of results. To examine this pattern formally, and to test our stated hypotheses, we perform a series of logit regressions. Table 7 provides the univariate statistics for the effects of *AC SUPPORT* and *ATTITUDE* on *SKEPTICAL ACTION*.

Hypothesis 1 predicts that the audit partner expressing the AC's support to all levels of the engagement team will reduce the negative effects of poor management attitude, improving

auditors' application of professional skepticism. To test Hypothesis 1, we compare the effect of

ATTITUDE on *SKEPTICAL ACTION* when no AC support is expressed (*NO SUPPORT*

conditions) versus when AC support is expressed by the audit partner (*PARTNER* conditions). As

seen in Table 7 Panel A, and consistent with the means displayed in Table 6 Panel A,

SKEPTICAL ACTION is lower when management attitude is poor in the *NO SUPPORT*

condition but not in the *PARTNER* condition (i.e., there is a significant *ATTITUDE * PARTNER*

interaction in Panel A of Table 7).[20] Hypothesis 1 is supported.

Next, we examine, as predicted by Hypothesis 2, whether the negative effects of poor

management attitude on auditor skepticism will be mitigated more by the AC chair directly

expressing the AC's support to all levels of the engagement team (vs. the partner expressing such

support). To test Hypothesis 2, we compare the effect of *ATTITUDE* on *SKEPTICAL ACTION*

when AC support is expressed by the audit partner (*PARTNER* conditions) versus when AC

support is expressed by the AC chair (*AC CHAIR* conditions). As shown in Table 6 Panel A,

when *ATTITUDE* is poor, the chair directly communicating support to the audit team results in

less *SKEPTICAL ACTION* vis-à-vis the *PARTNER SUPPORT* condition (means = 0.83 vs. 0.94)

and the *AC CHAIR* * ATTITUDE interaction in Panel A of Table 7 is not significant (p = 0.81).[21]

Thus, Hypothesis 2 is not supported. Overall, our experimental findings suggest that the more

practical/common method of conveying AC support via the partner (see Panel B of Table 2) is an

effective means of improving skeptical actions, particularly in settings with significant barriers to

skepticism.

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[20] We also conduct follow up tests of proportions to validate that *SKEPTICAL ACTION* is higher for *PARTNER* (.94) as opposed to *NO SUPPORT* (.69) in the *POOR ATTITUDE* conditions (non-tabulated Fisher's Exact p = 0.02), but there is no difference in the *GOOD ATTITUDE* conditions (non-tabulated Fisher's Exact p = 0.33).
[21] The interaction is also not significant when using the *NO SUPPORT* condition as the baseline (not tabulated).

3.6 SUPPLEMENTAL ANALYSES

3.6.1. Type of Skeptical Action. We examine our findings further by exploring the different ways in which our participants could exercise skeptical action – asking questions of management and/or informing their audit manager of the red flag. Table 6 Panels B and C provide the cell means for *ASK MGMT* and *INFORM MGR*, respectively, for each of our six experimental conditions. Figure 3 provides a visual depiction of these cell means. Table 7 Panels B and C provide the univariate statistics for the effects of *AC SUPPORT* and *ATTITUDE* on both *ASK MGMT* and *INFORM MGR*. Although the pattern of results in Figure 3 is consistent across both types of skeptical action, our theorized effect appears to be stronger for the *ASK MGMT* measure (vs. *INFORM MGR*). As shown in Panel B of Table 7, there is a significant effect of *PARTNER* communication (p = 0.02) as well as a significant *PARTNER * ATTITUDE* interaction (p = 0.01). These results complement our survey findings by suggesting *how* AC support can benefit auditors, specifically by increasing their willingness to directly question management, even if management has a poor attitude. These results also further support our theory which predicts that AC support is particularly important and effective in mitigating situations of stress, such that auditors in the support condition feel more empowered to face unfriendly client management.

3.6.2. Differences in AC Perceptions. We asked participants several questions to measure their perceptions of the specific dimensions of AC support on the engagement (e.g., "How likely is it that the Ruiter audit committee would support the audit team when disagreements arise between the audit team and management?"). When no AC support was conveyed, we noted differences (means were lower in the *NO SUPPORT* condition than either the *PARTNER* and *AC CHAIR* conditions, not tabulated) in how likely it would be that the AC would: (1) encourage

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management to respond timely to all audit requests (p < 0.01), (2) check in with the audit team periodically (p < 0.01), (3) keep open lines of communication (p = 0.013), (4) take an active interest in the audit (p = 0.01), (5) support the audit team when disagreements with management arise (p = 0.08), (6) consider additional fees for reasonable budget overruns (p = 0.01), and (7) support the audit team (p = 0.02). There were no significant differences between the *PARTNER* and *AC CHAIR* conditions (all p-values > 0.350).

Consistent with our survey findings that AC support can, at times, be low (Figure 1 Panel B) and that such support is often not conveyed to the entire engagement team (Table 2 Panel B), it appears that perceptions of support significantly increased when it was *explicitly* conveyed vs. not mentioned or left ambiguous. However, with respect to perceptions of specific dimensions of AC support, the *person* who conveyed the message did not seem to matter.

3.6.3. Differences between Partner and AC Chair Conveyance. While we only received a limited number of qualitative responses to our open-ended question asking why they believed the AC supported the engagement team in the manner in which they did, some participants mentioned that the AC may have suspected something. Perhaps due to the uncommon nature of the AC chair conveying support directly and explicitly, some participants perceived their presence as an indicator of increased risk. Indeed, we see a marginal difference between *PARTNER* and *AC CHAIR* conditions on participants' responses to a question asking the likelihood the sales account is materially misstated. On a scale ranging from 1 = Low to 10 = High, the mean response in the *PARTNER* condition was 5.6, whereas the mean response in the *AC CHAIR* condition was 6.3 (p = 0.073, not tabulated). Auditors also self-report higher motivation (p = 0.010) and higher effort (p = 0.061) when the AC chair communicates versus when the partner communicates, which make senses given they perceived risk to be higher. This

conjecture is aligned with our survey finding related to the AC providing "Insights" in Panel B of Tables 3 and 5. Still, it is unclear why this perception of increased risk and greater motivation did not yield more impressive results for *AC CHAIR* vis-à-vis *SKEPTICAL ACTION*.[22]

3.6.4. Linking Skeptical Judgments with Skeptical Action. The lack of findings related to Hypothesis 2 prompted us to further investigate the impact of AC chair conveyance. The support communicated by the AC chair led to an increased perception of risk, higher motivation, and greater effort, but failed to result in increased skeptical action. When support is directly expressed by the AC, there appear to be inconsistencies between auditors' beliefs and actions.

