

Remedial Tactics in Auditor Negligence Litigation

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ABSTRACT:

Auditor litigation is a topic of particular interest to both practitioners and academics. Prior research has shown that outcome effects (Anderson, Jennings, Lowe, & Reckers, 1997) cause jurors to experience negative affect (Kadous, 2001) thereby increasing negligence judgments against the auditor. Research relating to medical malpractice suggests that medical service providers who offer their patients an apology for medical mistakes significantly reduce their liability for these mistakes (Mazor, Simon, & Gurwitz, 2004; Wu & Pronovost, 2003; Zimmerman, 2004). The current study examines whether remedial tactics (apology and justification) in auditor negligence litigation reduce guilty verdicts against the auditor. The results of this study show that apology and justification tactics alone significantly reduce guilty verdicts compared to the control group. However, the number of guilty verdicts for the group receiving both remedial tactics did not differ significantly from the control group. The results suggest that remedial tactics may reduce liability damages by mitigating the negative affect jurors experience against the auditor.

Keywords: auditor litigation, auditor negligence, apology, justification, affect, outcome effects

Data Availability: Please contact the corresponding author

1. Introduction

Prior research in auditor negligence litigation has examined the role of outcome effects in judge and juror decision making (Anderson, et al., 1997; Kadous, 2001; Lowe & Reckers, 1994). Outcome effects occur when individuals rely inappropriately on knowledge of outcomes (Fischhoff, 1975) and allow current knowledge to bias evaluations of past decisions (Phillips, 1983). This phenomenon is particularly dangerous in civil litigation because knowledge of the outcomes attributed to past decisions does not meet the legal standard of care required in legal proceedings (Baron and Hershey, 1988; Kadous, 2001). Auditors should be judged based on the quality of the performed audit and not on the consequences of events surrounding the audit (Causey & Causey, 1991). The knowledge of outcomes, however, has been shown to negatively bias judge and juror judgments against auditors (Anderson, et al., 1997).

Several studies in psychology have focused on a cognitive interpretation of outcome effects (Christensen-Szalanski & William, 1991; Hawkins & Hastie, 1990). Following this theoretical line of research, methods of cognitively debiasing judge and juror judgments have been examined in audit litigation contexts (Anderson, et al., 1997; Lowe & Reckers, 1994). Proposing alternative outcomes that may have followed auditor decisions as well as delineating the impact of auditor decisions on other stakeholders was found to be more successful with jurors than with judges in mitigating outcome effects (Anderson, et al., 1997).

More recent work has shown that negative outcomes, operationalized as firm bankruptcy and employee job loss, cause negative affect or negative feelings in jurors and lead to increased judgments against auditors. Kadous (2001) found that jurors exposed to outcome effects in an auditor litigation case made more negative judgments against the auditors than jurors not exposed to outcome effects. Kadous attributed this phenomenon to negative affect experienced

by the jurors but found that an attribution instruction to the jurors, or asking jurors to attribute their current negative feelings to something other than negative outcomes presented by a plaintiff, helped mitigate outcome effects. In the study jurors were specifically given instructions designed to encourage attributing current negative feeling to their roles as jurors instead of the negative consequences prior decisions.

Because of their substantial impact on juror judgments, negative outcomes are likely to be introduced by plaintiffs in auditor negligence lawsuits (Hawkins & Hastie, 1990) and their effects are difficult to eliminate by simply asking jurors to ignore outcomes (Wexler & Schopp, 1989). Anderson et al. (1997) called for research on effective, legally admissible mechanisms that can be used to mitigate negative effects associated with the use of outcome information in auditor negligence proceedings.

The current study seeks to extend previous work on juror decision making by examining mechanisms that may be effectively utilized to mitigate outcome effects in auditor negligence litigation. We investigate the impact of remedial tactics, specifically auditor apology and justification of decisions, on reducing the negative impact of outcome effects in juror decision making. Apologies can be used to express sorrow, repentance, or regret about a situation without admitting guilt (Taft, 2000; Tanick & Ayling, 1996). Alternatively, justifying previous decisions and explaining the context under which those decisions were made may have the similar effect of mitigating the impact of negative affect caused by the knowledge of outcomes. Specifically we ask, “Do remedial tactics mitigate the impact of negative outcomes on juror decision making in auditor negligence litigation?”

