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THE AUDIT REVIEW PROCESS: A CHARACTERIZATION FROM THE PERSUASION PERSPECTIVE*

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Abstract

In this paper, we describe the audit review process from a persuasion perspective. This perspective highlights that preparers have, and may take advantage of, opportunities to enhance their reputation by influencing the content and format of audit working papers (i.e. the working papers may be "stylized"). In turn, we highlight that reviewers may receive working papers containing messages intended to persuade the reviewer about the appropriateness of the work prepared and conclusions reached. We discuss the types of persuasion behaviors in which working-paper preparers may engage and the stylization that may result. In addition, we discuss potential behaviors by reviewers to cope with such behaviors and stylization. We make salient that to be effective, reviewers must anticipate persuasive behaviors of other audit team members, as well as the client. Further, we highlight that reviewers assume a working paper co-composer role. Finally, we suggest questions for future research related to persuasion behaviors and stylization, reviewer coping behaviors and the reviewer's role as a co-composer.

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The process of superior members of audit teams evaluating the work of subordinate team members (hereafter, the review process) has long been an integral part of the audit (e.g. Mautz & Sharaf, 1961; AICPA, 1979).¹ Increasing competitive pressures over the last 20 years, however, have focused attention in auditing firms on containing costs, including those attributable to the review process. Since auditing firms' most costly resources are their partners and managers and these audit team members traditionally spend a far greater portion

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¹Audit teams are hierarchical units comprised of, in increasing order of superiority, one or more staff, senior, manager and partner (Milliron & Mock, 1981). Specialists (e.g. computer and statistical) also may be part of the audit team. Admittedly, not all audits will require an audit team with members at each functional level. However, all but the smallest audits will be conducted by a multi-person audit team (Solomon, 1987).

of their time as reviewers than as preparers, such attention would seem to be both inevitable and prudent.²

To assess the value of the review process, its benefits must be considered in addition to its cost. However, measuring such benefits is difficult in practice. In particular, the lack of both a normative benchmark and experience with alternative structures (e.g. no review or alternative review modes) precludes appraisal of the current review process in either an absolute or relative sense. In addition, despite prior encouragements (e.g. Solomon, 1987; Ashton *et al.*, 1988), little research directly addressing reviewer effectiveness has been reported. Further, extant research largely focuses on aspects of reviewer behavior (e.g. Boritz, 1985; Bamber & Bylinski, 1987; Bamber *et al.*, 1988; Roebuck & Trotman, 1992) and some gains attributable to the review process (e.g. Trotman & Yetton, 1985; Trotman, 1985; Libby & Trotman, 1993; Ramsay, 1994; Messier & Tubbs, 1994). Although the results of extant studies provide an admirable foundation, further research is essential to support the greater understanding of the review process necessary for effectiveness evaluations to be made. We believe that an antecedent to such understanding is a more complete characterization of these, and other, as yet undocumented, aspects of (preparer and) reviewer behaviors, and their causes (Libby & Trotman, 1993).

In the present paper, we characterize the audit review process from the persuasion perspective. It is our view that the persuasion perspective provides a unifying framework for understanding the behavior of audit preparers and reviewers and for predicting and investigating their effectiveness and efficiency implications.

From that perspective, audit reviewers are recipients of persuasive messages. That is, reviewers receive from preparers working papers intended to persuade reviewers that the work performed, conclusions reached and the documentation of the work and conclusions are appropriate and defensible. In this way, preparers can manage or, at least, influence their reputation in the minds of reviewers (who also typically evaluate preparers' performance) (e.g. Schlenker, 1980). While it has been recognized that client personnel may be motivated to act strategically and, in turn, the auditor may deal with the client by acting strategically, the existence and implications of strategic behaviors by audit team members, as well as the causes of such behavior, have not been sufficiently acknowledged nor addressed.³

Importantly, because the working-paper messages are intended to persuade, some may be "stylized" (i.e. prepared with the aim of creating impressions which the preparer believes will enhance his/her reputation). The preparer, for example, influences what and how audit evidence is gathered, interprets what the audit evidence means, selects what and what not to document, determines how what is documented will be framed and sets the working-paper format. These influences, interpretations and choices provide opportunities for the preparer to shade the working papers, thereby affecting both what views their messages support and how supportive they will be perceived to be. Herein, when a preparer's persuasion behaviors (i.e. behaviors motivated directly or indirectly by reputation enhancement) affect working-paper content and format, stylization will be said to have occurred. Examples of such behaviors are adopting a working-paper format

²The term "preparer" will be used, herein, to refer to the auditor who performs the specific evidence gathering procedures and documents the resulting evidence during a financial-statement audit, the term "reviewer" will be used to refer to the auditor who reviews a given preparer's work and the term "auditor" will be used when no distinction is necessary

³Sometimes, the entity whose financial statements are being audited is not the entity who has hired the auditor. For such engagements, the former is the "auditee" and the latter is the "client". For expositional convenience, we use the term client throughout the paper.

perceived by the preparer to be favored by the reviewer and incompletely documenting evidence or framing documented evidence in such a way that it supports the preparer's preferred view. As discussed later, some but not all persuasion behaviors and stylizations have adverse implications.

Our persuasion characterization does not end with the preparer. Importantly, two aspects of reviewers' behavior are considered. First, reviewers, like many targets of persuasive messages, are likely to have learned a variety of coping behaviors. Second, recognizing that reviewers are not the final targets for persuasive working-paper messages, we also characterize reviewers as co-composers of these persuasive messages. Because the ensemble of these behaviors is best understood from a persuasion lens, we employ prominent persuasion models (primarily Petty and Cacioppo's (1986) Elaboration Likelihood Model (ELM) and Friestad and Wright's (1994) Persuasion Knowledge Model (PKM)) as points of departure in characterizing the audit review process.

The remainder of this paper is presented in four sections. In the next section, we discuss prior research as a means of elucidating what is presently known about the goals of and gains to the review process. In the third section, we review the persuasion literature, focusing on the aforementioned ELM and PKM. Perspectives from the persuasion literature organized into three subsections are presented in the fourth section:

1. preparer persuasion behaviors and stylized working papers,
2. reviewer coping behaviors, and

3. the reviewer as a co-composer. Selected research questions which profitably could be the focus of future research are also presented in each subsection.

Concluding remarks in the fifth section complete the paper

PRIOR RESEARCH

Purposes of the review process

Published descriptive studies characterize the general purpose of the review process as control over the quality of the audit (see Peat, Marwick, Mitchell & Co., 1976; American Accounting Association, 1988). More specifically, audit review has been viewed in professional standards and literature as a means of detecting and initiating correction of preparer error (e.g. AICPA, 1979; Brumfield *et al.*, 1983).⁴ Descriptive investigations also support this notion of the review process as a quality-control mechanism. These investigations, however, typically have been accomplished through surveys/interviews or examination of firm manuals, methods which do not necessarily elucidate actual reviewer behavior (e.g. Watson, 1975; Bamber & Bylinski, 1982; Cushing & Loebbecke, 1986).

Roebuck and Trotman (1992), providing a notable exception to the aforementioned studies, examined actual review notes.⁵ At a global level, these notes were consistent with the quality-control objective. Roebuck and Trotman (1992) reported, for example, that 82.1 percent of the manager review notes they studied required the preparer to perform

⁴Audit JDM researchers, as discussed later, have recognised the accountability-inducing nature of the review process (e.g. Tan, 1995; Kennedy, 1993; Koonce *et al.*, 1995). In addition, CPA firm manuals describe other objectives of the review process including performance evaluation and training. Performance evaluation is discussed later as an implicit focus of the reviewer, while training is beyond the scope of the present paper.

⁵Review notes, at least at the firm investigated by Roebuck and Trotman (1992), are not used as a basis for support for the work performed. Instead, the review notes are destroyed after the reviewer becomes satisfied with the disposition of the issue involved.

