PRACTITIONER SUMMARY

Client Likeability in Auditor Fraud Risk Judgments: The Mitigating Influence of Task Experience, the Review Process, and a “Consider the Opposite” Strategy

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SUMMARY: Auditors contend with an array of management personalities during the course of an audit engagement. Some clients by their nature are more likeable, while others create a stressful or unpleasant environment. We summarize two related research studies that examine whether and how a client’s likeability influences auditors’ fraud likelihood judgments. Results indicate that more likeable (dislikeable) clients cause lower (higher) auditor judgments of fraud likelihood. Results also indicate this bias operates indirectly by influencing the evaluation of evidence statements made by the client that relate to management pressures or attitudes rather than operating as a global bias on all evidence. Requiring an explanation for the judgment mitigates this bias, but only for experienced auditors. For inexperienced auditors and experienced non-audit CPAs, a prompt to “consider the opposite” mitigates the bias. These findings suggest that education and training can clarify relevant and irrelevant evidence cues in fraud judgments.

Keywords: affect; client likeability; fraud; accountability; task experience.

INTRODUCTION

Bonner (2008, 376) notes that one of the areas with the greatest practical importance in accounting is affect. Prior research in accounting finds that affect influences judgments in decisions related to capital budgeting (Kida, Moreno, and Smith 2001) and inventory obsolescence assessments (Bhattacharjee and Moreno 2002; Bhattacharjee, Moreno, and Riley...
However, one setting where affect may have the greatest influence on, and implications for, auditor judgments is fraud. Auditors routinely interview client personnel as a primary source of information in fraud risk judgments, and these conversations focus on evidence items, which may be highly susceptible to the effects of affect.

Recently, Bhattacharjee et al. (2012) and Bhattacharjee and Moreno (2013) called for research examining how previously underexplored factors, such as task experience and the review process, may serve to mitigate the effects of interpersonal affect on auditor judgments. They also emphasize the importance of understanding affect given the increased public scrutiny on audit quality. This paper summarizes the findings from two related studies that address these calls: “Justification and self-review: mitigating irrelevant affect in fraud judgments” (B. Schafer and J. Schafer 2009), and “Interpersonal affect, accountability and experience in auditor fraud risk judgments and the processing of fraud cues” (Schafer and Schafer 2018). Importantly, both of the reviewed studies extend the research on affect to a fraud assessment setting. Auditing standards require auditors to conduct interviews with client personnel pertaining to potential fraudulent activity, and client affect may be more salient in this setting. Results indicate that more positive (negative) affect toward the client results in lower (high) fraud likelihood assessments. Results also show that affect impacts inexperienced auditors’ judgments indirectly, by biasing the evaluation of evidence cues that refer to management pressures and attitudes. These studies provide evidence that three practical factors; task experience, accountability (i.e., the review process), and a processing strategy prompt (“consider the opposite”) can mitigate affective bias.

The next section provides an overview of interpersonal affect (client likeability) and its influence on fraud risk assessments. We then summarize how experience and accountability mitigate the effects of biases due to client likeability. We follow with a description of how a prompt for auditors to “consider the opposite” can reduce the effects of client likeability. We close with a conclusion and a call for future research in this area.

LITERATURE REVIEW AND RESULTS

Client Likeability

When introduced to a client, an auditor will experience an immediate positive or negative feeling toward that client. A client introduction may range from warm and welcoming to terse and rude. In and of itself, this interaction is not a relevant fact for an audit judgment. On the other hand, factors such as a lower than desired working capital number, a pending lawsuit, or adverse economic factors would be indicative of a moderate risk of fraud (Loebbecke, Eining, and Willingham 1989). An auditor’s fraud risk judgment should not differ when relevant factors are disclosed by a friendly versus an abrasive client. While we may assume that auditors would not be susceptible to irrelevant perceptions in a fraud risk judgment, research offers decades of examples of how humans bias their judgments based on cognitive and social factors (see Bonner 2008). For example, Montague and Fay (2015) provide a practical summary of five common cognitive biases applied to accounting, including availability (over-emphasizing the most memorable or easiest to recall), anchor and adjustment (relying too heavily on an initial impression), over-confidence (over-estimating one’s own ability), confirmation (seeking evidence to support an initial belief or expectation), and rush to solve (making a judgment before carefully considering all evidence). Regan, Straus, and Fazio (1974) provide early evidence in psychology that people judge a person’s skill differently based on their likeability. Studies in accounting have confirmed the
influence of client likeability on capital budgeting decisions (Kida et al. 2001) and inventory obsolescence risk assessments (Bhattacharjee and Moreno 2002; Bhattacharjee et al. 2012).