While previously proposed mechanisms for reducing the impact of outcome knowledge on juror judgments have been effective in experimental research, these mechanisms may be

difficult to apply in actual legal proceedings because they ask jurors to speculate about non-evidentiary information. Remedial tactics such as apology and justification of previous decisions, however, may be more easily implemented in actual trials. In addition, remedial tactics have shown promise in reducing litigation-related expenses and damage awards in medical malpractice cases (see Lamb, 2004; Mazor, et al., 2004; Wu & Pronovost, 2003; Zimmerman, 2004), suggesting that such tactics may have a universal effect on reducing decision-maker bias in a variety of situations.

A major difference between the use of remedial tactics in medical malpractice and in auditor litigation is the target of the tactics. Currently in medicine, the damaged party—often an individual or an individual’s family—is the target of remedial tactics. In auditor negligence litigation, a jury is asked to consider the facts of the case. Jurors are the recipients of the remedial tactics and may behave differently as third-parties than malpractice victims because they were not personally affected by the defendant’s decisions and actions.

We report the results of an experiment in which prospective jurors were asked to read the transcript of a mock auditor negligence trial and determine the guilt or innocence of the auditor. The case used in the experiment was adapted from the auditor liability case developed and reported by Kadous (2001). The auditor’s apology (no apology/apology) and justification of previous decisions (no justification/justification) were manipulated in the between-groups experimental study. The results of the study suggest that both justifying previous decisions and apologizing for outcomes were effective in reducing the impact of negative outcome knowledge in prospective jurors. However, using *both* remedial tactics together does not significantly reduce the number of guilty verdicts

The remainder of this paper is organized as follows. The second section presents the theory and hypotheses. The third section describes the experimental design and procedures. The fourth section provides the results and discussion. The final section contains concluding comments and limitations.

2. Theory and Hypotheses

Outcome Effects

Outcome effects occur when individuals allow current knowledge to bias evaluations of their own and others' past decisions (Phillips, 1983). Previous research in auditor negligence litigation has found that jurors are often biased against auditors by a relatively small set of informational cues, frequently outcomes, when arriving at verdicts in auditor litigation (Anderson, et al., 1997; Kadous, 2001; Lowe & Reckers, 1994). Negative outcomes are frequently introduced by plaintiffs in auditor negligence lawsuits (Hawkins & Hastie, 1990). The effects of negative outcomes are difficult to eliminate by simply asking jurors to ignore outcomes (Wexler & Schopp, 1989).

Several studies in psychology have focused on a cognitive interpretation of outcome effects (see Christensen-Szalanski & William, 1991; Hawkins & Hastie, 1990). Methods of cognitively debiasing judge and juror judgments, such as proposing alternative outcomes that may have followed auditor decisions as well as delineating the impact of decisions on other stakeholders, have been examined in audit litigation contexts (Anderson, et al., 1997; Lowe & Reckers, 1994). More recent work has shown that negative outcomes such as firm bankruptcy and employee job loss may cause negative affect or negative feelings in jurors leading to increased judgments against auditors (Kadous, 2001).

Taken together, these studies suggest that both cognitively processed outcome information and affect, defined generally as feelings or emotions, play important roles in how judges and jurors arrive at verdicts. How such pieces of information interact in decision-making contexts must, therefore, be examined to determine appropriate, legally admissible mechanisms which may effectively mitigate biases in auditor-related litigation.

Affect, Cognition, and Decision Making

Affect (or emotion) impacts the judgments and decisions of both everyday people (Lerner, Small, Loewenstein, & Lerner, 2004) and professionals such as auditors (Bhattacharjee & Moreno, 2002). Like typical “hard facts” or concrete information, individuals use their affective states as information when making judgments and decisions. When making judgments, decision makers subconsciously ask themselves, “How Do I Feel about It?” The associated feeling-states serve as information used to make decisions (Schwarz & Clore, 1988).