“additional audit work or follow-up” (28.7%), provide “better documentation (update/amend working papers)” (20.6%) or “provide further explanation” (32.8%).⁶ These three major categories provide a vehicle for further specifying review objectives.⁷

First, since evidential matter is the basis for the auditor’s opinion, the frequency with which reviewers required “additional audit work or follow-up” suggests that reviewers are concerned with reaching and supporting an appropriate conclusion. Second, the frequency with which reviewers required ‘better documentation’ suggests that reviewers also are concerned with discharging professional responsibilities for documentation and with the ability to use working papers to defend the auditor’s report (cf. Gibbins, 1984; Gibbins & Emby, 1985). Finally, closer inspection of the “provide further explanation” category reveals sub-categories which are consistent with reaching and supporting an appropriate conclusion and/or the ability of the working papers to defend the auditor’s report.⁸ In fact, as observed by Roebuck and Trotman (1992), many of these sub-category review notes eventually are disposed through “additional audit work or follow-up” or “better documentation” of the work which already has been performed (i.e. once a further explanation is provided by the preparer the reviewer may

ask for additional audit work and/or better documentation).

In the remainder of the paper, we concentrate on two primary classes of review-process objectives. The first of these classes is reviewer appraisal of the appropriateness of the preparer’s opinion about the conformance of the financial-statement assertions with generally accepted accounting principles (GAAP) (hereafter, “opinion appropriateness”). The second class of objectives is ensuring the defensibility of the documentation (hereafter, “documentation”). In addition to being consistent with Roebuck and Trotman (1992), both of these review-process objectives are consistent with professional standards. Reviewers focus on opinion appropriateness because forming and reporting such an opinion is the objective of a financial-statement audit (AICPA, 1995). Reviewers focusing on documentation evaluate the written record of what the opinion is and the process by which it was reached and consider the extent to which that written record will be able to withstand *ex post* scrutiny. Reviewers’ documentation concern arises because working papers provide the principal support for the auditor’s report by providing a record “of the procedures applied, tests performed, the information obtained, and the pertinent conclusions reached in the engagement” (AICPA, 1995). Indeed, when investigations

⁶In addition to these three categories Roebuck and Trotman (1992) classified the review notes into seven other categories. These categories and the respective percentage of review notes in each category are as follows: compliance with firm policy and procedure (2.8); compliance with a program step (0.5); provide advice to subordinate on approach to audit or preparation of working paper (4.2); indications of adjusting entries or potential adjustments (4.0); financial-statement/report disclosure (2.0); management letter point disclosed (3.0); unclassifiable (1.4).

⁷Admittedly, these results are outcomes of the review process and do not necessarily map directly into the reviewer’s objectives. That is, the reviewer may be extremely concerned about the preparer’s compliance with a program step, but such comments in the review notes are relatively rare (0.5%) due to the preparer’s achievement of this objective, not the reviewer’s lack of concern with the issue. Nevertheless, the preponderance of review notes in these categories does provide an excellent starting point for consideration of what reviewers are looking for when performing the review process.

⁸These sub-categories are: (1) explain the reason for a change in an account balance; (2) reconcile an inconsistency in the working papers regarding audit work performed or information shown there-on; (3) explain a change in method of accounting for a particular item; (4) clarification of work performed; (5) clarification and/or additional explanation; and (6) discuss with subordinate.

into the adequacy of the audit are conducted in a court of law, during peer reviews or in connection with in-house reviews, audit working papers serve as the evidential core. It is to be expected, therefore, that reviewers would be concerned with the defensibility of the documentation (Gibbins, 1984; Emby & Gibbins, 1988).

Gains attributable to review

A key theme of early research is that the review process is a form of multi-person decision making (Solomon, 1987) and, therefore, provides opportunities for process gains such as variance reduction and improved accuracy (Trotman & Yetton, 1985; Trotman, 1985). Random error can be reduced by the use of a composite group (statistical average of member judgments). In situations in which there is no systematic bias, using a composite group results in a tighter distribution around the mean with a resulting performance increment. As systematic bias increases, however, the benefits of the composite decrease (Einhorn *et al.*, 1977; Trotman, 1985). For an interacting group to outperform a composite group when systematic bias exists, it is necessary for the interacting group to reduce the effects of the bias to a greater extent than the statistical averaging process. For example, if the interacting group can correctly differentiate group members based on their knowledge, the group can overcome systematic bias by placing more weight on the judgments of the more knowledgeable (best) members (Trotman, 1985). Previous research suggests, however, that groups have difficulty identifying their most knowledgeable members (Miner, 1984; Libby *et al.*, 1987; Trotman *et al.*, 1983; see Yetton & Bottger, 1982 for an exception). However, because there is likely to be a positive correlation between an auditor's place in the team hierarchy and the auditor's knowledge, the review process may facilitate identification and differential weighting of the judgments of the most knowledgeable team members.

Many of the more recent studies have continued the general theme of investigating gains

accruing from the review process. For example, Ismail and Trotman (1995), investigating auditor hypothesis generation in an analytical-procedures setting, reported that the review process was associated with generation of an increased number of plausible hypotheses regardless of the reviewer's rank and whether discussion were allowed. Further, Messier and Tubbs (1994) provided limited support for the proposition that the review process mitigated, but does not eliminate, recency effects when data are sequentially-processed.

Ramsay (1994) noted that while previous research showed that the review process resulted in diminished judgment variance and increased judgment accuracy, reviewed judgments were not superior to those of interacting groups of two seniors (Trotman & Yetton, 1985; Trotman, 1985). Ramsay suggested that such findings imply that managers are not different from seniors at working-paper review which, in turn, makes audit firms' investment in the additional cost of manager review something of a curiosity. When, however, a distinction was made between error types, Ramsay showed that managers outperform seniors in detecting conceptual errors but that the opposite is true for mechanical errors. Ramsay's study effectively investigates the types of errors for which more senior auditors are "best" members.

Libby and Trotman (1993) focused on features of audit teams which distinguish them from other multi-person decision-making formats. They observed that preparers enter the judgment process prior to an initial judgment and have incentives to justify their position (Emby & Gibbins, 1988). Reviewers, on the other hand, enter the judgment process subsequent to an initial judgment having been formulated and documented. Consequently, Libby and Trotman proposed that preparers are likely to be relatively more concerned about forming a judgment, while reviewers are likely to be relatively more concerned about checking the consistency of the preparer's judgment with available evidence. Recall data presented by Libby and Trotman were consistent with this hypothesis.

Incremental contributions of this paper

Adopting a persuasion perspective, we make three contributions. First, in the section entitled "Preparer Persuasion Behaviors and Stylized Working Papers" we argue that preparers' incentives not only influence their cognition in ways they did not necessarily intend (Libby & Trotman, 1993) but may encourage them to behave strategically and possibly deceptively in the interest of persuading a reviewer. That is, preparers are likely to employ the opportunity presented by each audit engagement to influence their reputation in the minds of audit reviewers. Thus, the resultant working papers may be purposefully stylized and the extent of this stylization may be affected by the reviewer and a variety of engagement-specific factors. The notion that there are incentives for preparers to act strategically is consistent with research viewing the review process as an accountability-inducing mechanism (e.g. Johnson & Kaplan, 1992; Kennedy, 1995; Koonce *et al.*, 1995; Tan, 1995; Peecher, 1996). For example, evidence reported by Tan (1995) suggests that because they may anticipate reviewers' attention to negative (decision-inconsistent) evidence, preparers who are aware of a potential review pay more attention to negative evidence than they would otherwise. In accountability studies reported to date, however, the behaviors available to the preparer-subjects have been limited (e.g. subjects could work faster or harder). That is, because of researchers' focus on other issues, subjects in auditing accountability studies had little or no opportunity to influence the audit working papers. In the present paper, we more fully populate the set of persuasion behaviors available to the preparer.

Our second contribution is to highlight, in the section entitled "Reviewer Coping Behaviors," that, in addition to client and between-preparer features as well as preparer predispositions

toward decision-consistent evidence, reviewers must contend with opportunistic preparer behavior. Prior research suggests, for example, that reviewers alter the extent of their review activities in response to client features (i.e. inherent risk) (Bamber *et al.*, 1988). In addition, reviewers have been shown to adjust the perceived informativeness of evidence gathered by a preparer based on their perceptions of preparer reliability (Bamber, 1983). Prior research also has highlighted that reviewers must correct for preparers' innate emphasis on decision-consistent evidence (Libby & Trotman, 1993) the need for which may be anticipated (Tan, 1995). However, much like the auditor not merely relying on a client's representations as having been made in good faith but being aware of the potential for, and possibly searching for, fraud as well as for errors, the prudent reviewer will not assume that the preparer exhaustively and disinterestedly executes audit procedures and documents the results. The need for research examining reviewer behavior as a response to strategic preparer behavior, however, has not been previously recognized.

