mandatory auditor rotation – whether companies should be required, in the cause of sound financial reporting, to periodically change audit firms or audit-firm engagement ...

Apr. 21, 2017

Perhaps no issue in contemporary accounting has drawn more attention than that of mandatory auditor rotation – whether companies should be required, in the cause of sound financial reporting, to periodically change audit firms or audit-firm engagement partners. In recent years the issue has been exhaustively debated, with both the U.S. and the E.U. adopting rotation requirements (the U.S. with respect to engagement partners, the EU with respect to audit firms) and further regulation still

Now some new research in ***Behavioral Research in Accounting***, a journal of the **American Accounting Association**, goes to the heart of the auditor-client relationship and calls this assumption into question.

In what the authors believe to be much the largest survey of individuals on both sides of the relationship – namely, 233 pairs of auditors and their contact persons at client firms (mainly CEOs or CFOs) – the study finds that, far from trust and professional skepticism being contradictory, they go hand in hand.

In the words of the study, in the spring issue of ***Behavioral Research in Accounting,*** a journal of the **American Accounting Association**, auditors' trust in their clients "is positively related to the clients' perceptions of the auditors' professional skepticism. The result challenges the view that interpersonal trust and professional skepticism are...mutually exclusive."

This finding, the authors observe, "implies that regulatory measures that impede the evolution of identification-based trust between auditors and their clients will fail to enhance professional skepticism."

Adds Ewald Aschauer, of Johannes Kepler University Linz (JKU), in Austria, a co-author of the study, "Superficially there seems to be a contradiction between being trusting and skeptical, but not if one thinks a little about it. Wouldn't auditors, after all, tend to be trusting of clients that view them as properly skeptical? And to the extent that clients resist professional skepticism, the auditors will tend to become less trusting.

"What we found, in short, was a healthy balance at the heart of this interpersonal relationship that merits leeway from regulators. As for mandatory rotation, we found no significant relation between auditor skepticism and the length of companies' relationships either with audit firms or engagement partners."

Collaborating with Prof. Aschauer on the research were Prof. Matthias Fink of JKU,

first business listed alphabetically on their client lists. All correspondence was coded to preserve anonymity of both auditors and clients and at the same time to permit pairs to be matched on an individual basis. In all, usable questionnaires were received from 233 pairs.

Measures of trust and professional skepticism were based on responses on a scale of 1 (totally disagree) to 7 (totally agree) to six statements.

Items to gauge auditors' trust of contact persons at client firms included "has a strong sense of justice"; invariably "sticks to his/her word"; "would not knowingly act against our interests"; and "contributes to the audit more than required."

Measures of auditors' professional skepticism, as judged by client firms' contact persons, were obtained through such statements as "thinks that learning is exciting"; "takes his/her time when making decisions"; "likes to understand the reasons for other people's behavior"; "has confidence in himself/herself"; and "frequently questions things he/she sees or hears."

In their analysis of survey responses, the professors controlled for a variety of factors that could affect views on either side. These included gender and age of audit partners and client contacts, length of partners' and audit-firms' relationships with clients, size of client firms, whether audit firms were among the Big 4, and amount of non-audit services provided by audit firms to clients. Client companies had an average of about 800 employees. The mean length of the relationship between audit firms and clients was about 11 years and between client contacts and audit partners was about eight years.

As indicated above, other relevant factors being equal, auditor trust proved strongly correlated with professional skepticism, a finding that leads the authors to assert that "any regulation inhibiting a trust relationship between the auditor and the

Adds Prof Aschauer: "Nothing in our study should be seen as underestimating the potential danger from collusion between clients and auditors, to which external review is the best answer. Fortunately, external-review mechanisms are in place, such as the PCAOB in the U.S., the Financial Reporting Council in the U.K., and the Financial Reporting Enforcement Panel in Germany. What our study does raise questions about is the value of auditor rotation. If further initiatives in that regard are in abeyance at the moment, that is probably a good thing."

The paper, entitled "Trust and Professional Skepticism in the Relationship between Auditors and Clients: Overcoming the Dichotomy Myth," is in the spring issue of ***Behavioral Research in Accounting***, published twice yearly by the **American Accounting Association**, a worldwide organization devoted to excellence in accounting education, research, and practice. Other journals published by the AAA and its specialty sections include *The Accounting Review, Auditing: A Journal of Practice and Theory, Accounting Horizons, Issues in Accounting Education, Journal of Management Accounting Research, Journal of Information Systems, The Journal of the American Taxation Association*, *Journal of Financial Reporting,* and *Journal of Forensic Accounting Research.*

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