Affect states, either positive or negative, can arise from a variety of sources. Relatively insignificant life situations—such as a rainy day instead of a sunny day—can lead to negative affect and biased judgments (Schwarz & Clore, 1983). Affect has been shown to impact simple, everyday decisions (Lerner, et al., 2004) as well as more complex decisions. In fact, research suggests that individuals may rely on affective information as a heuristic even *more* in complicated, ill-defined situations (Schwarz & Clore, 1988).

Auditor liability cases are usually complex. Jurors face significant amounts of evidence and must make complex decisions. Kadous (2001) found that jurors making judgments in auditor litigation cases might be expected to heavily rely on affective information in addition to cognitively processed data when determining the guilt or innocence of an auditor.

Affect and Cognition in Auditor Negligence Litigation

Prior research in accounting supports the view that judges and jurors are influenced by both evidence and feelings when reaching verdicts in auditor negligence litigation. Anderson et al. (1997) suggest that outcome effects occur in auditor litigation by judges and jurors overweighting information related to the outcomes of decisions made in the past. Kadous (2001) argues that jurors rely heavily on affective information when making judgments and determining guilt. These findings support the information processing hypotheses of the Affect-as-Information Model in that jurors' negative affect experienced due to the introduction of outcome information impacts subsequent judgments both consciously and subconsciously.

Methods of cognitively debiasing judge and juror judgments have been examined in audit litigation contexts. These methods include proposing alternative outcomes which may have followed auditor decisions as well as delineating the impact of decisions on other stakeholders have been (Anderson, et al., 1997; Lowe & Reckers, 1994). In these studies, judges and jurors were given instructions to consider the impact of auditor decisions on other firm stakeholders and alternative outcomes, which may have stemmed from previous auditor decisions.

Kadous (2001) suggested that relatively simple instructions to jurors work to mitigate negative affect experienced by jurors during a trial. In her study, some jurors received an instruction, which suggested that negative affect experienced during the testimony phase of the trial might be attributed to serving on a jury and not to evidence presented. Kadous found that jurors receiving the attribution instruction were less likely to hold the auditor liable for damages and were, in fact, more likely to attribute their negative feelings to their jury service. This simple manipulation had the effect of reducing the number of guilty verdicts against the auditor.

While previously proposed strategies for mitigating the effects of outcome effects on juror judgments have been successful in laboratory-based experiments, applying such strategies may be challenging in actual auditor legal cases. For example, it may be difficult to establish the relevance of suggesting the impact of previous decisions on other stakeholders or asking jurors to consider alternative outcomes. Plaintiff's attorneys who rely on the impact of negative outcomes in swaying judge and juror judgment may object to an instruction directed at jurors to attribute negative feelings to something other than damages experienced by plaintiffs.

The purpose of the current research is to examine mechanisms, which would mitigate both the cognitive and affective components of the use of outcome knowledge in judge and juror deliberations and be easily admissible in actual court proceedings. We propose that the remedial tactics of apologizing for outcomes and justifying previously made decisions, both of which have shown substantial promise in reducing medical malpractice awards, may have similar effects in auditor negligence litigation settings. Specifically we ask, "Do remedial tactics mitigate the impact of negative outcomes on juror decision-making in auditor negligence litigation?"

Remedial Tactics

The current research examines how the remedial tactics of apology and justification act to diminish the effects of negative outcome information in auditor litigation cases. Remedial tactics in a legal setting work to mitigate the effects of negative affect experienced by jurors. Research and anecdotal evidence from the field of medicine has shown that physicians and other health-care providers faced with potential malpractice claims experienced significantly lower legal settlements when they employed remedial tactics. Such tactics include apologizing for outcomes and justifying previous decisions without admitting guilt (Berwick, 2003; Lamb, 2004; Wu &

Pronovost, 2003; Zimmerman, 2004). Remedial tactics introduce additional information to jurors that may be considered in their deliberative processing. These tactics may be effective in mitigating the impact of negative outcome information on juror decision-making in auditor negligence litigation.