Third, in the section entitled "The Reviewer as a Co-Composer," we recognize that reviewers are rarely the final target of the persuasive working-paper messages. That is, reviewers effectively become, in turn, preparers with even the partner who signs the audit opinion concerned about concurring partner review, peer review and potential examination by the courts. Thus, we characterize the reviewer both as a target and a co-composer and draw out implications of this dual role.⁹ By making these extensions, our persuasion characterization, which more comprehensively accommodates the behavior of the various participants in the multi-person review setting (especially potential strategic adaptations), is intended to facilitate future studies of review-process efficacy and provide a framework for interpreting their results.

⁹Characterizing the reviewer as co-composer is not meant to imply that there always will be "cooperation" between the preparer and reviewer

THE PERSUASION LITERATURE

Elaboration likelihood model

Petty and Cacioppo (1986) describe the ELM as a fairly comprehensive framework for organizing, categorizing and understanding the basic processes underlying the effectiveness of persuasive communications. Figure 1 provides an overview of their model (Fig. 1-1 in Petty & Cacioppo, 1986). Persuasion is defined in Petty and Cacioppo (1986) as "any change in attitudes that results from exposure to a communication" (p.5). Attitudes are defined as "general evaluations people hold in regard to themselves, other people, objects and issues" (p.4).

In the context of audit review, the working papers are the primary communication vehicle (see the discussion of oral communication later). Further, for present purposes, there are three foci of attitude formation and change to which the working papers are germane. Explicitly, the working papers provide an evaluation of the conformance of the client's financial statements with GAAP and they signal documentation defensibility. Implicitly, the working papers provide cues to the performance and ability of the working-paper preparer. That is, reviewers evaluate working-paper information not only for the two purposes identified earlier, but as a means both of assessing the preparer's performance on the present engagement (see footnote 4) and updating their mental model of the preparer's ability (Johnson-Laird, 1982, 1983).

The ELM outlines two different routes to persuasion. The central route is based on a "careful and thoughtful consideration of the true merits of the information presented in support of an advocacy" (Petty & Cacioppo, 1986, p. 3). The peripheral route, on the other hand, involves attitude change on a basis other than the merits of issue-relevant information. The peripheral route is taken when, for example, a cue such as the attractiveness of the source is given significant weight. The ELM further proposes that, in the short term, similar amounts of attitude change can be produced via either route. However, in the longer term, the central

processing route, which requires more cognitive effort, is likely to result in changes which are "more persistent, resistant to counter-persuasion and predictive of behavior" (Petty & Cacioppo, 1986, p. viii).

Petty and Cacioppo (1986) suggest that much of the attitude change literature is consistent with their ELM and can be placed along an elaboration likelihood continuum. At the high end of the continuum, it is assumed in the literature that individuals typically attempt to carefully evaluate the information presented in the message and integrate this message into a coherent position. At this end of the continuum, theoretical orientations include inoculation theory (McGuire, 1964), cognitive response theory (Greenwald, 1968; Petty *et al.*, 1981), information integration theory (Anderson, 1981), the theory of reasoned action (Ajzen & Fishbein, 1980; Fishbein, 1980), and the systematic model of persuasion (Chaiken, 1980, 1987; Eagly & Chaiken, 1984). Petty and Cacioppo argue that the common feature of theoretical orientations at the low end of the continuum is that they do not place much weight on the arguments in a message or issue-relevant information. According to Chaiken's heuristic model of persuasion, for example, individuals may base their assessments on superficial considerations such as surface or structural characteristics of the message (e.g. length/number of arguments), communicator characteristics (e.g. expertise, likeability) and audience characteristics (e.g. positive or negative audience reactions to the message, (Chaiken, 1984, 1987).

The primary distinction between central- and peripheral-route processing is the message recipient's engagement in elaboration activities. Elaboration activities entail careful scrutiny of information in a message by relating it to other available issue-relevant information (Petty & Cacioppo, 1986). In some situations, the likelihood of elaboration is high. These situations arise when people are:

- (a) highly motivated to devote the cognitive energy necessary to evaluate the message,

perhaps because the message has direct personal relevance, personal responsibility is high or because they are the kind of people who typically enjoy thinking (Cacioppo *et al.*, 1983; Petty & Cacioppo, 1979; Petty *et al.*, 1983); and (b) highly able to evaluate the message, perhaps because the message is repeated

several times, distractions are few or they have considerable issue-relevant knowledge (Cacioppo & Petty, 1979, 1980; Petty *et al.*, 1976).

Under these circumstances, Petty & Cacioppo (1986, p. 7) suggest that individuals are likely to attempt to:

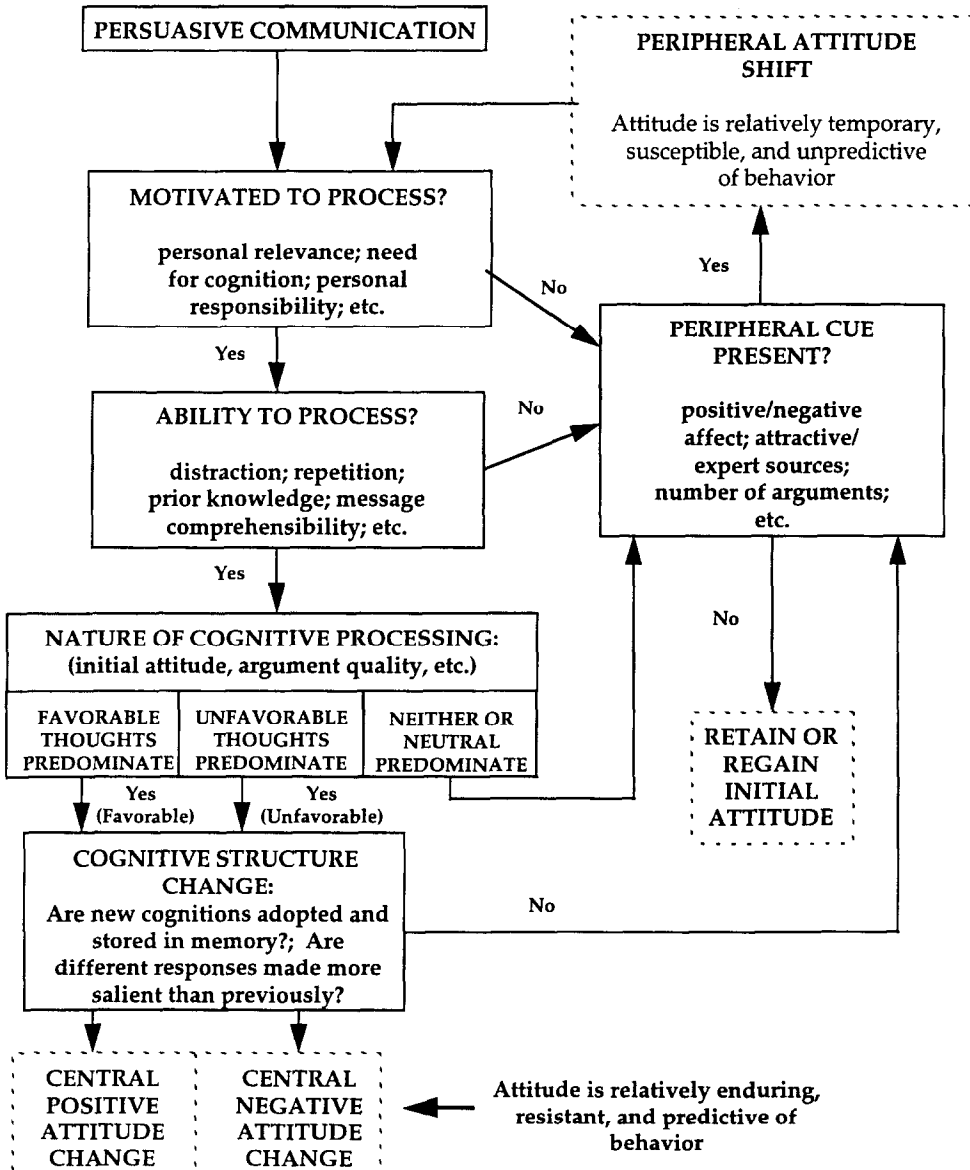


Fig. 1. The elaboration likelihood model of persuasion (taken from Petty & Cacioppo, 1986).

