PRACTITIONER SUMMARY

The Effects of Supervisor Coaching and Workplace Mindfulness on Audit Quality-Threatening Behavior among Staff Auditors

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SUMMARY: This article summarizes a recent academic study (Herda, Cannon, and Young 2019) that investigates the effects of supervisor coaching and staff auditors' workplace mindfulness on premature sign-off—a serious audit quality-threatening behavior that can go undetected through the review process. Our study predicts and finds that staff auditors who are coached by supervisors to consider the impact of their work on external financial statement users are more mindful (i.e., more attentive and aware) during an audit and less likely to engage in premature sign-off. The results highlight the importance of workplace mindfulness in an audit environment and suggest that supervisor coaching is a practical technique to elicit workplace mindfulness among staff-level auditors.

Keywords: workplace mindfulness; supervisor coaching; premature sign-off; audit quality-threatening behavior; staff-level auditor.

I. INTRODUCTION

This article summarizes the motivation, method, findings, and conclusions of a recent study (Herda, Cannon, and Young 2019) concerning the effects of supervisor coaching and staff auditors' workplace mindfulness on audit quality-threatening behavior. We conclude this article with implications relevant to practice. More specifically, we highlight how supervisor...
coaching can reduce premature sign-off and overcome impediments to staff auditors’ consideration of external financial statement users during an audit engagement.

II. MOTIVATION

Audit quality-threatening behavior, such as prematurely signing off on audit program steps before completing the required procedures, poses a serious threat to audit quality (Kaplan and Whitecotton 2001; Sweeney, Pierce, and Arnold 2013). In our study, premature sign-off refers to staff auditors failing to follow through on an audit finding that may require further investigation.

The procedures staff auditors perform are essential to an audit as this work lays the foundation for the audit opinion (Lambert and Agoglia 2011; Bennett and Hatfield 2013). However, since staff auditors’ work assignments typically involve large amounts of routine substantive testing of details and control testing, some staff may get “lost in the weeds” and fail to appreciate the importance of their work to external users (Baril, Cunningham, Fordham, Gardner, and Wolcott 1998). Focusing more on getting assigned audit sections finished and through the review process on time, and less on the overall purpose of an audit, may tempt some staff auditors to engage in premature sign-off (Schwarzkopf and Miller 2005).

Our study investigates whether supervisor coaching on the consideration of external financial statement users leads to an increase in workplace mindfulness, which in turn reduces premature sign-off. Workplace mindfulness refers to the extent to which an individual is focused on external and internal phenomena that affect, and are affected by, one’s work efforts (Dane 2011). However, a study on the effect of mindfulness on premature sign-off does not provide any useful applications to practice unless methods/tools are identified or developed to induce more mindfulness in staff auditors.

One option is to encourage or require staff auditors to attend formal mindfulness-based training programs. These programs are time consuming (Sutcliffe, Vogus, and Dane 2016), often requiring participants to attend several consecutive sessions/retreats and complete daily practice at home using audiotapes (Shapiro, Jazaieri, and Goldin 2012). As a result, these programs may not be practical, given the demanding time constraints of the audit profession. Instead, we investigate real-time supervisor coaching during engagements as a more efficient way to induce mindfulness among subordinates. Specifically, we examine whether staff auditors who have been coached by supervisors to consider the importance of their work to external financial statement users are more likely to be mindful in their work setting and, in turn, less likely to engage in premature sign-off. The results of our study provide audit firms and supervisors with a practical approach to reduce audit quality-threatening behavior among staff auditors.

The remainder of this paper proceeds as follows. The next section informs our predictions by summarizing relevant research on supervisor coaching and workplace mindfulness. This is followed by a discussion of the methodology and survey used in our study. We then provide an overview of our results and conclude with a discussion of practical implications for audit firms to consider.

III. BACKGROUND AND PREDICTIONS

Premature sign-off represents a serious threat to audit quality (Kaplan and Whitecotton 2001; Sweeney et al. 2013). This type of audit quality-threatening behavior is particularly troublesome as workpaper reviewers (e.g., seniors and managers) are not expected to re-perform their subordinates’ work and, accordingly, may fail to identify premature sign-off or similar dysfunctional behavior (Pierce and Sweeney 2005; Lambert and Agoglia 2011). We examine whether workplace
Mindfulness reduces the likelihood of premature sign-off and investigate a practical technique to stimulate mindfulness among staff auditors.

Mindfulness pertains to the fundamental activities of consciousness comprised of attention and awareness (Brown, Ryan, and Creswell 2007). Although some staff may be less mindful at work due to the relative routineness of their tasks (Reb, Narayanan, and Ho 2015), prior research finds that supervisor training can improve subordinates' workplace mindfulness (Dane and Brummel 2014). Supervisor coaching is integral to the audit process (Fargher, Mayorga, and Trotman 2005; Peecher, Piercey, Rich, and Tubbs 2010; Kim and Harding 2017; Nelson, Proell, and Randel 2016), and audit supervisors who coach subordinates to appreciate the impact of their work on external users likely bring awareness to staff auditors by helping them see the big picture. Indeed, prior research suggests that supervisors can improve mindfulness among employees (Krishnakumar and Robinson 2015; Reb et al. 2015). Consequently, our first prediction is that supervisor coaching will be positively related to workplace mindfulness.