Attorneys recognize the use of apologies in a legal setting can be valuable. An apology is an expression of sorrow, repentance, or regret about a situation (Taft, 2000). The law literature suggests apologies are very effective in settling or avoiding legal problems altogether (Tanick & Ayling, 1996). Though apologies are used to express regret and remorse about a negative outcome, an apology is *not* synonymous with admitting guilt or fault. With done properly, an apology can be created without expression of any wrongdoing (Taft, 2000; Tanick & Ayling, 1996). Legal journals clearly state an apology can be used *without* admitting guilt or wrongdoing:

“First, an apology is not necessarily equivalent to the admission of liability. ‘I’m sorry’ is not the same as ‘I’m at fault.’ ‘I’m sorry,’ is polite and human. Not to say, ‘I’m sorry’ is rude and arrogant. It has nothing to do with fault. Moreover, ‘I’m sorry’ in everyday speech usually means ‘I’m sorry we find ourselves in this current situation.’ It is not about fault” (Kanazawa, 2004, p. 32).

Other legal researchers describe an apology as an expression of sympathy and not as an acceptance of responsibility (Robbennolt, 2003). Legal statutes in some states even protect sympathetic apologies from being admissible in court to try to show fault. Massachusetts (1986) was the first state to enact such a law to protect apologies, while Texas (1999), California (2000), Florida (2001), Washington (2002), and Colorado (2003) have since passed similar laws (Robbennolt, 2003). Clearly, an apology can be crafted in a legal setting to express sympathy or remorse about a situation without an admission of guilt.

An apology to a victim causes the victim to experience positive affect towards an offender. This positive affect can counteract negative affect caused by the social predicament. Apologies can cause the victim to view the situation as less controllable, thereby holding the offender less responsible for the negative consequences (Takaku, 2001).

The medical information disclosure literature shows that physicians and other health-care professionals who apologize to their patients for medical mistakes settle claims more quickly and for significantly less money than those who do not apologize (Zimmerman, 2004). An apology can facilitate emotional or psychological healing (Taft, 2000), which cannot be purchased with money. Apologies also seem to reduce negative affect experienced by victims, thereby diminishing the victims' quest for monetary damages.

Apologies in a legal setting can be used to mitigate negative affect towards a defendant without expressing guilt. Thus, it appears that the use of apologies has great potential of reducing negative affect associated with the legal dispute with minimal risk of negative consequences. Hypotheses 1 tests the effects of an apology made by an audit partner in a litigation case.

H1: Jurors will be less likely to judge an auditor negligent when the auditor makes an apology during a trial.

Plaintiffs in auditor negligence cases may introduce outcome information as part of trial testimony in an effort to discredit decisions made previously by auditors. Wood (1978) suggests that outcome knowledge or the "knew-it-all-along" effect acts to alter individuals' perceptions of the inevitability of an event once they know the outcome of the event (Christensen-Szalanski & William, 1991, p. 147). Specifically, after learning of the outcome of auditor decisions, jurors may alter their perception of whether an auditor should have known that their audit decisions would lead to a negative outcome.

Justification of previously made decisions is a remedial tactic, which may mitigate outcome effects in auditor negligence litigation. “Justifying is the act of providing evidence to support one’s judgments or decisions” (Peecher, 1996, p.126). The justification of decisions made during the audit provides additional evidence to jurors that, while in hindsight different decisions would ultimately yield different outcomes, at the time decisions were made they were correct, defensible, and reasonable. In the case of auditors defending audit decisions, justification acts to counter the impact of outcomes by suggesting to jurors that at the time decisions were made, due care was taken to conform to acceptable standards of auditing procedures. Hypothesis 2 examines the impact of justification in an audit partner’s testimony.

H2: Jurors will be less likely to judge an auditor negligent when the auditor justifies previous decisions and actions during a trial.

3. Experimental Design and Procedures

Participants

The hypotheses were tested experimentally with responses (N = 137) provided by jury-eligible adults. Participants were recruited for participation in the study in two ways. Internet-based participants (N = 48) were solicited nationwide via electronic mail. These participants were used in order to provide geographic and demographic diversity to the sample and therefore increase the generalizability of our results. Prospective jurors from ten different states were represented in the Internet sample. Local participants were solicited through personal invitation in survey accounting courses for non-business majors (N = 89). Participants completed the study either via the Internet or in groups with one or more of the researchers present.