.... access relevant information from both external and internal sources; scrutinize and make inferences about the message arguments in light of any other pertinent information available; draw conclusions about the merits of the arguments for the recommendation based upon their analyses; and consequently, derive an overall evaluation of, or attitude toward, the recommendation.

In the review context, both motivation and ability are likely to be high and thus central-route processing is likely to dominate. Such factors as the professional status of auditors, high cost of errors, hierarchical organizational structure of auditing firms and the up-or-out mentality suggest that reviewers generally will be highly motivated. Reviewers are also likely to have the ability to evaluate working papers (the message) given their likely high levels of domain-specific knowledge (Bonner, 1990; Libby & Luft, 1993; Libby, 1995). Research suggests, for example, that experienced auditors structure their knowledge of financial-statement errors with audit objectives as the primary organizing dimension and transaction cycles as a secondary dimension (Bonner *et al.*, 1996; Nelson *et al.*, 1995; Frederick *et al.*, 1994; Tubbs, 1992). Prior research also suggests that knowledge of error frequencies is learned from first-hand experience (Butt, 1988; Libby, 1985; Libby & Frederick, 1990; Nelson, 1993, 1994) although there is some debate about the extent to which first-hand experiences in the audit context are sufficient for acquisition of accurate error-frequency knowledge (Ashton, 1991). Such pre-existing knowledge structures not only affect cognitive responses to the message but they serve as a framework for comparing and integrating new message content (Sherman, 1987). In addition, extant evidence suggests that audit managers possess well-developed problem schemata that direct their information search patterns in audit tasks such as analytical procedures (Biggs *et al.*, 1988). Analogously, reviewers are likely to possess well-developed procedural schemata which direct the order in which working-paper information is examined during the review task (e.g. search by transaction cycle, straight down the trial balance or most important issues first).

Reviewers are likely to have a number of different types of elaboration processes at their disposal. For example, when reviewing analytical-procedures working papers, elaboration could include:

1. requesting that independent corroborating accounting data be collected;
2. generating and considering plausible alternatives; and
3. performing a consistency check.

These different types of elaboration are listed in what auditors are likely to perceive as a decreasing order of power to detect preparer error. The listing also, however, is in decreasing order of time required for the different types of elaboration to be performed. Thus, depending, on engagement-specific factors including, as discussed later, anticipations of working-paper stylization, each of the three types of elaboration could be perceived as "optimal".

Some features of the audit ecology, however, might predispose reviewers toward the peripheral/heuristic processing route. For example, features such as time and budget pressures, knowledge of other team members, including the preparer, and prior experiences with a client could stimulate peripheral heuristic-route processing. However, because reviewers are likely to have the required levels of motivation and ability, we believe that some level of central-route processing and elaboration always will occur. At a minimum, for example, reviewers would be expected to conduct confirmatory activities such as reasonableness or consistency checks.

Persuasion knowledge model

Friestad and Wright's (1994) PKM extended the ELM and other models by emphasizing how persuasion knowledge influences an individual's responses to persuasion attempts (see Fig. 2, which is Fig. 1 in Friestad & Wright, 1994). The PKM is focused on the nature and development of persuasion knowledge and how individuals use it to interpret, evaluate and respond to persuasive messages from advertisers and sales people. Friestad and Wright

(1994) suggest, however, that the PKM has broad application across a variety of persuasion situations. We concur and contend that the PKM is applicable to audit review as reviewers will acquire persuasion knowledge and such knowledge will affect how they interpret, evaluate and respond to persuasive working-paper messages. Reviewers learn about persuasion in a number of ways including reviewing files prepared by different preparers, conversations with other reviewers and knowledge acquired when they were preparers.

Friestad and Wright use the term “targets” to refer to those individuals for whom a persuasion attempt is intended (e.g. the reviewer) and the term “agent” to refer to the individual responsible for designing and constructing the persuasion message (e.g. the preparer). The term “persuasion attempt” refers to the target’s perception of an agent’s strategic behavior of presenting information intended to influence the target’s beliefs, attitudes, decisions or actions. This strategic behavior includes the message (in the working papers) and the reviewer’s

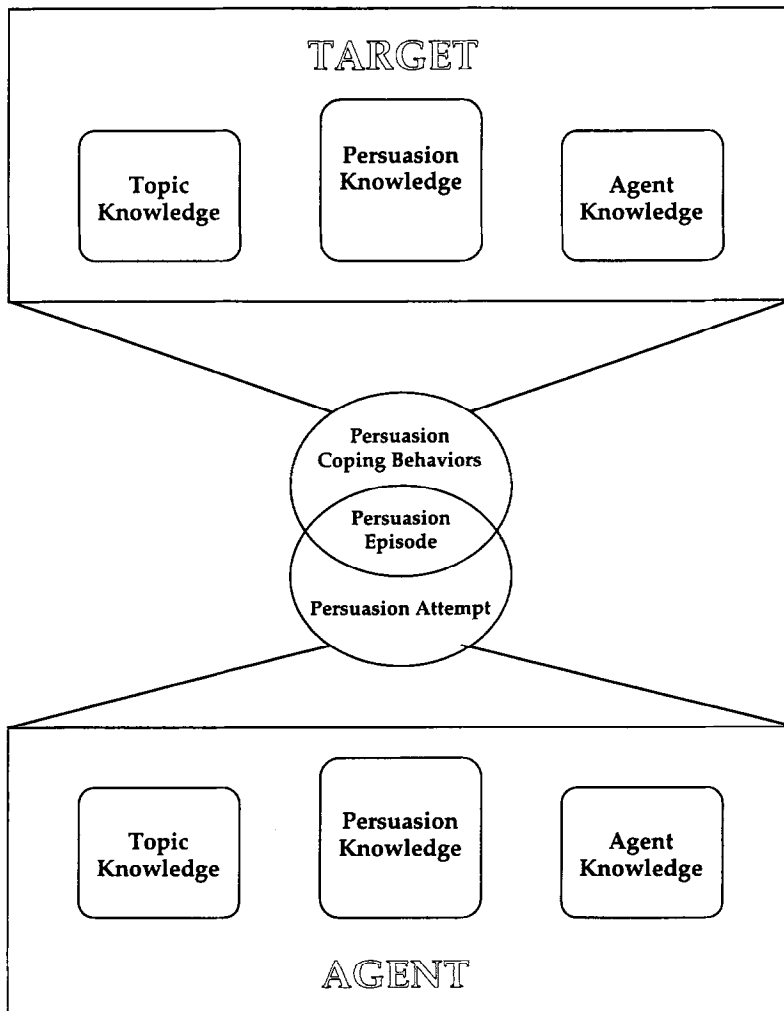


Fig. 2. The persuasion knowledge model (taken from Friestad & Wright, 1994).

perception of how and why the preparer has designed or constructed the message in that way. The directly observable part of the agent's behavior is defined in the model as a "persuasion episode." Continuing, "persuasion coping behaviors" are reviewers' response tactics which are analogous to preparers' persuasion tactics. Friestad and Wright (1994) suggest that these persuasion coping behaviors encompass not only cognitive and physical reactions during any one persuasion episode, but also any thinking which is done about an agent's likely persuasion behavior in anticipation of a persuasion message. For an audit reviewer, as discussed further later, coping behavior may entail anticipating certain types of persuasion based on past experience with the preparer.

One contribution of the PKM is to highlight how three types of knowledge (persuasion knowledge, agent knowledge and topic knowledge) interact to shape and determine the outcomes of persuasion attempts. Persuasion knowledge is acquired over time as a result of experienced persuasion attempts. Friestad and Wright (1994, p.3) note that:

.... persuasion knowledge performs schemalike functions, such as guiding consumers' attention to aspects of an advertising campaign or sales presentation, providing inferences about possible background conditions that caused the agent to construct the attempt in that way, generating predictions about the attempt's likely effects on people, and evaluating its overall competence. Further, persuasion coping knowledge directs one's attention to one's own response goals and response options, supplies situational information relevant to selecting response tactics, predicts which tactics will best achieve one's goal(s), evaluates the adequacy of one's coping attempt, and retains useful information about how one interpreted and coped with this particular persuasion attempt.