In fact, when examining the correlation between auditors' *SKEPTICAL JUDGMENT* and *SKEPTICAL ACTION*, the only correlations that are significant are in the *PARTNER* conditions. In both the *NO SUPPORT* and *AC CHAIR* conditions, auditors' skeptical judgments are not significantly correlated with their actions (all p-values > 0.22, not tabulated). In the *PARTNER* conditions, however, *SKEPTICAL JUDGMENT* is positively correlated with *SKEPTICAL ACTION* (p = 0.02), *ASK MGMT* (p = 0.04), and *INFORM MGR* (p = 0.02). Recent research has found ample evidence that a key issue associated with auditor professional skepticism is skeptical judgments not being followed by skeptical actions (Brazel et al. [2021], Barr-Pulliam et al. [2021]). To the extent that AC support is present, our findings point to the crucial role partner conveyance can play in improving the tenuous link between skeptical judgments and subsequent actions.

4. Conclusion

Little is known about the role audit committees play in supporting the audit engagement team and fostering auditor skepticism. Given this dearth of knowledge, this study first surveys

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[22] Meanwhile, AC support was perceived by participants as equally credible in the *PARTNER* condition (7.02) and the *AC CHAIR* condition (7.43; p = 0.26, not tabulated).

audit practitioners about the current state of AC support for audit teams, as well as how AC

support affects the professional skepticism exercised by engagement teams. Our survey results

indicate that auditors' experiences with AC support vary substantially, and ACs support

engagement teams in a variety of ways. We also find that the AC support observed by

engagement leaders (e.g., partners) is often not conveyed to lower levels of the engagement

team. Related to the primary costs of skepticism, our participants noted the importance of ACs

insulating the engagement team when management attitudes toward the engagement team are

poor, responses to auditor requests are delayed, and conflicts arise. Importantly, there was no

consensus among our survey respondents as to whether AC support could actually impact the

professional skepticism exercised by engagement teams.

Given these survey findings, we experimentally investigated how AC support, conveyed

indirectly by the engagement partner or directly by the AC chair, might impact the skeptical

judgments and actions of auditors. Given the importance of AC support in mitigating situations

of stress, we examine the effects of support under conditions where the attitudes of management

towards the audit engagement team are poor and a fraud red flag is present.

We find no differences in the skeptical judgments of auditors, regardless of whether and

how AC support is conveyed. However, when no AC support is expressed, auditors are less

likely to engage in skeptical actions when management has a poor attitude. Prior research

suggests a partner's instruction to be more skeptical may not work, but we find that the

expression of AC support from the audit partner (not explicitly saying to be skeptical) appears to

increase the skeptical actions of auditors when management has a poor attitude. The conveyance

of AC support by the partner helps link auditors' skeptical judgments to their skeptical actions.

Skeptical judgments not yielding subsequent skeptical actions is a common issue observed in

prior studies (e.g., Barr-Pulliam et al. [2021]). An important implication of this finding is that the availability of AC support makes auditors more willing to take the risks of acting skeptically. Contrary to our expectations, we do not observe an improvement in skepticism when the AC support is conveyed directly to the entire engagement team by the AC chair (vs. indirectly by the partner).

To the extent that AC support is present, our findings point to the crucial role partner conveyance can play in improving auditors' application of professional skepticism. The less practical intervention of having the AC communicate the support does not seem superior. These findings are particularly encouraging in light of the ever-increasingly-global nature of audits and the prevalence of geographically dispersed audit teams. It is also important to note that our survey results illustrate that communications of AC support may not currently be trickling down to lower-level auditors on the engagement team. Audit partners have the ability to positively impact skepticism and audit quality by making sure AC support is actively and effectively conveyed to the entire team.

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FIGURE 1

Percentage of Engagements Described as Having a Supportive Audit Committee

Panel A: Descriptive Statistics

	n	Mean	Median	Min.	Max.
Percentage of Engagements with a Supportive Audit Committee	98	61	70	0	100

Panel B: Frequency Distribution Graph

Percentage of Engagements Described as Having a Supportive Audit Committee
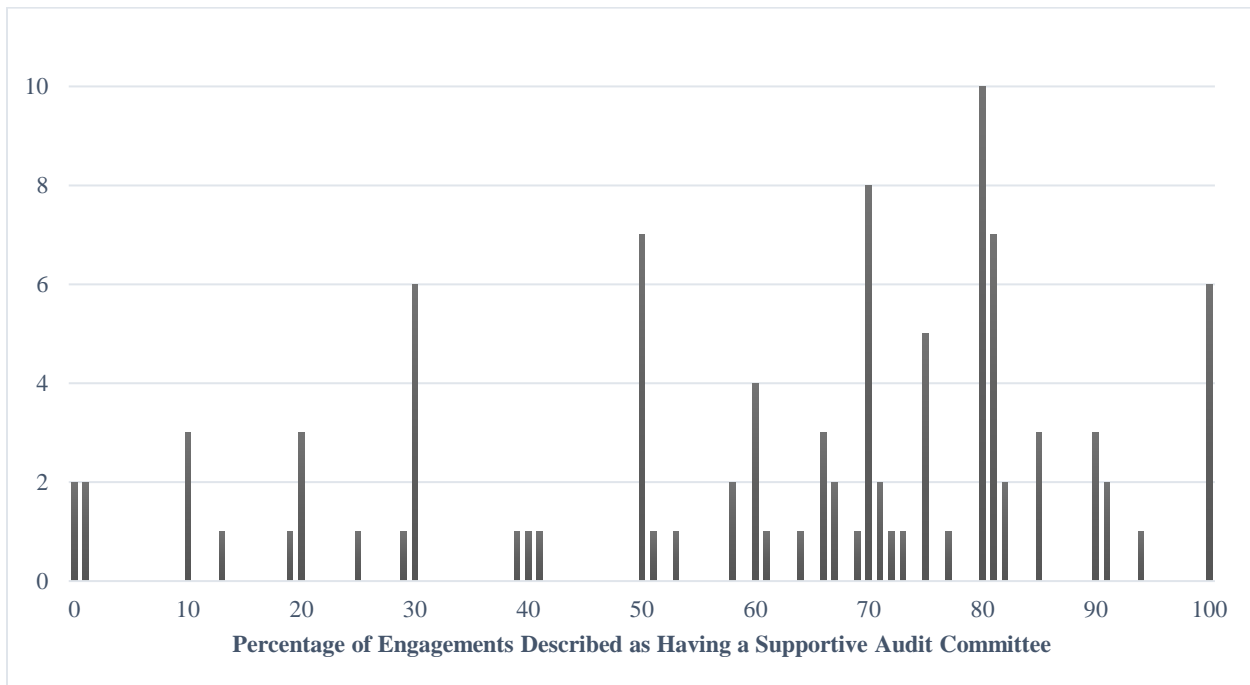
Figure 1 presents descriptive statistics and a frequency distribution of audit professional participant responses to the question "What percent of your engagements have what you would describe as a *supportive* audit committee?" Participants responded on a sliding scale from 0% to 100%.