An attorney who frequently participates in civil liability cases provided information about what type of juror would be most likely to participate in civil liability cases such as this one.

After discussion with the attorney and following Kadous (2001), we systematically excluded respondents who were attorneys or accountants because it would be highly unlikely they would serve as a juror in an auditor litigation case. Thus, our sample more closely reflects prospective jurors in an auditor litigation case. We also excluded participants who did not provide complete responses to experimental questions since these responses were unusable.

Both Internet-based and local participants received exactly the same experimental materials. Internet-based participants took part in the experiment via computer while local participants completed a paper and pencil case. Participants were randomly assigned to one of four experimental cells of approximately equal cell sizes.

The Internet-based and paper-based groups were examined together for nesting effects. No significant differences in judgments (guilty verdicts) between the two groups were found after controlling for experimental condition.

Materials and Design

Materials for this study were adapted from materials developed and reported by Kadous (2001). Participants began by reading instructions about the format of the study. Specifically, participants were told that they were being asked to put themselves in the position of jurors in an auditor negligence court case. The lawsuit alleged that an auditing firm had been negligent in their duties in measuring inventory at a gravel distributor. Reported inventory was later found to be materially misstated. The alleged negligence on the part of the auditor led to substantial loss for a creditor.

Participants who were asked to read a transcript of the trial proceedings and consider testimony from various parties in the case. The case included the plaintiff's complaint, the

respondent's answer, attorneys' opening and closing statements, witness testimony, expert witness testimony for each side of the case, the judge's instructions to the jury, and in three of the four cases, testimony from an audit firm partner. For the control group, the audit partner did not testify. The independent variables (apology and justification) were manipulated between participants in the 2 x 2 full factorial design. The number of participants in each treatment group is shown in Figure 1.

As was argued and found in Kadous (2001), the external validity of experiments such as this has been found to be enhanced by incorporating structural features of trials as they may actually take place. For example, having jurors read attorney opening and closing statements, witness testimony, expert witness testimony, and in some cases, the testimony of the defendant increased the realism of case materials.

After reviewing the case materials, participants were asked to evaluate the actions of the audit firm by assigning a guilty or not guilty verdict and evaluating the performance of the auditor. Finally, participants completed a post-study questionnaire. The frequency of findings against the auditor was the dependent variable of primary interest.

Participants who completed the experiment via the Internet were given the option of receiving a \$5 Amazon.com gift certificate via electronic mail. Local participants were given course extra credit for their participation.

Apology

Audit partner apology was manipulated at two levels (apology and no apology). In the no apology condition, the auditor simply did not testify or did not offer an apology as part of his testimony. In the apology condition the auditor apologized for the *outcomes* experienced by

individuals referenced in the case but did not admit guilt or fault on the part of the audit firm. In addition to reading the apology from the audit partner as part of trial proceedings, the defense attorney also included the fact that the auditor apologized for the outcomes as part of the closing arguments.

Justification

Audit partner justification was manipulated at two levels (no justification and justification). In the no justification manipulation, the auditor either did not testify or did not justify the audit firm's previous decisions as part of his testimony. In the justification condition, the auditor justified the decisions made during the audit. In order to increase the salience of the audit partner's justification, the defense attorney remarked in his closing statement that the audit partner had provided a justification of his actions as part of his testimony.

See Appendix A for the apology, justification, and both apology and justification manipulations.

Manipulation Checks

Participants in the experimental conditions were asked if the auditor testified. Of those participants receiving an auditor testimony, 87% (87 of 100) correctly remembered the audit partner testified. Participants were also asked if the auditor apologized during the trial, and 81% (59 of 73) of participants receiving an apology in the case material were able to recall that the auditor apologized during the trial.

Participants in the experimental conditions were asked to what extent the audit partner apologized for the damages caused by the inventory misstatement. Participants receiving the

apology manipulation differed significantly than participants not receiving the apology manipulation ($t = 5.844, p < 0.001$). Two other apology manipulation questions yielded similar results ($t = 8.038, p < 0.001$ and $t = 5.037, p < 0.001$).