In auditing, agent knowledge is the reviewer's knowledge of the traits, competencies and goals of the preparer while topic knowledge is the reviewer's knowledge about the subject of the message. Agent knowledge includes knowledge of the preparer's reliability (Bamber, 1983) and motivations. Topic knowledge includes the reviewer's knowledge of the client and its systems (see Boritz, 1985), knowledge of the area

or assertion under review (e.g. materiality and riskiness of an assertion — see Bamber & Bylinski, 1987 and Bamber *et al.*, 1988), and his/her knowledge structure for financial-statement errors (e.g. Nelson *et al.*, 1995; Frederick *et al.*, 1994). The PKM makes salient that the degree to which reviewers who access their knowledge may shift over the course of a review (i.e. persuasion episode). For example, a manager reviewing a standard set of working papers from a competent preparer may initially pay little attention to persuasion knowledge but increase usage of such knowledge if the manager finds an inconsistency in the working papers that is not adequately addressed.

The PKM predicts that when an individual conceives an agent's action as a persuasion tactic a change of meaning occurs. This is a significant event which has implications in the review process for (cf. Friestad and Wright 1994):

- (a) how reviewers construe persuasion attempts in general;
- (b) why two reviewers with different persuasion knowledge may construe the same persuasion attempts differently;
- (c) why a particular reviewer may construe a specific persuasion attempt differently at different points in his/her career; and
- (d) why even small changes in the presentation of working papers may cause an altered effect by introducing or deleting something the reviewer does or would have considered to be a persuasion tactic.

PERSUASION PERSPECTIVES

While it has been recognized that client personnel may act strategically and that, in turn, the auditor may be strategic in dealing with the client (e.g. Ashton *et al.*, 1988), the potential for strategic behavior within the audit team has not previously received attention. Preparers, however, are likely to view each audit engagement as an opportunity to manage their reputation in the reviewer's mind because a preparer's standing within the firm, as well as

promotions and pay raises, will be strongly related to performance evaluations made by the reviewer. Moreover, the working papers, being the preparer's primary work-related output, provide the most likely venue for the preparer to attempt to achieve reputation-enhancement goals.

This perspective casts audit working papers in a new light—that is, in addition to the explicit messages about the conformance of the client's financial statements with GAAP and the defensibility of the working papers, there are likely to be messages intended to persuade reviewers that the preparer's performance was meritorious. Recognizing that working papers are likely to contain persuasive messages composed by a strategic preparer makes salient the importance of considering further two inter-related topics:

1. preparer persuasion behaviors and resultant stylized working papers, and
2. reviewer's coping behaviors.

Further, because reviewers are not the final target of the persuasive working-paper messages, we have included a third topic in this section—reviewers as co-composers.

Preparer persuasion behaviors and stylized working papers

Earlier we suggested that stylized working papers can result when a preparer engages in persuasion behaviors. In this section, we more fully discuss working-paper stylization—including the opportunities that preparers have to stylize working papers, the various persuasion behaviors which may give rise to such stylization, the conditions under which such behaviors are likely to occur and the implications of such behaviors. It should be noted from the outset, that preparers will not always engage in behaviors having adverse implications for audit effectiveness. In many cases, for example, the preparer may perceive that fully objective behavior on his/her part is the best way to improve the reviewer's mental model of the preparer. For example, in the absence of other pressures, should the audit evidence support the

client's position, the preparer may merely document such evidence as would an individual with no motivation or opportunity to engage in persuasive behaviors (e.g. a court stenographer). Similarly, when there is a continuing reviewer, preparers might adopt the prior year's audit program or employ the working-paper format and "tick marks" used in the prior years under the assumption that the reviewer is likely to continue to find them to be appropriate. Such behaviors are unlikely to pose serious threats to audit effectiveness and may enhance audit efficiency.

As the other end of the persuasion-behavior continuum is approached, however, there may be adverse audit effectiveness consequences. Consider, for example, a preparer who is concerned about the need to defend a preferred conclusion and who uncovers unexpected, negative evidence. Such a preparer might craft arguments (*ex post*) to be able to mount a defense (cf. Emby & Gibbins, 1988). Finally, at the end of the continuum, a preparer may act deceptively. For example, preparers may fail to report material evidence, sign off on an audit program step without actually performing that step, fabricate supporting evidence or otherwise falsify results in extreme cases of perceived pressure to support the client's position. While it is hoped and expected that deceptive behaviors (e.g. signing off on procedures not performed) would be relatively uncommon, they are not unheard of and they have obvious and potentially severe implications for audit effectiveness (see Rhode, 1977).

We have distinguished five interrelated opportunities for preparers to stylize working papers. First, the preparer chooses what and how audit evidence is gathered. While it is true that audit programs typically will constrain preparers to some extent, some options inevitably will remain. For example, preparers often will be able to determine, or heavily influence, which population elements appear in a sample. Further, opportunities to choose what and how evidence is collected will be more plentiful when unexpected evidence is encountered. At such times, the initial audit program will often

no longer be relevant and, in turn, preparers will have some flexibility as to the type of evidence and the sequence in which it is gathered. Thus, after detecting an unexpected ratio fluctuation, for example, a preparer wanting to enhance his/her reputation for completing work within the budgeted time first could make an inquiry of the client's management, who is highly likely to provide a non-error explanation for the fluctuation, and then document that explanation in the working papers. On the other hand, a preparer may perceive his/her reputation to be enhanced more by first making an inquiry of the client's management, then gathering evidence in an attempt to disconfirm the client's non-error explanation before it is documented in the working papers. Even if gathered evidence were objectively documented, these two approaches may result in significantly different evidence being available to the reviewer and potentially support different conclusions.

Second, the preparer provides an initial interpretation of evidence. Consider a case in which, while testing an assertion related to a material and high-risk account for a client facing a relatively high risk of failure, the preparer finds that there are three exceptions in a sample of 30 items. Pressure to detect material financial-statement error in this situation is likely to stimulate the preparer to take steps to ensure that both the opinion appropriateness and documentation objectives are clearly being met. Among other approaches, the preparer may pre-emptively suggest follow-up procedures to supplement the initial audit program as a means of enhancing his or her reputation in the mind of the reviewer. However, if three exceptions in a sample of 30 items were found while testing an assertion related to a material, but low-risk, account for a client with a low risk of failure, the preparer may attempt to enhance his or her reputation by writing justifications for not expanding the scope of the initial audit program. For example, the preparer might produce a memo "isolating" the exceptions by claiming that they are not representative of the population. Such preparer strategies may be

more likely to be pursued if there are substantial time, budgetary or personal constraints (e.g. an impending vacation).

Third, the preparer selects what, and what not, to document. For example, Ricchiute (1996) reports evidence of senior auditors documenting different pieces of evidence depending upon their adopted conclusion, despite identical overall evidence sets. In addition, the preparer may choose not to document certain evidence because doing so could raise a question which would require further evidence to be gathered and, in turn, cause a deadline to be missed. Preparers may rationalize selective non-documentation of evidence by believing that their knowledge allows them to anticipate the implications of any evidence which would have been collected. Although such behaviors have obvious, and potentially profound, effects on the reviewer, we believe that they are more common than unequivocally deceptive behavior (e.g. evidence fabrication).

Fourth, preparers determine the initial order in which the information presented in working papers is presented and how such information is framed. Different information sequences in working papers have been shown to influence reviewer behavior and review outcomes (e.g. Messier & Tubbs, 1994). In many respects, framing issues are closely related to those discussed earlier in connection with the initial interpretation of evidence. For example, evidence related to a client's ability to continue as a going concern may be presented either from a going-concern or failure frame. Framing has been shown to affect information search by auditors (e.g. Kida, 1984) and may affect various reviewer perceptions and behaviors and, ultimately, review-process effectiveness.

Fifth, preparers determine the working-paper documentation format. In this category, we include a variety of working-paper attributes such as their conciseness, neatness and organization. Within ranges allowable by firm policies, as noted earlier, preparers can tailor headings, etc., to the perceived preferences of the reviewer. These determinations may have limited efficiency implications, but otherwise

their direct impact generally will be innocuous. These working-paper attributes, however, may influence how persuasive the message is perceived to be (i.e. non-issue relevant cues such as neat working papers organized consistent with a reviewer's preferences may be more persuasive to the reviewer).