Panel A reports descriptive statistics of the percentage of past audit engagements that participants would describe as having a supportive audit committee. A higher percentage indicates a higher percentage of past engagements having a supportive audit committee.

Panel B displays this data graphically with the x-axis representing the percentage chosen by the participant and the y-axis displaying the frequency of the response.

FIGURE 2

EXPERIMENT: Graph of Cell Means – *SKEPTICAL JUDGMENT*
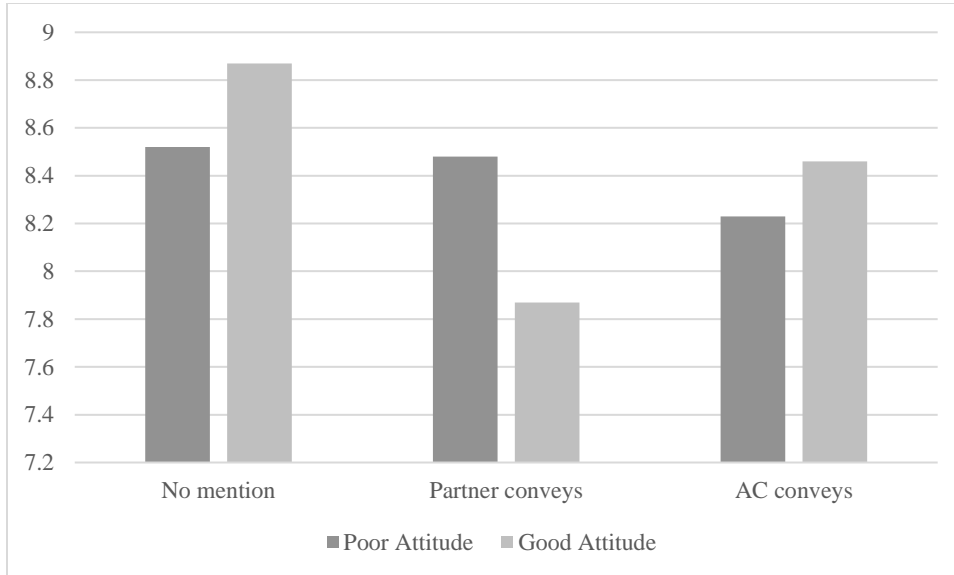
Figure 3 graphically depicts the cell means for *SKEPTICAL JUDGMENT*. *SKEPTICAL JUDGMENT* is measured with the following question: "In this case, please describe the *difference or inconsistency* between the *growth* in the *Ruiter Sporting Goods Sales* account and the growth in related *non-financial measures* (e.g., number of employees, square footage of production space, etc.)." Participants responded on a scale ranging from 1 "Very Small" to 10 "Very Large."

The independent variable *AC SUPPORT* is manipulated by informing participants that either the *AC CHAIR* or *PARTNER* conveyed audit committee support by acknowledging the responsibility of the audit committee, stressing the audit's importance to management, and committing to keeping the lines of communication open and to providing other necessary audit support. In the *NO SUPPORT* condition, the participants were simply told that (1) the partner announced the audit committee meeting went well and thanks everyone for their hard work and commitment and (2) the partner thanked the team for their time.

The *ATTITUDE* variable is manipulated by describing the client's attitude toward the audit team as either rude and condescending (*POOR*) or friendly and respectful (*GOOD).*

FIGURE 3

EXPERIMENT: Graph of Cell Means – *SKEPTICAL ACTION*
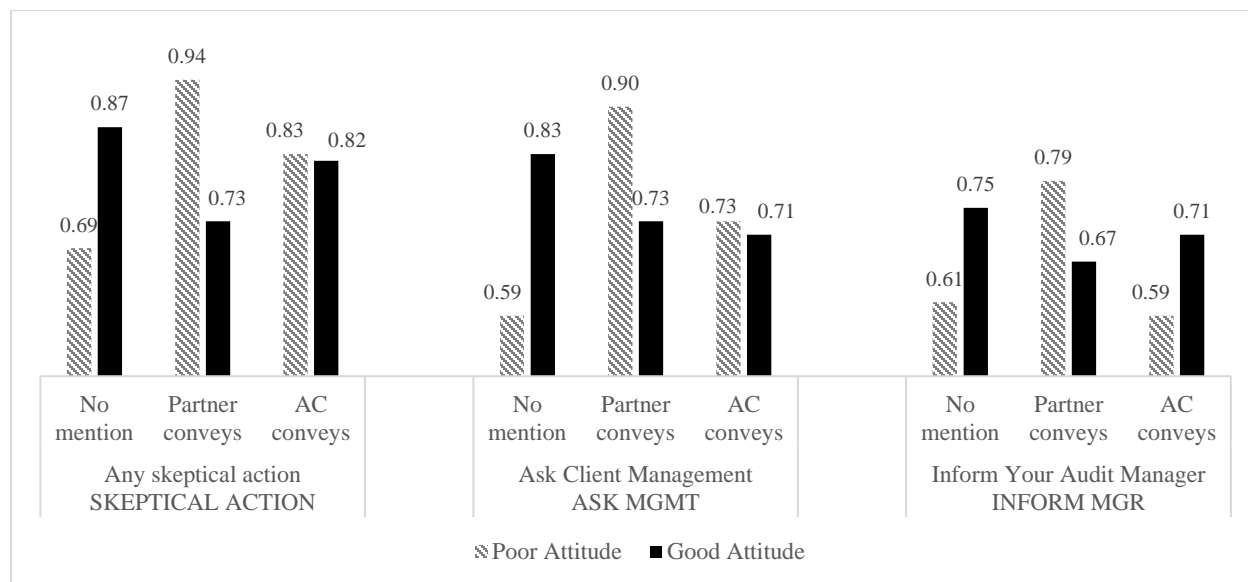
Figure 3 graphically depicts the cell means for the primary dependent variable *SKEPTICAL ACTION* and its two composite measures *ASK MGMT* and *INFORM MGR* across conditions. *ASK MGMT* and *INFORM MGR* are indicator variables that equal "1" if participants mention communicating/questioning the inconsistency between sales and NFM's when asked if they had any questions to ask the client management team or anything to tell their audit manager, respectively. The variables are coded as "0" if nothing regarding this red flag was mentioned. *SKEPTICAL ACTION* is then coded as "1" if participants had a "1" for *either ASK MGMT* or *INFORM MGR* and "0" if the participants deemed that no further action was necessary.