To investigate if auditors incorporate irrelevant client likeability in fraud judgments, Schafer and Schafer (2009, 2018) randomly assigned participants to one of two conditions. Participants either viewed a video of a likeable or dislikeable client, in which the client was introducing himself to the auditor.1 After viewing the client introduction, all participants viewed an identical video in which the client provided responses to several relevant fraud questions where the responses represented a moderate risk of fraud.

Results show that auditors include client likeability in their fraud risk judgments absent any of the mitigating factors discussed below (experience, accountability, and a “consider the opposite”). The fraud risk judgment is significantly higher for the dislikeable client than the likeable client. Since the relevant fraud risk evidence was identical in both experimental conditions, the results support that in general, likeability biases auditor judgments. Since a cornerstone of the audit profession is an objective assessment of evidence, client likeability, in the absence of moderating factors, could lead to unintended consequences. For example, a particularly abrasive client personality may incorrectly lead an auditor to a higher assessment of fraud likelihood and cause the audit team to increase substantive testing, resulting in an inefficient audit. Conversely, underestimating fraud likelihood for a likeable client could result in decreased testing and possibly failing to find an irregularity.

**Experience and Accountability**

Experience can be measured in several ways including general years working in the profession, or experience with a specific task. With longer tenure, auditors gain increased general technical and institutional knowledge. Task specific experience provides auditors with a specialized knowledge structure to more effectively perform that task. In the case of fraud, greater task specific experience provides a better knowledge structure for determining the diagnosticity and weight of individual fraud evidence statements. Presumably, those with a stronger task specific knowledge base will effectively omit irrelevant factors in a related judgment.

In practice, auditors are accountable for their judgments. Audit work papers are not anonymous, and auditors may be asked to justify or explain their work to a reviewer. Experimental research has manipulated accountability through removing anonymity, informing participants that their work will be reviewed, and requiring explanations for judgments (e.g., Kennedy 1993). The summarized studies examine how experience in combination with accountability mitigates client likeability.

To separate the effects of task experience and accounting experience, the studies examined the effects of experience in multiple ways. Participants in both studies provided their years of experience. Study 1 included 135 auditing students (low experience in both general and task), as well as 75 accounting professionals with an average of 17 years of experience, who spent an average of less than 25 percent of their time on auditing duties (high general experience, but low task experience). Study 2 included 138 auditors, ranging from staff to partner, who reported a range of experience assessing financial reporting fraud risk.

The participants were randomly assigned to an accountability condition of either not informed (not accountable), or informed that they would be required to explain their judgment (accountable). Results indicate that a required explanation reduced the influence of client likeability on fraud

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1 The client in the video was not perceived as differing on relevant factors, such as honesty or competence.
judgments, but only for those with task specific experience. Inexperienced auditors and auditing students included likeability in their judgment, even in the accountable condition. Importantly, this bias persisted for those who had high general accounting experience, highlighting the importance of experience with assessing fraud risk (task experience). Hammersley (2011) provides a framework for auditor fraud judgments that suggests task experience, training, and epistemic motivation (a rich and accurate understanding of situations) provide advanced auditors a mental representation beyond the capability of inexperienced auditors. In the reviewed experiments, and likely in practice, prompting increased effort to think more critically is less likely to improve inexperienced auditors’ fraud risk judgments if they do not have the requisite knowledge.

In an effort to understand better the process by which client likeability influences judgment, study 2 separately examined the evaluation of ten evidence statements provided by the client. Client likeability could influence an auditor’s evaluation of all evidence cues equally, or bias the evaluation of only certain evidence cues. By better understanding the process by which client likeability impacts judgment, academics and practice can develop better training to improve judgments.

For task-experienced auditors, client likeability did not influence the fraud likelihood assessment for any of the ten evidence statements made by the client. This is consistent with experienced auditors recognizing the irrelevant nature of client likeability. For inexperienced auditors, client likeability influenced the evaluation of the five evidence cues related to management attitudes and pressures but not the five cues related to the client’s industry or operations. For the five management-related statements, the dislikeable client’s statements were rated as more indicative of fraud than the likeable client’s statements.