Having identified opportunities for preparers to influence the form and content of the working papers as well as potential persuasion behaviors, it is instructive to link these behaviors with the two review-process objectives: opinion appropriateness and documentation. In influencing what and how evidence is gathered and in making the initial interpretation of gathered evidence, the preparer is largely targeting opinion appropriateness. In influencing what and what not to document, in choosing a presentation order, and in framing that which is documented, the preparer is targeting both opinion appropriateness and documentation. Lastly, when a preparer is focused on documentation format, he/she may indirectly influence reviewer perceptions for both objectives.

Preparers have incentives to be perceived as excellent performers both with respect to opinion appropriateness and documentation. Thus, in general, preparers will be motivated to manage their reputations with respect to both objectives. Preparers, however, are likely to perceive the documentation objective to provide a greater opportunity for differentiating themselves as excellent performers. Specifically, in many situations, audit opinion-formation decisions are likely to be relatively straightforward as such decisions effectively will flow directly from the evidence. To illustrate, if a sample were taken and no exceptions are noted and if, more generally, there is no evidence that the accounting treatment violates extant standards, an unqualified opinion with respect to a particular assertion effectively will automatically arise. In such situations, preparers first collect evidence, then the available evidence effectively determines the opinion and, lastly, preparers document the evidence along with the processes by which the evidence

was collected and evaluated. Because all preparers are expected to be able to perform these tasks well, they provide little opportunity for reputation enhancement. Thus, although a preparer could severely damage his/her reputation by performing poorly (e.g. reaching an incorrect conclusion), the opportunity to signal superior performance will not be great.

The evidence in some situations, however, may not fully support a particular opinion. For example, accounting standards require that contingencies be accrued if they are probable and reasonably estimable (FASB, 1975). When there is a material contingency, the preparer initially may by-pass opinion formulation (perhaps due to the vagueness of the term "reasonably estimable") and instead focus on documenting support for or against accrual (see Hackenbrack & Nelson, 1996). In such a situation, a preparer is likely to perceive substantial opportunity to distinguish him/herself by providing the reviewer with defensible documentation supporting the client's likely preference of non-accrual. Notice that the typical sequence of events in which the evidence determines the opinion and resultant documentation is altered to a preferred opinion driving what and how evidence is documented ("evidence marshaling").

Engagement-specific circumstances and reviewer-specific nuances are likely to influence which persuasion behaviors will be pursued and to what extent. For example, some reviewers may be known by preparers to have a preference for supporting the client's position in low audit-risk situations. When faced with such a reviewer in a low-risk situation, the preparer may shift to an evidence-marshaling mode. Such a shift would be consistent with the accountability literature's notion of a "social politician" (see Tetlock *et al.*, 1989). Importantly, although this strategy may enhance the preparer's reputation as perceived by the reviewer, audit effectiveness may be negatively affected by the preparer's orientation toward merely giving the reviewer what the preparer perceives the reviewer to want.

Research questions. Numerous research questions related to persuasion behaviors and working-paper stylization may be profitably pursued in future research including:

- What are the most common forms of persuasion behaviors and working-paper stylization used by preparers for both opinion appropriateness and documentation? What is the frequency of these forms of stylization?
- Under what conditions are preparer persuasion behaviors and working-paper stylization germane to audit effectiveness most likely to occur?
- Under what conditions does evidence marshaling occur and are arguments crafted *ex post* in light of negative evidence as a means of supporting a preferred outcome?
- What is the effect of time and budget pressures on preparer persuasion behaviors and working-paper stylization?
- What are the key characteristics of the reviewer that affect the level of persuasion behaviors and working-paper stylization in which preparers engage?
- How do environmental factors, such as the materiality of an account and its riskiness, influence the persuasion behaviors in which preparers engage?
- Which persuasion behaviors and working-paper stylizations have the greatest positive impact on reviewers' mental models of preparers?
- To what extent do preparer's anticipate the foci of reviewers' attention to differ between reviewers?

Reviewer coping behaviors

The type and extent of reviewer activities are likely to be functions of the preparer's relative emphasis on opinion appropriateness vs. documentation, the valence of the audit evidence and a wide range of client-, audit- and preparer-specific factors identified in prior research, such as source credibility (e.g. see Bamber, 1983).

Consider a case in which a high-credibility preparer has performed extensive audit procedures and the resulting evidence is supportive of the financial-statement assertions, but only limited attention has been paid by the preparer to documentation. In this situation, reviewers' efforts with respect to opinion appropriateness are likely to be minimal, whereas the reviewer's documentation efforts are likely to be extensive (e.g. focusing on improving the working papers by ensuring that the audit tests performed and the evidence produced have been objectively and completely documented and by making sure that firm documentation policies have been followed). Consistently, review notes might be focused on matters like improving cross referencing or making clearer what evidence was collected as well as the source of the evidence.

The type and extent of reviewer behaviors, however, are also likely to be functions of the reviewer's perceptions of and reactions to potential preparer strategic behaviors. Because audit reviewers are aware that they are the targets of persuasive messages, actual reviewer behavior is likely to be even more complex than just described. In the context of audit review, the most successful targets (i.e. reviewers) are likely to have learned a variety of coping behaviors. Indeed, the ability to successfully recognize the potential for strategic preparer behavior, to predict such behaviors and to devise ways of successfully coping with them may be previously unrecognized keys to reviewer success.

Individuals' responses to persuasive behavior (i.e. coping) is a central theme of many persuasion models including the ELM and, to an even greater extent, the PKM. The PKM, in particular, seems well suited to the audit review context as coping behaviors are characterized explicitly as a function of the target's (reviewer's) knowledge. The PKM implies that reviewers pursue their own goals (e.g. promotion to partnership) and have the ability to select response tactics which are built from previous experience. Specifically, three types of knowledge interact to enable reviewers to

recognize, evaluate and remember persuasion attempts and to select and execute coping tactics which they believe to be effective and appropriate (Friestad & Wright, 1994):

1. agent knowledge;
2. topic knowledge; and
3. persuasion knowledge.

Reviewers are likely to have and use knowledge of preparers' traits, competencies and goals (i.e. agent knowledge) when devising coping strategies. Such knowledge will direct reviewers' attention toward areas of the preparer's work where substantive weaknesses in the persuasion attempt are most likely to exist. For example, consider a preparer who is perceived to be predisposed to support the client's position under time pressure in an attempt to avoid expending the additional time needed should the client's position not be supported. A successful reviewer would recognize that such a preparer were predisposed to interpret evidence as supporting the client's position, as well as selectively document evidence in an attempt to bolster the client's position. Consistently, consider another preparer who is known to have no previous experience with clients in a particular industry. In this case, a successful reviewer would recognize that the preparer's documentation may contain information inconsistent with a particular industry nuance and would direct accordingly his/her review efforts.

Unlike persuasion targets in many settings (e.g. consumer advertising), however, reviewers possess a great deal of topic knowledge. This knowledge includes double-entry accounting, GAAP, GAAS, working-paper preparation and knowledge of the client and the client's industry. Topic knowledge permits the reviewer to efficiently, but critically, evaluate (or elaborate on) the appropriateness of the preparer's opinions and documentation. As discussed previously, such knowledge can be applied in many ways. At a minimum, the preparer's work can be compared to the reviewer's knowledge for consistency and reasonableness.

For example, if the preparer were to document a shift in sales mix towards higher-margin items as the cause of an unexpected increase in the gross margin, the reviewer would be likely to consider whether the explanation were plausible by accessing knowledge of double-entry accounting. The reviewer is also likely to consider the reasonableness of the preparer's explanation in light of knowledge of the client, the client's industry, evidence gathered during other parts of the audit and whether the evidence documented provides adequate support for the shift in sales mix. However, should the reviewer recognize that this particular preparer had incentives to support the client's position, the sales-mix cause and documentation may be probed further. For example, the reviewer may carefully consider other plausible causes for the increase in the gross margin percentage with a particular emphasis on error causes. Further, the reviewer may pursue additional evidence to the extent basic evidence is not included in the documentation (e.g. ask the sales manager how sales for the higher margin items have been during the past year and if told such sales are up inquire as to the reason for the increase if no discussion with the sales manager is documented; talk to a colleague who audits other clients in this industry and see if sales for the higher margin items are up at his/her clients). These latter activities are likely to be perceived to be more of an effort and time-consuming, but successful at uncovering weakness in the preparer's message.

