

**Investigating the Effects of Post-Audit Review Salience on Auditor Judgments:  
A Comparative Analysis of Audit Planning Decisions Resulting  
From PCAOB Inspections and Internal Quality Reviews**

**ABSTRACT**

This paper reports the results of a study that investigates the effects of PCAOB inspection (Inspection) and internal quality review (IQR) salience on auditors' audit planning decisions. Fifty-four experienced auditors participated in a 1 x 3 between-subjects experiment in which the salience of a post-audit review is manipulated as Inspection salient, IQR salient, or no post-audit review salient. Using the Houston et al. (2005) model, we predict that auditors will increase substantive testing efforts for engagements where a post-audit review is salient. Additionally, we propose that the increased testing effort will lead to increased audit fees. Finally, we hypothesize that the effect of post-audit review salience on audit fees will be mediated by its influence on substantive testing effort. Consistent with our predictions, we find that post-audit review salience significantly increases both substantive testing and audit fees, and that the effect on audit fees is mediated by substantive testing. This study provides initial evidence as to the impacts of Inspections and IQRs on auditor planning decisions, variables thus far not considered in the accounting literature. It also provides initial evidence and understanding of whether, and how, auditors pass post-audit review costs along to clients. Finally, Given Houston and Stefaniak's (2009) findings that the majority of auditors can or try to anticipate the audits that will be subject to post-audit reviews, we interpret our findings to indicate a potential loss of utility from the Inspection and IQR processes. That is, that Inspections and IQRs might not be capturing a true sample of an engagement team's performance and effort levels.

# **Investigating the Effects of Post-Audit Review Salience on Auditor Judgments: A Comparative Analysis of Audit Planning Decisions Resulting From PCAOB Inspections and Internal Quality Reviews**

## **I. INTRODUCTION**

We report the results of an experiment that investigates the effects of PCAOB inspection (Inspection) and internal quality review (IQR) salience on auditors' audit planning decisions. Using the audit fee model developed by Houston et al. (2005) as well as accountability and sanction literature, we predict and find that post-audit review salience (i.e., Inspections or IQRs) increase substantive testing. We also predict and find that increased substantive testing efforts result in increased audit fees. Finally, we predict and find that the increase in audit fees is mediated by substantive testing.

With the passage of the Sarbanes-Oxley Act (SOX) of 2002, arguably the most sweeping securities market reform legislation passed since the Securities Acts of 1933 and 1934 (DeFond & Francis, 2005; Boster, 2007), the era of auditor self-regulation came to an abrupt halt. Daniel Goelzer, a Public Company Accounting Oversight Board (PCAOB) Board member, concisely summarized the impact of SOX in a 2005 speech when he stated that SOX "... ended the profession's long tradition of self-regulation and peer review" (Goelzer, 2005).

Title I of SOX mandates the creation of the PCAOB, a nonprofit, nonpublic corporation (Sarbanes-Oxley Act, 2002). The PCAOB is the sovereign regulatory agency over public accounting, with the authority to promulgate binding professional standards for all registered public accounting firms. Additionally, Section 104 of SOX grants the PCAOB the authority with inspection and enforcement authority. The PCAOB is authorized to conduct inspections of registered public accounting firms to assess compliance with SOX, the rules of the PCAOB, and

the SEC, as well as conformity with professional standards in connection with firms' performance of audits, issuance of audit reports, and related matters (Sarbanes-Oxley Act, 2002).

Before congress mandated Inspections, audit firms that audited SEC issuers participated in external peer reviews under the SEC Practice Section (overseen by the AICPA's Public Oversight Board). The purpose of the peer review system was to provide assurance to the public that the audit firm under review had an effective quality control system (AICPA, 2008). Because of similarities between peer reviews and Inspections, the peer review program has been replaced by Inspections for all SEC issuers (Gunny & Zhang, 2006; Goelzer, 2005).

While Inspections replace the peer review program for public issuers, they also supplement public accounting firms' existing Internal Quality Review (IQR) programs. IQRs differ from engagement quality reviews in that during IQRs, a review of a completed audit is performed by teams drawn from within an audit firm to assess the quality of its audits and highlight common issues or trends that may require firm-wide education or rectification (Audit Quality Review Board, 2007).

Overall, Inspections and IQRs serve as the primary post-audit quality review mechanisms for audits of public issuers. However, while these two mechanisms are intended to increase audit quality, Houston and Stefaniak (2009) survey 125 audit partners and find that approximately 63 (62) percent of auditors can or try to anticipate which engagements will be selected for IQRs (Inspection). Given the potential for auditors to anticipate these post-audit reviews, it is important to know how this anticipation influences audit planning decisions, and ultimately audit fees – an area yet to be explored by accounting research. Accordingly, this study investigates the effects of Inspection and IQR salience on auditors' audit fee and other planning decisions. If Inspections and IQRs influence either of these areas, they have the potential to influence overall

audit quality. Consequently, understanding the effects of Inspections and IQRs is important to accounting researchers, practitioners, and users of financial statement data.