The independent variable *AC SUPPORT* is manipulated by informing participants that either the *AC CHAIR* or *PARTNER* conveyed audit committee support by acknowledging the responsibility of the audit committee, stressing the audit's importance to management, and committing to keeping the lines of communication open and to providing other necessary audit support. In the *NO SUPPORT* condition, the participants were simply told that (1) the partner announced the audit committee meeting went well and thanks everyone for their hard work and commitment and (2) the partner thanked the team for their time.

The *ATTITUDE* variable is manipulated by describing the client's attitude toward the audit team as either rude and condescending (*POOR*) or friendly and respectful (*GOOD).*

TABLE 1

Survey Respondent Demographics

	n	**%**
Total Number of Participants	104	100.0
Country		
United States	46	44.2
Netherlands	58	55.8
Rank		
Partner	24	23.1
Director	7	6.7
(Senior) Manager	31	29.8
Senior	42	40.4
Primary Industry of Expertise		
Financial Institutions	24	23.1
Retail	23	22.1
Manufacturing	21	20.2
Construction and Real Estate	7	6.7
IT and Technology	7	6.7
Other	22	21.2
Primary Audit Engagement		
Publicly Traded	60	57.7
Privately Held	42	40.4
Public Sector	2	1.9

Table 1 reports the demographics for the audit professional survey respondents. Participants self-reported their rank at the audit firm, their primary industry of expertise, and the type of client on which they primarily work.

TABLE 2

Audit Team Interactions with the Audit Committee

Panel A: Which Audit Team Members Have Direct Interaction with the Audit Committee?

	n	**%**
Partner	102	98.1
Director	70	67.3
Senior Manager	70	67.3
Manager	26	25.0
Senior	2	1.9

Panel B: Mean Percentage of Engagements Audit Committee Support was communicated by:

	n	**Mean**	**Median**	**Min.**	**Max.**
Partner or Manager	95	43.81	49	0	100
Member of the Audit Committee	95	13.26	1	0	100
No mention of AC Support	95	41.49	30	0	100

Table 2 presents descriptive statistics detailing participant responses to questions involving past experience with the AC during audit engagements.

Panel A reports the number and percentage of respondents who indicated the given level in their response. Participants responded to the question: "On a typical audit engagement, in your own experience, which members of the audit team have direct interaction with the audit committee (please mark all that apply): Partner; Director; Senior Manager; Manager; Senior; Associate/Staff."

Panel B reports the percentage of audit engagements on which AC support is communicated by the indicated person to the entire engagement team.

For "Partner or Manager," on a sliding scale from 0% to 100%, participants responded to the question "On what percentage of your audit engagements have you (or has one of your audit partners or managers) explicitly communicated the audit committee's support to your entire engagement team (including seniors and staff)?"

For "Member of the Audit Committee, on a sliding scale from 0% to 100%, participants responded to the question "On what percentage of your audit engagements has any member of the audit committee directly expressed the audit committee's support to your entire engagement team (e.g., the audit committee chair comes to the audit room and expresses his/her support to the entire team, including audit seniors and staff)?"

For "No Mention of AC Support," on a sliding scale from 0% to 100%, participants responded to the question "On what percentage of your audit engagements is there no mention of audit committee support to the entire engagement team?"

TABLE 3

RQ2: How does an audit committee show support for an audit engagement team?

Panel A: Categories of Social Support

	Number (%) of respondents describing		
Category of Social Support	**Overall (n = 96)**	**Seniors (n = 38)**	**Manager and Above (n = 58)**
Emotional Support: Provides nurturance, reassurance of one's value, empathy, or encouragement.	65 (68.4%)	18 (47.4%)	47 (81.0%)
Instrumental Support: Offers tangible assistance like physical or monetary aid.	50 (52.6%)	17 (44.7%)	33 (56.9%)
Informational Support: Provides facts, guidance, or advice.	18 (19.0%)	12 (31.6%)	6 (10.3%)

Panel B: AC Behaviors Connoting Social Support

	Number (%) of respondents describing		
Topic: Description	**Overall (n = 96)**	**Seniors (n = 38)**	**Manager and Above (n = 58)**
Openness: There is an open dialogue, audit committee (AC) is continuously available for the auditor (takes time for auditor) and, outside of formal meetings, audit issues, company challenges, and importance of meetings are openly discussed without management present. (*Emotional*)	45 (46.9%)	14 (36.8%)	31 (53.4%)
Management Cooperation: The AC stresses to management the importance of cooperation with auditor, helps management and staff to see audit as less of a burden, pushes management to provide timely, sufficient, and appropriate audit evidence, tells management to prioritize audit topics, and makes sure management follows up (accountability). (*Instrumental*)	30 (31.3%)	12 (31.6%)	18 (31%)

Appreciation: AC appreciates the audit role and is genuinely interested in the auditor's work, trusts the auditor's skills, and expresses appreciation in front of management. (*Emotional*)	22 (22.9%)	6 (15.8%)	16 (27.6%)
AC Challenges Management: AC questions management about audit findings, asks challenging questions of management, and is critical of management. (*Instrumental*)	19 (19.8%)	2 (5.3%)	17 (29.3%)
AC Challenges Auditor: AC asks auditor challenging questions (and follows up on these questions) to improve effectiveness and efficiency. (*Emotional*)	15 (15.6%)	5 (13.2%)	10 (17.2%)
Involvement: AC is involved and aware of the audit progress, asks questions regarding the timing and status of the audit, and asks for areas of improvement. (*Emotional*)	15 (15.6%)	3 (7.9%)	12 (20.7%)
Insights: AC conveys risk areas/areas of attention/concerns to the auditor (also when outside of scope), and shares information that can be used in the audit. (*Informational*)	14 (14.6%)	8 (21.1%)	6 (10.3%)
Stands with Auditor: AC is independent of management, provides a balanced view, does not exhibit confirmation bias of executive board conclusions, supports the auditor when disagreements arise with management or when management is being difficult. (*Instrumental*)	10 (10.4%)	2 (5.3%)	8 (13.8%)
AC Expertise: AC has the necessary expertise and makes an effort to understand the complexities of the audit. (*Emotional*)	10 (10.4%)	2 (5.3%)	8 (13.8%)
Fees: AC enables smooth process over fees discussion, agreeing to reasonable extra charges, and supports the auditor in case of disagreements over fees. (*Instrumental*)	5 (5.2%)	2 (5.3%)	3 (5.2%)
Innovation: AC is open to or even requests innovations in the audit and audit data analytic tools. (*Instrumental*)	4 (4.2%)	2 (5.3%)	2 (3.4%)

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TABLE 3

**RQ2: How does an audit committee show support for an audit engagement team?
(Continued)**

Table 3 reports participant responses to questions about how audit committees can show support for the audit team. Participants responded to the question "How can an audit committee on a client show support for an audit engagement team?". These responses were then coded by the research team into the social support categories (Panel A) and behaviors (Panel B). We omitted respondents who did not respond to the question.