Persuasion knowledge, as noted earlier, performs schemalike functions. These functions include guiding reviewers' attention to particular aspects of the working papers, developing inferences about missing information (e.g. Choo & Trotman, 1991), and developing expectations about what caused the preparer to construct the working papers as they appear. Persuasion knowledge also will direct the reviewer's attention to his/her own response goals and response options which may be affected by who is to receive the working papers at the next level of review as well as the pressures to detect mis-statements, perform the review task

within budget and/or deadline constraints and maintain a good relationship with the client.

In addition, persuasion knowledge provides information relevant to selecting response tactics and assisting in predicting what coping strategies will achieve the reviewer's own goals. Persuasion knowledge will also help to retain useful information about interpreting and coping with particular persuasion attempts (cf. Friestad & Wright, 1994). Since all audit reviewers were first audit preparers, reviewers' knowledge acquired during their tenure as preparers provides the foundation of persuasion knowledge. There is likely to be a fairly close connection, therefore, between a reviewer's ability to cope and what the reviewer learned about developing persuasive messages earlier in his/her career. Thus, while they may progress through the hierarchy from preparers to reviewers, an understanding of the preparer role is retained by reviewers. Of course, recent experiences as a reviewer are likely to add to the reviewer's store of persuasion knowledge, thus, shifting how and how well they cope over time.

The synthesis of research on consumer expertise by Alba and Hutchinson (1987) can be applied to the development of persuasion coping in auditing (cf. Friestad & Wright, 1994). As reviewers' familiarity with persuasion coping tasks increases

- (a) the cognitive effort expended on coping tasks decreases and aspects of the coping behavior become more automatic;
- (b) the knowledge developed by reviewers to distinguish and interpret preparers' persuasion attempts and to manage their responses becomes more refined, complete and accurate;
- (c) their ability to discern characteristics of working papers that help them understand a preparer's tactics and goals increases;
- (d) their ability to make inferences about a preparer's motivation increases;
- (e) their capacity to remember useful things about previous attempts at persuasion and the nature and adequacy of their coping behavior increases.

As an example of (e), reviewers are likely to recall situations in which they failed to detect material mis-statements which were caught by a subsequent reviewer. When confronted by similar circumstances in the future, the reviewer is likely to take steps to ensure that no such mis-statement exists. Without the reviewer's previous experience, such steps might never have been contemplated.

Friestad and Wright (1994) also consider some research on coaching persuasion targets to cope more effectively with different types of persuasion attempts. They note that PKM predicts that programs designed to enhance persuasion coping expertise need to begin with the elements of individuals' persuasion knowledge and the possible set of coping tactics available to the target. In addition, the PKM specifies that individuals, in addition to being made aware of an agent's tactical action, need to acquire "if-then" procedural knowledge to cope effectively with persuasion attempts. That is, individuals need to determine what type of actions can be performed when a particular tactic is being used and which are most effective. This literature together with research on acquisition of auditing knowledge (e.g. Bonner & Walker, 1994) appears relevant to developing research on training reviewers in coping behavior.

Interestingly, the effects of coping behaviors on the part of reviewers can amplify strategic behavior on the part of preparers. If, because of client, engagement or preparer characteristics, a reviewer were to be pre-disposed to engage in review activities to a lesser extent or perform less resource-intensive review procedures than otherwise would be the case, there would be an increased likelihood that preparer error with respect to opinion appropriateness could go undetected. Further, to the extent that the preparer were able to anticipate the decreased extent of the review as well as the areas which will receive less reviewer attention, the preparer may put less effort into selected audit tests and then stylize the related working papers. To illustrate, preparers may know that some reviewers are predisposed to only

examine certain types of accounts when under budgetary pressure. Such knowledge may have been acquired first-hand during previous engagements to which the preparer and reviewer were both assigned or second-hand from discussions among preparers.

Research questions. Interesting research questions related to a reviewer's coping behavior include:

- What coping behaviors are most commonly used by reviewers when faced with persuasive working-paper messages? For example, is the extent to which reviewers scrutinize working papers a common coping tactic for anticipated stylization? Alternatively, are different review sequences (e.g. transaction cycle vs. trial balance) used in anticipation of strategic preparer behavior or is the reviewer's pattern for acquiring information (e.g. confirmation vs. disconfirmation) adjusted in anticipation of such behavior?
- Which coping behaviors are most effective for dealing with preparer persuasion behaviors and working-paper stylizations?
- How and to what extent is the extent, type (e.g. consistency checks and counterfactual reasoning) and orientation (i.e. pro-client, neutral or conservative) of reviewer elaboration affected by anticipated preparer persuasion behaviors?
- To what extent and how does reviewers' knowledge (persuasion, agent and topic) influence the coping behaviors reviewers employ when facing persuasion attempts in working papers?
- Under what circumstances is a reviewer's attention (and more generally, the nature and extent of the review procedures) more likely to be guided by persuasion, agent or topic knowledge?
- To what extent and how are reviewers' coping behaviors influenced by environmental conditions?
- What are the major sources of reviewers' persuasion knowledge and how do they vary with experience?
- To what extent and how do reviewers' coping behaviors vary with previous review/preparer experience?
- To what extent and under what conditions, are reviewer admonitions, to the preparer to be professionally skeptical, effective?
- To what extent does reviewers' persuasion knowledge change over time?
- To what extent and how can reviewers be trained to cope more effectively with different types of persuasion attempts?
- To what extent is the size of the portfolio of coping behaviors available to a reviewer and skilful employment of such behaviors associated with promotions, higher salaries and other hallmarks of success within auditing firms?
- Are certain coping behaviors necessary for success as a reviewer?
- To what extent do preparers anticipate the foci of reviewers' attention? To what extent and under what conditions do preparers adjust their efforts in the light of such anticipations?

The reviewer as a co-composer

As noted earlier, reviewers generally are the initial- or intermediate-stage target, rather than the final target of the persuasive working-paper messages. Further, reviewers are aware from the onset that they ultimately will be taking responsibility for the working papers as they are passed on to a higher level within the firm for further review or if the working papers should receive scrutiny outside of the firm. Like preparers, reviewers will recognize that their reputation can be affected during every audit engagement. They are, therefore, likely to be quite sensitive to pressures imposed by their superiors as well as the usual profession- and client-imposed pressures attendant with an engagement to audit financial statements. Given these observations and considering the review process from the persuasion perspective, we suggest that audit reviewers effectively become co-composers of the persuasive working-paper messages. This characterization of the reviewer

is broader than the quality-control characterization which one sees in professional audit standards (see SAS Sec 311, AICPA, 1995).

The idea that a reviewer (i.e. a target of persuasion) effectively becomes a co-composer of the persuasive message is consistent with what is observed in other situations. In fact, Friestad and Wright (1994) have noted that "in everyday life, people move rapidly and fluently between the roles of target and agent." They suggest that it is persuasion knowledge that enables people to perform both the tasks of persuasion coping and persuasion production. In the case of audit reviewers, such persuasion knowledge would have been acquired, at least in part, during their prior experience as a preparer. However, one aspect of working-paper review does make the persuasion attempt unusual—the persuasive message is initially composed under the direction of the first target.

Reputation enhancement goals and attendant pressure sensitivities will often be aligned with quality-control considerations. Reviewers, therefore, may often take actions that enhance audit effectiveness and efficiency. But, like preparers, it would be naive to assume that reviewers' actions universally promote audit effectiveness and efficiency. We are unaware of any systematic evidence on deleterious audit reviewer behavior. Some well-known cases of audit litigation, however, suggest that reviewers, at times, have used their co-composer role to maintain good client relations or standing within a firm rather than strictly control audit quality (Knapp, 1993). Characterizing reviewers as co-composers may help one to better understand those situations and the circumstances in which they may arise in the future.

Interestingly, there is one persuasive message which is composed by reviewers. That is, reviewers are charged by professional audit standards with the responsibility for ensuring that the audit was properly planned and supervised, including the performance of an appropriate review process (See SAS Sec 311, AICPA, 1995). Only reviewers can legitimately

describe the process that they employed. Once composed by a reviewer (e.g. senior or manager), however, subsequent reviewers (e.g. manager or partner) will help to ensure that this persuasive message is sufficiently well documented.