Mindful staff auditors are more likely to be consciously aware of the events unfolding within their work setting (Dane and Brummel 2014), allowing them to see the “big picture” while performing audit procedures, rather than being “lost in the weeds.” Prior research in other literatures finds a strong relationship between workplace mindfulness and ethical decision-making (Ruedy and Schweitzer 2010; Shapiro et al. 2012; Krishnakumar and Robinson 2015). Accordingly, we predict that workplace mindfulness will be negatively related to premature sign-off because mindfulness enhances ethical motivation by increasing awareness of an ethical issue and heightens auditor attention on the present moment (Ruedy and Schweitzer 2010; Shapiro et al. 2012; Sutcliffe et al. 2016).

IV. METHOD

We test our predictions with a survey of 115 staff auditors (98 percent of whom work at a Big 4 firm).1 Participants read a hypothetical audit case involving a staff auditor encountering a potential error while performing a search for unrecorded liabilities and then answered the following question: “If you were the auditor in this scenario, how likely is it that you would spend additional time further investigating the disbursement amount before signing off on this sample item?” (1 = very unlikely, 7 = very likely).2 At issue is whether participants would pursue the possible error or engage in premature sign-off.

To assess participants’ experiences with supervisor coaching on external financial statement user consideration during actual engagements, we made the following open-ended request:

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1 Ninety-eight participants (85 percent of the total sample) completed a paper-based survey during a live training event sponsored by their Big 4 firm. The remaining participants were recruited through professional contacts and completed an online version of the questionnaire. Our results are not sensitive to differences in medium of study administration (i.e., paper-based or online) or firm size (i.e., Big 4, regional, or local). Since we did not collect information on office affiliation, we were not able to evaluate the potential for any office effects.

2 Responses to this question were reverse-coded to measure premature sign-off. Participants were informed that the auditor in the case was reviewing supporting documentation for a check written about a month after year end for consulting services the client received. The related invoice, although dated subsequent to year end, suggested that some of the services might have actually been provided prior to the fiscal year end (i.e., during the period under audit). The auditor could not find any amount relating to this disbursement in the accrued liabilities or accounts payable account details.
Based on your experience as an auditor, please list some ways in which your supervisors have encouraged you to think about how your work impacts external financial statement users such as creditors or investors.

Responses were coded into two supervisor coaching levels. The supervisor coaching dummy variable has a value of 1 if supervisor coaching is present (58 percent), and 0 if supervisor coaching is absent (42 percent). Example responses coded as supervisor coaching present are:

When performing test work my supervisor told me to take a big picture view of what is being tested, why it affects the financial statements, and how that affects external users.

Usually when I get into details too much, my manager reminds me to look at the overall picture and the effect of this particular situation on financial statement user decisions.

They will ask me questions such as “if you were reading these financial statements as an investor, would you care about that?”

Example responses coded as supervisor coaching absent are:

I don’t think I have ever been encouraged to think about how my work impacts external users. We know what the procedures are meant to accomplish but the emphasis is on the team and on the client employees.

It usually doesn’t come up much with seniors or managers. I think the focus is more on the client.

I have not [experienced this]. PCAOB inspections, peer reviews, etc. tend to drive the audit engagement.

To measure workplace mindfulness, we adapted six items from the Mindful Attention Awareness Scale (Brown and Ryan 2003). Example items are: “When working as an auditor, I do jobs or tasks automatically, without being aware of what I’m doing” and “I rush through activities without being really attentive to them” (1 = almost always, 7 = almost never).

V. RESULTS

Consistent with our predictions, supervisor coaching on external financial statement user consideration is positively related to workplace mindfulness, and workplace mindfulness is negatively related to premature sign-off. In addition, supervisor coaching has a significant indirect effect on premature sign-off through workplace mindfulness. Figure 1 depicts our results.

VI. DISCUSSION AND PRACTICAL IMPLICATIONS

Premature sign-off can threaten audit quality and the fair presentation of financial statements that external financial statement users rely on to make important decisions. We find that staff auditors who are coached by supervisors to consider the impact of their work on external users are more mindful during an audit and less likely to commit premature sign-off. We also asked participants how the firm could improve their consideration of external users during an engagement. Participants recommended that supervisors encourage staff to focus on the overall purpose of the audit (i.e., providing external users with an accurate opinion on whether the
financial statements are free from material misstatement) by explaining why the specific procedures they perform are important to the engagement.

Two noteworthy impediments to staff auditors’ consideration of external users also emerged from the open-ended responses: the client-service nature of auditing and regulators driving the audit process. These impediments may explain why, in our research sample, 42 percent of staff auditors recall little to no supervisor coaching about the importance of external user consideration during actual audits. In a recent interview study (Hermanson, Houston, Stefaniak, and Wilkins 2016), auditors report similar concerns about perceived impediments to improved audit quality. For example, they note that their tasks are often “focused on providing high-quality client service” and that “[PCAOB] inspections now drive the audit plan.”

Given the nature of public accounting, these challenges are unlikely to change in the short term. To counterbalance the detrimental effects that these factors may have on external user consideration during an audit, supervisors could explain to staff why the tasks they perform are vital, how they relate to the overall financial statements, and how the financial statements can influence external user decisions. This emphasis on external users may reduce premature sign-off among staff auditors.

This study has limitations that future research could address. For example, investigating whether and how senior firm leadership’s “tone at the top” may work in conjunction with on-site supervisor coaching to reduce audit quality-threatening behavior among staff would be worthwhile. Also, this study used self-reported measures that introduce the potential for social desirability and memorability biases and makes it difficult to draw causal inferences from the results. Future research could help to address these limitations and improve our understanding of workplace mindfulness in an audit environment.

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