Panel A reports the descriptive statistics of the three categories of social support that audit committees can provide to an audit engagement team. Results reported in Panel A are based on the coding of participants' responses to our open-ended questions according to the Social Support Behavior Code (Cutrona and Suhr [1992], Taylor [2011]). For each question, two of the researchers reviewed the responses and independently sorted each response into one of the three categories described in this panel. Participant responses are shown across participant experience level.

In Panel B, we coded participants' responses similar to the method employed by Glover, Taylor, and Wu. [2017]. Two of the researchers reviewed the responses and independently developed a coding scheme. The researchers then reconciled their coding schemes, resulting in 11 behaviors (and respective descriptions). Subsequently, they independently coded the open-ended responses in accordance with the reconciled coding scheme. Listed behaviors are also followed by a social support category from Panel A that denotes in which category the behavior belongs. Responses are shown across participant experience level.

The reported numbers in each column sum to more than the number of participants, because many auditors mentioned more than one category of support. Also, the results in Panels A and B sum to different amounts, because the percentages in Panel A capture whether an auditor mentioned a given type of support *at all* while Panel B breaks out each category of examples. Some auditors offered more than one example for a given category.

TABLE 4

How has the audit committee affected the professional skepticism exercised by engagement teams?

	Number (%) of respondents describing		
Topic: Description	Overall (n = 75)	Seniors (n = 26)	Manager and Above (n = 49)
No Impact: Audit committees (AC) have no impact on professional skepticism.	34 (45.3%)	16 (61.5%)	18 (34.7%)
Scope of Testing: Increasing/extending audit scope/substantive testing.	21 (28%)	6 (23%)	15 (30.6%)
Increased Professional Skepticism in General	14 (18.7)	4 (15.4%)	10 (20.4%)
Accountability: Feeling accountable to AC, anticipating having to respond to AC questions.	13 (17.3%)	0 (0%)	13 (26.5%)
Risk Assessments: More thoughtful risk assessment process/approach.	12 (16%)	1 (3.8%)	11 (22.4%)
Questioning Mind: Exhibiting a questioning mind, asking deeper fundamental questions of management.	2 (2.7%)	0 (0%)	2 (4.1%)

———————————————

Table 4 reports the six categories of participant responses when asked about the effect of audit committees on professional skepticism. Participants responded to "How has the audit committee affected the professional skepticism exercised by your engagement teams, if at all?" We omitted respondents that did not respond to the question and coded participants' responses similar to the method employed by Glover, Taylor, and Wu. [2017]. Two of the researchers reviewed the responses and independently developed a coding scheme. The researchers then reconciled their coding schemes, resulting in six topics (and respective descriptions). Subsequently, they independently coded the open-ended responses in accordance with the reconciled coding scheme. Responses are shown across participant experience level. Descriptive statistics are displayed across participant experience level.

TABLE 5

RQ2: What are best practices and desired dynamics in relation to audit committee support and professional skepticism?

Panel A: Categories of Social Support

	Number (%) of respondents describing		
Category of Social Support	**Overall** **(n = 85**	**Seniors** **(n = 32)**	**Manager and Above** **(n = 53)**
Emotional Support: Provides nurturance, reassurance of one's value, empathy, or encouragement**.**	56 (59.0%)	19 (50.0%)	37 (63.8%)
Instrumental Support: Offers tangible assistance like physical or monetary aid.	45 (52.9%)	15 (46.9%)	30 (56.6%)
Informational Support: Provides facts, guidance, or advice.	22 (25.9%)	9 (28.1%)	13 (24.5%)

Panel B: AC Behaviors Connoting Social Support (Best Practices)

	Number (%) of respondents describing		
Topic: Description	**Overall** **(n = 85)**	**Seniors** **(n = 32)**	**Manager and Above** **(n = 53)**
Openness and Involvement: Audit committee (AC) is open/continuously available to the audit team and their findings, including frequent and informal meetings, and is involved from the start of the process (audit planning, risk assessment) to the end (discussing audit adjustments). (*Emotional*)	31 (36.5%)	7 (30.4%)	24 (45.3%)
Management Cooperation: AC discusses important issues, including auditor findings/recommendations, with management and monitors management's progress, constructs tone among management and employees for recognition of auditor importance, supports audit in timely retrieval of evidence and responses to auditor requests. (*Instrumental*)	23 (27.1%)	11 (34.4%)	12 (22.6%)

Stands with Auditor: AC shows they are independent of management, sides with the auditor, and is critical towards management when conflict arises, e.g., being critical about management estimates. (*Instrumental*)

18	3	15
(21.2%)	(9.4%)	(28.3%)

Insights: AC makes specific requests to the auditor (related party transactions, identifying risks) and shares pertinent information about the client with auditor (areas of risk, management integrity issues, incentives). (*Informational*)

18	8	10
(21.2%)	(25%)	(18.9%)

AC Challenges Auditor: AC critically evaluates the audit findings, asks questions of the auditor, provides critical feedback, monitors auditor, and asks critical questions to the auditor. (*Instrumental*)

15	4	11
(17.6%)	(12.5%)	(20.8%)

Contact without Management: Meetings/contact with the audit committee without management interference. (*Emotional*)

12	1	11
(14.1%)	(3.1%)	(20.8%)

Interact with Whole Team: AC interacts and meets with lower-level team members/giving minutes of AC meetings to whole team. (*Emotional*)

6	5	1
(7.1%)	(15.6%)	(1.9%)

AC Tone: AC establishes a proper tone at the top, including recognition of importance of accounting-related issues, by detailing audit results at shareholder meetings and pushing for accounting expertise among management. (*Instrumental*)

4	1	3
(4.7%)	(3.1%)	(5.7%)

AC & Internal Audit (IA): AC works with IA and has oversight of IA, leading to higher external audit quality. (*Instrumental*)

3	0	3
(3.5%)	(0%)	(5.7%)

Innovation: AC supports audit innovations and data analytics. (*Instrumental*)

3	1	2
(3.5%)	(3.1%)	(3.8%)

Management Accountable: AC ensures there are consequences to management for bad behavior and

3	0	3
(3.5%)	(0%)	(5.7%)

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holds management accountable for their actions. (*Emotional*)			
Fees: AC ensures that fees and time budgets do not become a constraint, open to additional fees. (*Instrumental*)	2 (2.4%)	0 (0%)	2 (3.8%)

Table 5 reports participants' responses about best practices they have observed and types of support they prefer to receive. Participants responded to two questions: "In relation to the audit committee supporting the engagement team and improving the professional skepticism applied by the team, have you observed (or heard of) any examples of best practices? If so, please describe." and "In a perfect world, how would you want audit committees to be involved and/or express their support to the engagement team in order to have the maximum positive impact on the professional skepticism exercised by the audit team?" Qualitative responses ranged from a few words to a paragraph, such that responses could be coded into one or more topics. We omitted respondents that did not respond to the questions.