These results are consistent with inexperienced auditors errantly attaching the client likeability to certain aspects of evidence. Psychology research refers to this as attribution error, or errant attribution. Consider this example evidence statement: “Our new executive team manages to maintain our share price with some fairly aggressive accounting practices.” The aggressiveness of accounting choices is relevant to fraud risk, but the level of its relevancy should not vary based on the client’s likeability. However, the results indicate that inexperienced auditors rate this information as more indicative of fraud when it is provided by a dislikeable client than a likeable client. While the results suggest that a client’s likeability affects the assessment of some evidential statements for inexperienced auditors, much more research is needed to better understand what types of evidence will be more or less susceptible to a client likeability bias.

**“Consider the Opposite” Strategy**

The above findings provide evidence that accountability (requiring an explanation) reduces the inclusion of client likeability in the fraud judgments of “task-experienced” professionals. However, less experienced auditors play a key role in collecting and documenting evidence and making preliminary recommendations about significant auditing judgments to more senior auditors (Ashton and Kennedy 2002; Ricchiute 1999). Further, non-audit specialists, who have high general experience but low task experience, may be consulted on audit teams under SAS 99. Lord, Lepper, and Preston (1984) suggest that simply asking for justification in situations where irrelevant information exists may lead to erroneous evaluations. Providing an instruction inducing the decision maker to consider an opposite reason prompts a decision maker to consider explicitly both sides of an argument.

In addition to manipulating accountability (no explanation versus an explanation requirement), study 1 also considered whether a “consider the opposite” prompt mitigated the influence of client
likeability on fraud judgments. Participants in this group (students and non-audit CPAs) were instructed to consider why each statement made by the client may, and why each statement may not, be an indicator of fraud. Findings indicate that the “consider the opposite” strategy is effective in reducing the impact of client likeability for both inexperienced auditors and experienced non-audit professionals. It is possible that the “consider the opposite” strategy (vs. the explanation requirement) prompted inexperienced auditors to think more deeply and comprehensively, and therefore they were able to reduce attribution error in their judgments.

CONCLUSIONS

The summarized results of these two studies demonstrate that while client likeability is irrelevant to fraud judgments, it can influence the judgments of inexperienced auditors. Specifically, the fraud likelihood judgments for dislikeable clients were higher than those of likeable clients. This finding is important since less experienced auditors tend to have significant interactions with clients (Bennett and Hatfield 2013), and their documentation and preliminary recommendations can influence subsequent judgments of more senior auditors who rely on their work. Client likeability biased the evaluation of certain underlying evidence statements, making its effect more difficult to mitigate.

Three potential mitigating factors: experience, accountability, and a “consider the opposite” strategy, were examined as possible remedies to the client likeability bias. Auditors who had fraud risk assessment experience and were required to explain their judgment (one form of accountability), did not succumb to the client likeability bias. However, accountability did not remedy the client likeability bias for inexperienced auditors. Alternatively, requiring auditors to think about why each evidence statement made by the client may increase or decrease the likelihood of fraud, a “consider the opposite” strategy, did mitigate the influence of client likeability. Although auditors who are experienced with fraud assessments were not influenced by client likeability, experienced CPAs with limited auditing experience, exhibit a similar bias as inexperienced auditors. In summary, an explanation requirement can mitigate the effect of client likeability for those with task specific knowledge. However, a more comprehensive “consider the opposite” processing strategy is required for inexperienced professionals.

FUTURE RESEARCH

These studies examined two types of experience, task and general accounting experience. Given that audit teams may consult non-audit specialists under SAS 99, there is a need for future research to examine directly the potential biases of individuals who have high general experience but low fraud assessment experience.

The studies described here are a first step toward understanding how likeability impacts the evaluation of evidence statements made by clients. Although errant attribution provides an explanation of why evidence statements pertaining to management attitudes and pressures are affected by client likeability while other evidence statements are not, much more research is warranted in order to predict what types or categories of statements are more or less susceptible to the influence of client personality.

Auditors encounter a wide variety of personalities in the course of an audit. Future research should consider how the influence of various personalities within the audit team might impact audit team judgments, and/or whether these personalities lead the client to modify how they respond to audit inquiries.
Finally, training auditors to exclude irrelevant information from their audit judgments is an important component of audit quality. As firms utilize technology to automate or outsource lower level audit tasks, it will become even more important for training to improve knowledge structures for complex judgments like fraud risk. Carpenter, Durtschi, and Gaynor (2011) demonstrate that it is possible for classroom training to improve students’ fraud risk judgments. They find that classroom training does increase students’ assessment of fraud red flags. Similarly, training might assist inexperienced auditors in disregarding irrelevant factors, such as client likeability.

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