To test the effectiveness of the justification manipulation, participants in the experimental groups were asked to assess to what extent the audit partner 1) rationalized, 2) explained, and 3) justified the firm's audit work. Prospective jurors receiving the justification manipulation answered these questions significantly higher than participants not receiving the manipulation ($t = 2.864, p < 0.01$; $t = 3.704, p < 0.001$; and $t = 1.688, p < 0.05$ respectively). Thus, most of the prospective jurors correctly identified the manipulations in the case they received.

4. Results and Discussion

We conducted directional planned comparisons to examine the effects of both apology and justification compared to the control group (no apology and no justification). Both the effects of apology ($t = 1.725, p < 0.05$) and the effects of justification ($t = 2.635, p < 0.01$) were significantly different than the control group. In other words, the number of guilty verdicts in the apology only group and the justification only groups were significantly lower than the number of guilty verdicts in the control group.

A planned comparison was also used to analyze the effects of using both an apology and justification in an auditor's testimony. The number of guilty verdicts for the group receiving both remedial tactics did not differ significantly from the control group receiving no remedial tactic ($t = 1.571, p > 0.10$). The result of using both tactics reveals an interesting finding: Either remedial tactic (apology or justification) in this study reduced the number of guilty verdicts against the auditor, but the use of *both* remedial tactics together does not improve jury verdicts in

the auditor's favor. The use of a second remedial tactic appears to negate the effectiveness of the first tactic.

Table 1 summarizes the results of the planned comparison tests. The significant differences in guilty verdicts between the control group (no apology and no justification) and the apology and justification groups suggest that remedial tactics affect the judgments of prospective jurors. When an audit partner testifies in an auditor-litigation lawsuit and offers an apology or justification of the firm's actions, the results of this study suggest jurors are more likely to find the auditor not guilty of negligence. However, the use of multiple remedial tactics does not appear to benefit the auditor.

The result of using both remedial tactics may initially appear counterintuitive. If apology and justification individually reduce guilty verdicts against an auditor, then why would both tactics not be superior to using a single tactic? Research of apologies in law and psychology helps explain this finding. Some research suggests that an apology is most effective when it is simple. Explanations or justifications after an apology may complicate the situation and reduce the benefits of the apology (Taft, 2000). An apology alone appears to be beneficial, but adding justifying remarks may be viewed as excuses by the jurors. Likewise, justifying and explaining actions appear to cause more favorable juror verdicts, but adding an apology may appear as an excuse for wrongdoing.

The results of this study extend the auditor litigation literature. Prior research provides suggestions to prevent juror judgment against the auditors, but these studies rely on the judge to make special instructions to the jurors (Kadous, 2001) or involve cognitively-intensive tasks for the jurors (Anderson, et al., 1997; Lowe & Reckers, 1994). The current study suggests auditor defense attorneys can ask an audit partner to testify and to introduce remedial tactics into

testimony. The strategy to introduce an auditor apology or justification in an actual trial is relatively easy to implement and fully controllable by the defense. Though the prosecution in any case against an auditor is likely to introduce adverse consequences as the result of an audit, an apology or justification may mitigate the negative affect associated with the plaintiff's complaint.

These findings are consistent with the Affect as Information Hypothesis in that defense testimony that causes positive affect towards the defense may lead to favorable judgments and verdicts towards the auditor. Such increases in favorable verdicts towards the auditor may be of great benefit to the auditing profession by decreasing the litigation expenses for audit firms.

The law literature suggests that a defendant can offer an apology without admitting fault or wrongdoing (Taft, 2000). We asked the prospective jurors receiving manipulations in this study to assess on an 11-point Likert scale to what extent the audit partner 1) accepted responsibility, and 2) accepted liability for the damages caused by the inventory misstatement. Regardless of the apology or justification the participants received, responses to these questions did not vary significantly among groups. Additionally, jurors did not believe the auditor either accepted responsibility (mean = 1.69, sd = 1.84) or accepted liability (mean = 1.15, sd = 1.43) for the damages caused by the inventory error. These findings are consistent with the notion that effective remedial tactics can be implemented in auditor negligence litigation without increasing liability or admitting fault.