Panel A reports the descriptive statistics of the three categories of social support that audit committees can provide to an audit engagement team. Results reported in Panel A are based on the coding of participants' responses to our open-ended questions according to the Social Support Behavior Code (Cutrona and Suhr [1992], Taylor [2011]). For each question, two of the researchers reviewed the responses and independently sorted each response into one of the three categories described in this panel. Participant responses are shown across participant experience level.

In Panel B, we coded participants' responses similar to the method employed by Glover, Taylor, and Wu. [2017]. For each question, two of the researchers reviewed the responses and independently developed respective coding schemes with typically between 7 to 12 response topics (and related descriptions) per question. The researchers then reconciled their coding schemes to develop one set of 12 response topics. Subsequently, they independently coded the open-ended responses in accordance with the reconciled coding scheme. Listed behaviors are also followed by a category of support from Panel A (*in italics*) that denotes in which category the behavior belongs. Responses are shown across participant experience level.

The reported numbers in each column sum to more than the number of participants, because auditors frequently mentioned more than one category of support. Also, the results in Panels A and B sum to different amounts, because the percentages in Panel A capture whether an auditor mentioned a given type of support at all while Panel B breaks out each category of examples. Some auditors offered more than one example for a given category.

TABLE 6 – EXPERIMENT: DESCRIPTIVE STATISTICS

Panel A – Cell Means by *ATTITUDE & AC SUPPORT* for *SKEPTICAL ACTION*

ATTITUDE	AC SUPPORT			
	NO SUPPORT	PARTNER	AC CHAIR	MEAN
POOR	0.69	0.94	0.83	0.82
	n = 29	n = 31	n = 30	n = 90
GOOD	0.87	0.73	0.82	0.81
	n = 30	n = 30	n = 28	n = 88
MEAN	0.78	0.84	0.83	0.81
	n = 59	n = 61	n = 58	n = 178

Panel B – Cell Means by *ATTITUDE & AC SUPPORT* for *ASK MGMT*

ATTITUDE	AC SUPPORT			
	NO SUPPORT	PARTNER	AC CHAIR	MEAN
POOR	0.59	0.90	0.73	0.74
	n = 29	n = 31	n = 30	n = 90
GOOD	0.83	0.73	0.71	0.76
	n = 30	n = 30	n = 28	n = 88
MEAN	0.71	0.82	0.72	0.75
	n = 59	n = 61	n = 58	n = 178

Panel C – Cell Means by *ATTITUDE & AC SUPPORT* for *INFORM MGR*

ATTITUDE	AC SUPPORT			
	NO SUPPORT	PARTNER	AC CHAIR	MEAN
POOR	0.61	0.79	0.59	0.67
	n = 28	n = 29	n = 27	n = 84
GOOD	0.75	0.67	0.71	0.71
	n = 28	n = 30	n = 28	n = 86
MEAN	0.68	0.71	0.65	0.69
	n = 56	n = 59	n = 55	n = 170

TABLE 6 – EXPERIMENT: DESCRIPTIVE STATISTICS (Continued)

Table 6 presents descriptive statistics. Panels A, B, & C present descriptive statistics for *SKEPTICAL ACTION, ASK MGMT,* and *INFORM MGR* across the experimental conditions of *ATTITUDE* and *AC SUPPORT*. *ATTITUDE* is manipulated across conditions by describing the client's attitude toward the audit team as either rude and condescending *(POOR)* or friendly and respectful *(GOOD)*. *AC SUPPORT* is manipulated between participants as either *NO SUPPORT* conveyed, *AC CHAIR* conveys the support or *PARTNER* conveys support.

For Panel A, *SKEPTICAL ACTION* is coded as "1" if participants mentioned in their open-ended responses that they would respond to the red flag seeded within the case by either questioning management, asking their manager, or both. Participants are coded as "0" if they do not indicate doing either.

For Panels B and C, *ASK MGMT* and *INFORM MGR* are coded as "1" if participants mentioned in their open-ended responses that they would respond to the red flag seeded within the case questioning management or asking their manager, respectively.

TABLE 7 – EXPERIMENT: REGRESSION RESULTS

Panel A – LOGIT – *SKEPTICAL ACTION*

	B	S.E.	Wald	Df	Sig.	Exp(B)
PARTNER	-0.90	0.40	5.09	1	0.02	0.41
AC CHAIR	-0.09	0.43	0.04	1	0.84	0.92
ATTITUDE	-0.22	0.43	0.28	1	0.60	0.80
PARTNER * ATTITUDE **(H1)**	1.30	0.58	5.07	1	**0.03**	3.66
AC CHAIR * ATTITUDE **(H2)**	0.14	0.59	0.06	1	**0.81**	1.15
Constant	1.69	0.32	27.61	1	< 0.01	5.44

Panel B – LOGIT – *ASK MGMT*

	B	S.E.	Wald	Df	Sig.	Exp(B)
PARTNER	-0.85	0.35	5.86	1	0.02	0.43
AC CHAIR	-0.19	0.36	0.26	1	0.61	0.83
ATTITUDE	-0.02	0.38	0.00	1	0.96	0.98
PARTNER * ATTITUDE	1.28	0.52	6.11	1	0.01	3.60
AC CHAIR * ATTITUDE	-0.08	0.51	0.02	1	0.88	0.93
Constant	1.20	0.28	18.94	1	< 0.01	3.31

Panel C – LOGIT – *INFORM MGR*

	B	S.E.	Wald	df	Sig.	Exp(B)
PARTNER	0.63	0.36	3.08	1	0.08	1.87
AC CHAIR	-0.34	0.33	1.09	1	0.30	0.71
ATTITUDE	0.19	0.34	0.30	1	0.59	1.20
PARTNER * ATTITUDE	-0.84	0.48	2.98	1	0.08	0.43
AC CHAIR * ATTITUDE	0.36	0.47	0.57	1	0.45	1.43
Constant	0.72	0.24	9.04	1	< 0.01	2.05

TABLE 7 – EXPERIMENT: UNIVARIATE STATISTICS (Continued)

Table 7 provides inferential statistics for the effects of *AC SUPPORT* and *ATTITUDE* on *SKEPTICAL ACTION* (and its composite measures *ASK MGMT* and *INFORM MGR)* from a series of logit regressions we perform to test our hypotheses.