Reviewers will have numerous opportunities to engage in persuasion behaviors and stylize the working papers in ways that could have important consequences. In fact, all of the preparer opportunities discussed earlier are effectively available to the reviewer. For example, the reviewer can decide to preempt the preparer by performing preparer tasks. The general constraint on such action, however, is that there can be an inefficiency from the standpoint of the firm to the extent that more costly labor is substituted for less costly labor. Short of preemption, the reviewer could communicate his/her views to the preparer and, as discussed later, may cost-effectively influence or constrain the preparer's behavior.

Reviewers have an opportunity to engage in co-composer behaviors early in the audit, prior to the time at which preparers begin their work. That is, audit team members who serve primarily as reviewers will generally make certain key judgments, and they may stylize the working-paper justifications for such judgments, to take advantage of the opportunity to enhance their reputation. For example, audit team members who serve as reviewers generally assist in establishing an initial audit plan, the tightness of the initial budget, and the initial audit approach (e.g. analytical vs. tests of details). These behaviors can enhance efficiency because the less-experienced preparer's actions are constrained, thus reducing the likelihood that steps will be performed that the reviewer believes to be unnecessary. From the co-composer lens, however, the judgments and choices made by reviewers prior to the time at which preparers begin their work influence the likely initial working-paper messages by placing boundaries on the procedures the preparer may perform, the evidence the preparer is

likely to produce and the conclusions which are likely to be supportable.¹⁰

Reviewers also may engage in co-composer behaviors as the preparers perform their work. One prominent approach is preparer-reviewer discussion. The subjects of such preparer-reviewer discussions could include specific guidance on a variety of matters such as documentation framing and how to interpret audit evidence. Related to this, consistent with recent psychology research, Peecher (1996) has reported that reviewers can affect preparers' interpretations of evidence by expressing certain preferences:

- (a) objectivity (i.e. a preference for considering all relevant evidence and objectively interpreting its meaning);
- (b) skepticism (i.e. a preference for being extremely cautious in approach and evaluation); and
- (c) credence (i.e. a preference for supporting the client's assertions if at all possible).

To the extent that initial interpretations by preparers were to serve as an anchor and, if an anchor-and-adjustment process were to be used, preparers' judgments and decisions could be affected.

Obvious audit efficiency benefits can accrue to the firm if preparer-reviewer discussion results in preparers initially performing procedures, interpreting the resultant evidence and preparing documentation in accordance with the reviewers' preferences. These discussions, however, also allow the reviewer to shape what work the preparer performs, what opinion is documented and how it is supported, again thereby allowing the reviewer to be a subtle co-composer of the initial working-paper messages. Further, audit effectiveness may be impaired if, via preparer-reviewer discussions, the reviewer effectively introduces systematic bias or lessens the non-systematic

bias reduction potential from the multi-person setting. If this were to occur, one of the potential gains to the review process would be less than fully realized.

After the preparers have performed and documented their work, reviewers can adjust the content of the working papers and thus the persuasiveness of the working-paper messages either via commission or omission directives. For example, reviewers can direct preparers to collect additional evidence, prepare a working-paper memo describing that evidence and document the resultant conclusions. In addition, a reviewer may direct that a preparer perform audit procedures, not because the reviewer believes the procedures to have positive net expected diagnostic value, but because (s)he believes that they are required to make the working papers more defensible. Little presently is known about the extent to which this occurs in auditing or the influence of the client-and other persuasion-episode factors on perceptions of the need for such procedures. There is, however, considerable anecdotal evidence that doctors perform medical procedures with the objective of protecting against potential accusations of malpractice. In any event, characterizing the reviewer as a co-composer of the persuasive working-paper messages and recognizing reviewers' likely concern about documentation provide a lens for understanding the behavior. Alternatively, reviewers can direct a preparer to remove a memo from the working papers. Although professional standards (SAS Sec 311, AICPA, 1995) provide the preparer with a basis for objecting, because of reviewers' greater authority they usually will prevail in such situations. An omission directive, while seemingly relatively rare, has been alleged in some well-known audit legal-liability cases, and would seem to be a direct result of the reviewer's co-composer role (see Knapp, 1993).

¹⁰Consistently, a very tight audit budget may be planned by audit team members who will serve as reviewers and preparers may be encouraged to meet such budgets by "eating time" rather than reporting it. To the extent that audit fees are a function of reported time, this surface-level efficiency actually could reduce the fees billed by the audit firm.

Research questions. Selected research questions related to the reviewer's co-composer role include:

- What are the most common persuasion behaviors and forms of working-paper stylization used by reviewers in their co-composer role?
- Which engagement- and preparer-specific factors most often promote reviewer persuasion attempts and attendant working-paper stylization?
- What partner characteristics are most often associated with reviewer persuasion attempts and attendant working-paper stylization?
- To what extent and under what conditions do reviewers effectively preempt preparers' persuasion opportunities by performing preparer tasks?
- Under what conditions do reviewers use preparer-reviewer discussions to constrain preparer options, thereby indirectly composing the initial working-paper messages?
- What preparer options are most frequently targeted by reviewers when reviewers communicate with preparers to indirectly compose the initial working-paper messages?
- To what extent do preparers perform (or value) audit procedures not because of their diagnostic value but because reviewers value them for documentation defensibility purposes?
- To what extent and under what conditions do reviewers suggest that items be omitted from the working papers?

CONCLUDING COMMENTS

In this paper, we have described the audit review process from a persuasion perspective. In employing this perspective, we highlighted that reviewers receive persuasive working-paper messages about the appropriateness of the work prepared and conclusions reached.

We suggested that preparers' motivation is reputation enhancement and have made salient that the behaviors in which preparers engage to that end result in the working papers being stylized, with potential implications for audit effectiveness. We also discussed potential reviewer behaviors for coping with strategic preparer behavior and observed that to be effective, reviewers must anticipate persuasive behaviors of other audit team members, as well as the client. Further, we highlighted that by assuming a co-composer role, reviewers may play a broader role than explicitly recognized in professional audit standards. Finally, given the objective of promoting research related to reviewer effectiveness, we suggested questions for future research on each of these topics.

Before concluding, we will comment about the scope of the paper. First, we have considered the audit review process largely from the persuasion perspective in social psychology. Considering the audit review process from other perspectives (e.g. game and agency theories) may also provide worthwhile insights. In fact, reconciling the viewpoints typically expressed by game and agency theorists with those of behavioral researchers could prove to be most interesting and the audit review process might provide an excellent setting for such research. Second, in most places, we have explicitly focused on the lower levels of review — a senior reviewing the work of an audit assistant or a manager reviewing working papers after they have been reviewed by a senior. Although there are many similarities between these and other levels of review, and thus, much of what we have concluded is applicable across the various levels of audit review, there also are potentially important differences which may limit the generalizability of our conclusions to higher levels of review. We will use topic knowledge to illustrate the point.

Knowledge of clients and their industries varies across members (senior, manager, partner) of the audit team. Consequently, each team member may very well focus on different issues in the review process, particularly with respect to opinion formulation. Seniors are

likely to have and heavily rely on strong technical knowledge of double-entry accounting and auditing procedures. This knowledge can help to ensure that opinions are consistent with the evidence (especially from other areas of the audit) and that the evidence and documentation are sufficient to defend these opinions. Managers also possess strong technical knowledge but, in addition, are likely to have more fully-developed knowledge of the client and the client's industry. Managers, therefore, are likely to use their topic knowledge in rather different ways than seniors — as a means of directing audit efforts and as a primary reasonableness check against audit results. Partners also will have and are likely to heavily rely on knowledge of the client and the client's industry. Such knowledge is especially useful for anticipating problems without becoming mired in the technical details of double-entry accounting and auditing procedures. Further, when these

anticipations are met, reliance generally will be placed on the audit team (i.e. positive agent knowledge) for the bulk of the results. In such situations, partners typically become involved in the details only in problem areas or when a conflict arises. Thus, partners are likely to use their topic knowledge to review in different ways than other audit team members. Concurrent partner reviewers technically are not members of the audit team. They are likely to have relatively little knowledge of or accountability to the client. But such reviewers are likely to have considerable knowledge of the client's industry. Their role is to analyze the working papers, using industry knowledge unencumbered by anticipations brought on by client-specific topic knowledge and client preferences. Further explication of the implications of these knowledge differences for review-process activities and performance is left for future research.

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