5. Limitations and Future Research

Though the results of this study may prove beneficial to the auditing profession, several limitations exist. The judgments of individual jurors may not directly translate into more favorable jury verdicts. The group dynamics or a jury introduces other factors which may limit

the generalizability of this study. Future research could examine whether individual juror judgments are similar to judgments reached by a jury. Additionally, an actual trial is more complex than the case presented to the participants in this study. The effects of remedial tactics in a lengthy litigation case may be different from the results of this study.

This study provides opportunities for future research. Planned comparisons were used to determine whether an audit partner's apology or justification reduces guilty verdicts against the auditor. Though we found effects for both apology and justification, future research could examine which remedial tactic is more effective. Table 1 suggests that justification alone may be the more effective remedial tactic, but further studies could examine this question more closely. Additionally, the theory used in this paper suggests that remedial tactics mitigate the negative affect experienced by the jurors. More research is needed to determine the relationship between affect and cognition in a litigation setting. Future studies are needed to examine additional strategies which may effectively reduce jurors' negative affect towards the auditor.

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FIGURE 1

The chart below shows the number of participants for each condition.

		<u>Justification</u>	
		Yes	No
<u>Apology</u>	Yes	41	33
	No	29	34

TABLE 1 – Statistical Results

Planned Comparisons	t	df	sig.
Apology only & Control group	1.725	65	p < 0.05
Justification only & Control group	2.635	60	p < 0.01
Both Apology and Justification & Control Group	1.571	73	p > 0.10

APPENDIX A

Additional Wording Added to the Case of the Experimental Groups

Apology Condition

Mr. Cliff Applegate, Jones & Company Audit Partner: Jones & Company has a long history of performing high-quality audits. We work hard to protect the integrity of our company and the auditing profession. I apologize that an audit was not able to detect the inventory misstatement.

Cross-examination: I understand Bierhoff relied on the audit to extend a loan to Big Time Gravel. I'm sorry they experienced a loss on their investment.

Justification Condition

Mr. Cliff Applegate, Jones & Company Audit Partner: Jones and Company has a long history of performing high-quality audits. We work hard to protect the integrity of our company and the auditing profession. I appreciate this opportunity to explain and justify the actions our firm took in auditing Big Time Gravel. We performed a high-quality audit of Big Time Gravel. Auditors cannot be expected to find every error in a company. We provide reasonable assurance that the financial statements are fairly stated. Users of financial statements—especially creditors—are expected to perform their own research to verify the conclusions made by an auditor. Since we did the job according to professional standards, we cannot be responsible for events outside the scope of an audit.

Cross-examination: There is always a chance that an audit will miss a material misstatement. We cannot provide a 100% guarantee; it's impossible. Generally Accepted Auditing Standards require us to provide reasonable assurance against material misstatements. We performed an audit according to these standards.

Apology and Justification Condition

Mr. Cliff Applegate, Jones & Company Audit Partner: Jones & Company has a long history of performing high-quality audits. We work hard to protect the integrity of our company and the auditing profession. I apologize that an audit was not able to detect the inventory misstatement. I also appreciate this opportunity to explain and justify the actions our firm took in auditing Big Time Gravel. We performed a high-quality audit of Big Time Gravel. Auditors cannot be expected to find every error in a company. We provide reasonable assurance that the financial statements are fairly stated. Users of financial statements—especially creditors—are expected to perform their own research to verify the conclusions made by an auditor. Since we did the job according to professional standards, we cannot be responsible for events outside the scope of an audit.

Cross-examination: There is always a chance that an audit will miss a material misstatement. We cannot provide a 100% guarantee; it's impossible. Generally Accepted Auditing Standards require us to provide reasonable assurance against material misstatements. We performed an audit according to these standards.

I understand Bierhoff relied on an audit to extend a loan to Big Time Gravel. I'm sorry they experienced a loss on their investment. However, we cannot be held responsible for business losses from every organization that decides to do business with Big Time Gravel. Our job is to perform a good audit according to professional standards, which we did in this case.