The variable *AC SUPPORT* is manipulated by informing participants that either the *AC CHAIR* or *PARTNER* conveyed audit committee support by acknowledging the responsibility of the audit committee, stressing the audit's importance to management, and committing to keeping the lines of communication open and to providing other necessary audit support. In the *NO SUPPORT* condition, the participants were simply told that (1) the partner announced the audit committee meeting went well and thanks everyone for their hard work and commitment and (2) the partner thanked the team for their time.

The independent variable *ATTITUDE* is manipulated across conditions by describing the client's attitude toward the audit team as either rude and condescending (*POOR)* or friendly and respectful (*GOOD).*

This table reports the beta, standard error, Wald Chi-Square statistics, degrees of freedom, significance level, and the exponentiation of the beta coefficient for each logistic regression. Panels A, B, and C show the effects of *AC SUPPORT* and *ATTITUDE* on *SKEPTICAL ACTION, ASK MGT* and *INFORM MGR*, respectively.

The dependent measure *SKEPTICAL ACTION* is a composite of the measures *ASK MGT* and *INFORM MGR*. *ASK MGMT* and *INFORM MGR* are indicator variables that equal "1" if participants mention communicating/questioning the inconsistency between sales and NFM's when asked if they had any questions to ask the client management team or anything to tell their audit manager, respectively. The variables are coded as "0" if nothing regarding this red flag was mentioned by the participant. *SKEPTICAL ACTION* is then coded as "1" if participants had a "1" for *either ASK MGMT* or *INFORM MGR* and "0" if the participants deemed that no further action was necessary.

Support for H1 and H2 is indicated by the significance of the relevant interaction.

APPENDIX A

Additional Examples of Responses to Survey Questions

Question (RQ1): On what percentage of your audit engagements have you (or has one of your audit partners or managers) explicitly communicated the audit committee's support to your entire engagement team (including audit seniors and staff)? […] Please describe how it was done and any effect you believe it had on the audit.

Examples of Responses:

On one of my engagements we received positive feedback from the audit committee and what explicitly they appreciated. I have conveyed that message to the team and believe that it had a positive effect on their critical mindset as it was supported (Partner, NL).

Relaying messages from the AC to the broader team in planning meetings. It helps establish the purpose and gives the team confidence that they have the board's support (Senior Manager, US).

The Engagement leader has shared the meeting of minutes on his/her discussion with the AC members. With this, engagement team are able to understand and identify the area of focus and further disseminate to the relevant component teams and even overseas components to help them with their risk assessment and audit plan during the year (Senior Manager, NL).

Via email - partner emailed that the AC was very pleased with the audit plan we had written - this make audit team feel appreciated and have 'renewed energy' for the audit (Manager, NL).

Partner follow-up from AC meeting voicing their interest in our analytical tools being used. Gave increased confidence that we would get buy-in from management to use these tools (Senior, US).

The engagement leader or engagement manager gives a short summary of the discussion with the AC to the team. Because of this the team knows that certain themes are extra important, in some cases we have included one of these themes as unpredictability work in the audit (Senior, NL).

Question (RQ1): On what percentage of your audit engagements has any member of the audit committee directly expressed the audit committee's support to your entire engagement team (e.g., the audit committee chair comes to the audit room and expresses his/her support to the entire team, including audit seniors and staff)? […] Please describe how it was done and any effect you believe it had on the audit.

Examples of Responses:

The audit committee member stopped by the team's conference room to wave and yell "you guys are doing great!" Although this was a very brief moment, it was nice to get some positive encouragement from other parties. At another client, we sometimes received a basket of goods from the AC as a means of gratitude for the audit (Senior, US).

Toward the end of a particularly challenging engagement, the AC recognized the challenges and thanked our firm and team for our efforts. This message was shared with the entire team. Since it

was at the end of the audit, it didn't have any direct impact on that particular year, but it provided a positive foundation going forward as the team knew our work was appreciated by an engaged committee (Partner, US).

This has only happened when the audit committee chair join our regular update calls with management and my entire engagement team. When my team listens directly to the audit committee, I believe they find new/additional meaning in the importance of the audit process. This is also why I try to bring at least one junior team member (intern though senior associate) to my audit committee meetings, when possible (in addition to bringing my manager or senior manager) (Partner, NL).

The audit committee head in a post audit dinner thanked the audit team for their hard work (recognized the challenges of the audit i.e. acquisitions and divestitures) and recognized the job was "tough" but he thought the audit team was diligent and did a nice job (Director, US).

We typically invite senior level staff to attend audit committee meetings to get them the opportunity to hear the perspective of our client's audit committees. Following the audit committee meetings, the audit team will typically debrief as a group, including team members that were not present for the audit committee meeting (Senior Manager, US).

The AC chair visited our planning meeting and provided his bio and thanked us. It had a great impact on overall morale and made the audit team feel like they were contributing value to the company (Senior Manager, US).

Question (RQ2): How can an audit committee on a client show *support* for an audit engagement team?

Examples of Responses with Related Social Support Theory (Not Italicized) and Audit Practice Category Coding (Italicized):

Actively participating in meetings by asking probing questions of management regarding unusual transactions, and estimates and assumptions embedded within financial reporting. Striking a fair balance between management and the auditor. Conducting meaningful private sessions, and acting on the themes discussed during them (Partner, US: Instrumental, Emotional; *Openness, AC Challenges Management, Stands with Auditor*).

By spending significant time on our reports, ask a lot of questions about the report towards us and certainly towards management. This demonstrates to everyone involved that the audit matters (Director, NL: Instrumental, Emotional; *Management Cooperation, Appreciation, AC Challenges Management, AC Challenges Auditor*).

They could request for a scope that goes beyond the minimum, specifically in group audits where the selection of which group companies need to be audited is important. / Take time to have a meeting with the auditor to discuss not just the audit approach but the whole governance of the

company. / Insist to the directors to resolve the issues / improvements raised by the auditor (Senior Manager, NL: Informational, Instrumental, Emotional; *Openness, Management Cooperation, Insights*).

They can advocate that a quality job requires an adequate fee and support from the client to avoid possible scope limitation risk. They can further discuss audit findings in detail and challenge management on the steps they are taking to address findings (Manager, NL: Instrumental; *Management Cooperation, AC Challenges Management, AC Challenges Auditor, Fees*).

As the audit becomes more digital and undergoes constant innovation, ACs can assist with empowering management to support the audit efforts to implement and utilize audit innovation. Further, AC members can ask those probing questions of management as well how they are thinking about the digitalization of audits and how their teams (and systems) can effect positive changes in organizations (Manager, US: Instrumental; *Management Cooperation, AC Challenges Management, Innovation*).

