

PSYCHOLOGY-BASED EXPERIMENTAL RESEARCH IN AUDITING

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Overview



- Why should we do experiments in auditing?
- How can we do experiments in auditing well?
- What auditing research topics are worth pursuing?

Why should we do experiments in auditing?

- Experiments are sometimes the best way to get evidence on the issue.
 - Testing a causal theory
 - Relevant data aren't archived
 - Variables are confounded in nature
 - Interested in a process or mechanism
 - *Ex ante* policy research

- “General” results may not be helpful, given unique features or auditors and the auditing setting.
 - Highly knowledgeable DMs, but access to cues is hierarchical
 - Conflicting incentives

- Auditor JDM plays a more critical role than ever in financial markets/society.



“Whatever is worth doing at all is worth doing well.”

▣ Phillip Earl Stanhope

How can we do experiments well?



- Know the task and context
 - ▣ Increases relevance of your study
 - ▣ Increases your ability to ask good questions
 - ▣ Improves your ability to make good design choices

- Match methods (tools) to questions
 - ▣ Experiments are the best way to test a causal theory
 - ▣ But other methods are better for description, estimation of effect sizes, etc.

How can we do experiments well?



- Get firmly grounded in theory
 - ▣ Allows you to design more successful experiments
 - By addressing more interesting issues (process, non-intuitive effects)
 - By enhancing construct validity
 - By using appropriate methods and questions to “rule in” your explanation and rule out alternatives
 - ▣ Allows you to contribute back to the “mother” discipline

How can we do experiments well?



- Build on prior research (and give that research appropriate credit)
 - ▣ Increases the quality of your research
 - ▣ Allows you go deeper into the problem and learn new things

- Exploit your method
 - ▣ Control extraneous variables, use clean manipulations, rule out alternatives
 - ▣ Test causal theory (don't generate it later...)
 - ▣ Learn about process/mechanisms

What topics are worth pursuing?



- What are you passionate about???

- What topics do others seem interested in?
 - ▣ Auditor/client negotiations
 - ▣ Auditors' JDM
 - Fraud detection
 - Decisions to require or waive adjustments
 - Risk assessment
 - Independence

What topics are worth pursuing?

– Some examples

- Links between auditors' risk assessment and their actions (audit programs)
 - Why are auditors so bad at this?
 - Are some auditors better at this than others?
 - What types of knowledge/cues/problem representations do auditors need to do it well?
 - How can we give auditors what they need to do it well?

What topics are worth pursuing?


– Some examples

- Impact of auditors' unique set of (conflicting) incentives on their JDM
 - ▣ What are the direct and indirect impacts of auditors' conflicting incentives on their judgments about a client's financial reports?
 - ▣ What are the mechanisms by which these impacts occur?
 - ▣ Are these impacts desirable?
 - ▣ If not, how can we prevent/change them?
 - ▣ Especially important in light of fair value accounting!

What topics are worth pursuing?

– Some examples

- Impact of the large, dispersed audit team on audit quality
 - ▣ How likely is it that a critical piece of evidence will be discussed/reported upward?
 - ▣ How likely is it that auditors will recognize a situation for which they should consult with a more knowledgeable auditor?
 - ▣ How can we improve audit team communications to make sure the important events are reported and that consultation occurs?



“Real success is finding your lifework in the work that you love.”

▣ David McCullough