By encouraging Management to provide support timely and facilitating a good working relationship between management and the team (Senior, US: Instrumental; *Management Cooperation*).

Question (RQ2): How has the audit committee affected the professional skepticism exercised by your engagement teams, if at all? Feel free to provide an example to illustrate.

Examples of Responses with Related Topic Coding:

Setting right tone and expectation that auditor is there "eyes and ears" and indicating the derive great value from our insights (Partner, US: *Accountability*).

What is different is that you need to be able to explain what audit procedures you plan to perform, why and also on the outcome. Which requires to have a better thought trough of the risk assessment and the approach. Usually the outcome is the same but we are able to better substantiate/explain it. (Senior Manager, NL: *Accountability; Risk Assessments; Scope of Testing*).

The audit committee shares with us their areas of concern. Most recently this involved cybersecurity and the committees concern that the company was not appropriately prepared for a cyberattack. This lead us to approach that risk with a higher level of professional skepticism (Senior Manager, US: *Scope of Testing, Risk Assessments*).

Yes- in a positive manner. They have asked difficult questions and have asked our view on the matter at hand. This usually results in the audit team looking deeper at the matter in question, so that feedback can be provided (Manager, NL: *Accountability, Risk Assessments*).

They challenge our audit approach by asking questions about the methodology and asking us to ensure that it makes sense. (Manager, US: *Scope of Testing, Accountability, and Risk Assessment*).

Generally, the audit committee has not significantly impacted the professional skepticism exercised by the engagement team. In my experience, it is rare that audit committees will indicate that there actually are any areas that may have an increased risk for material misstatement whether due to error or fraud. Even in situations where there are significant estimates/judgement and/or deficiencies recognized, the audit committee generally hasn't provided further insight or areas where the engagement team should focus on or apply more scrutiny (Manager, US: *No Impact*).

Questions (RQ2): In relation to the audit committee supporting the engagement team and improving the professional skepticism applied by the team, have you observed (or heard of) any examples of **best practices**? If so, please describe.
In a perfect world, how would you want audit committees to be involved and/or express their support to the engagement team in order to have the maximum positive impact on the professional skepticism exercised by the audit team?

Examples of Responses with Related Social Support Theory (Not Italicized) and Audit Practice Category Coding (Italicized):

In a perfect world, ACs would own the agendas and ask probing questions of management in areas of estimate and judgment. There would be consequences in the event of bad behavior (i.e. impact on bonuses). Often consequences only come when something goes terribly wrong (i.e. fraud). Even restatements are often blamed on the auditor, not management (Partner, US: Instrumental, Emotional; *Openness and Involvement, Stands with Auditor, Management Accountable*).

Management wanted to change auditor because they found us difficult, AC chose to keep us on board given the findings we revealed (Partner, NL: Instrumental; *Stands with Auditor*).

Calls or meetings with independent auditors outside of normal AC meeting when management is not present (Partner, US: Emotional; *Contact without Management*).

Having elaborate 'private sessions', ask further and deeper into the audit. Ask for open and frank comments, encouraging the auditor not to hold back or be polite, ensure there is a level of trust (e.g., if AC doesn't go back with a pointing finger to the CFO and CEO straight afterwards because that will alienate the c-suite from the auditor which will lead to getting less information from them (Partner, NL: Emotional; *Openness and Involvement, Challenges Auditor, Contact without Management*).

Asking good questions of the audit team to ensure they showed professional skepticism, considered negative evidence, and obtained appropriate documentation to demonstrate our

performance of professional skepticism (Director, US: Instrumental, Emotional; *Stands with Auditor, Challenges Auditor*).

Reinforcing to management the role of the independent audit. Helping to facilitate the performance of our engagement. Ensure management views the audit as a priority (Senior Manager, US: Instrumental, Emotional; *Openness and Involvement, Management Cooperation*).

I would like to see the audit committees to be involved with all members of the engagement team. I think it could show staff and seniors the importance of our role in the financial markets and result in a positive impact on the professional skepticism and work product (Senior, US: Emotional; *Interact with Whole Team*).

APPENDIX B

Manipulation of AC Support

AC CHAIR	PARTNER	NO SUPPORT
You are sitting in the audit room one afternoon, preparing for a meeting that will involve the entire engagement team. Your partner is currently meeting with Ruiter's audit committee, and the partner has announced an engagement team meeting will take place immediately after the audit committee meeting is finished.	You are sitting in the audit room one afternoon, preparing for a meeting that will involve the entire engagement team. Your partner is currently meeting with Ruiter's audit committee, and the partner has announced an engagement team meeting will take place immediately after the audit committee meeting is finished.	You are sitting in the audit room one afternoon, preparing for a meeting that will involve the entire engagement team. Your partner is currently meeting with Ruiter's audit committee, and the partner has announced an engagement team meeting will take place immediately after the audit committee meeting is finished.
The partner finally arrives, and you are surprised to see that the audit committee chair has walked into the audit room, as well. The audit committee chair asks for the attention of the entire engagement team, and makes an announcement:	The partner finally arrives, asks for the attention of the entire engagement team, and makes an announcement:	The partner finally arrives and asks for the attention of the entire engagement team. The partner makes an announcement that the audit committee meeting went well and thanks everyone for their hard work and commitment. The audit partner then thanks the engagement team for their time, and then leaves the room.
"Thank you for your hard work and commitment. I and the rest of the audit committee have a responsibility to protect Ruiter's investors, and this audit is essential to fulfilling that responsibility. We are very involved and aware of how the audit is progressing. I have stressed to management that this audit is very important, and have encouraged timely responses to all audit requests.	"The audit committee meeting went well. The audit committee asked me to thank you for your hard work and commitment. They recognize they have a responsibility to protect Ruiter's investors, and that this audit is essential to fulfilling that responsibility. They said they are very involved and aware of how the audit is progressing. The audit committee also told me they have stressed to management that this audit is very important, and they have encouraged timely responses to all audit requests.	
I recognize that it is important to support the	The audit committee told me they recognize that it is important to support the audit team when disagreements arise between the team and management. The audit committee will also consider	

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audit team when disagreements arise between the team and management. The audit committee will also consider additional fees for budget overruns, if the overruns are reasonable and justified. I and the rest of the audit committee are committed to ensuring a successful audit, and I will check in with the audit team periodically. We are committed to maintaining open lines of communication."
 	
    The audit committee chair thanks the engagement team for their time, and then leaves the room.
	additional fees for budget overruns, if the overruns are reasonable and justified. The audit committee told me they are committed to ensuring a successful audit, and will check in with the audit team periodically. They say they are committed to keeping open lines of communication."
	
	    The audit partner thanks the engagement team for their time, and then leaves the room.	