To investigate these effects, 54 high-level auditors participated in a 1 x 3 between-subjects experiment in which salience of post-audit reviews is manipulated as Inspection salient, IQR salient, or no explicit expectation of a post-audit review. IQR (Inspection) salience was manipulated by simulating a conversation between the participant and the office managing partner (OMP) in which the OMP instructed the participant to plan the upcoming audit as if it were going to be selected for an IQR (Inspection). The control condition maintained the substance of the conversation, but made no mention of a post-audit review.

The Inspection and IQR manipulations were designed to maximize external validity. Specifically, suggesting that an audit should be planned in anticipation of a post-audit review, without directly stating that it *will* be selected for a post-audit review, makes participants aware of the possibility of a review without imposing an unrealistic probability. Furthermore, Houston and Stefaniak (2009) provide a theoretical foundation for manipulating the salience of both IQR and Inspection; 63 (62) percent of their respondents indicate that they can or try to anticipate which engagements will be selected for IQRs (Inspections).

Consistent with our hypothesis, we find that auditors increase substantive testing when the salience of either an Inspection or IQR is high. Also consistent with our hypothesis, we find that auditors increase audit fees when the salience of either an Inspection or IQR is high, but that the effect of post-audit review salience on audit fees is mediated by the increases in substantive testing. This paper provides two primary contributions to the literature. First, the results provide initial evidence that the salience of a post-audit review can influence both audit planning

decisions and total fees charged to clients. That is, audit firms are charging a fee premium to clients in years in which they anticipate that audit could be subject to a post-audit review.

Second, these results provide relevant experimental evidence to accounting researchers, audit firms, and regulators who are interested in evaluating the effectiveness of the two primary types of post-audit reviews currently employed to monitor the auditing profession's adherence to regulatory requirements and firm methodologies (i.e., Inspections and IQRs). Given Houston and Stefaniak's (2009) findings that the majority of auditors can or try to anticipate the audits that will be subject to post-audit reviews, we interpret our findings to indicate a potential loss of utility from the Inspection and IQR processes. That is, to the extent that auditors are able to anticipate the audits that will be subject to post-audit reviews, and modify their audit planning decisions accordingly, then the ensuing post-audit review is not capturing a true sample of an engagement team's performance. Consequently, the decisions based on the results of the post-audit review (e.g., firm-wide training initiatives and rectification actions) potentially focus on the wrong areas, or potentially will not identify a particular issue, because the extra effort put forth by the engagement team on the audit was not representative of a normal audit.

The remainder of this paper is organized as follows. The next section provides the necessary background and theory to support the predicted hypotheses. The third section discusses the experimental methodology. The fourth section reports the results of the experiment and the fifth section closes with a discussion of implications, opportunities for future research, and the study's limitations.

## **II. BACKGROUND AND HYPOTHESIS DEVELOPMENT**

### **IQR and Inspection Costs**

The primary objective of this study is to investigate the effects of Inspection or IQR salience on auditors' audit planning decisions and, ultimately, estimated audit fees. However,

before predicting these effects, a discussion of the readily transparent costs of each post-audit review process is warranted to establish an understanding of the types of costs that firms potentially are passing on to their clients.

While accounting research has investigated peer reviews (Hilary & Lennox, 2005) and engagement quality (concurring partner) reviews (Epps & Messier, 2007), accounting researchers have yet to explore IQRs. Consequently, little is known about the process, including the costs involved with its administration. However, it is possible to assume that, at a minimum, firms incur opportunity costs to perform IQRs. Specifically, we assume that audit firms encounter opportunity costs when staff resources are dedicated to IQR compliance instead of other chargeable client engagements as well as generating new business or reinforcing existing client relationships. Therefore, the potential exists that auditors will pass these costs to the client.

However, while extant accounting research does not provide much insight into the IQR process, much public information is available on the costs and funding of Inspections. The PCAOB's primary objectives (i.e., registration, inspection, investigation, and enforcement) are funded through Accounting Support Fees (ASF) paid annually by qualifying public companies.<sup>1</sup> In 2007, 52 percent of ASF invoices sent by the PCAOB were for less than \$1,000; however, the largest 1,000 public companies each paid, on average, over \$100,000 (PCAOB, 2008).

According to PCAOB Rule 4006, audit firms have a duty to cooperate and comply with any requests made by PCAOB inspectors during the course of Inspections (PCAOB, 2007a). Requests can take the form of supplying specified records, participating in oral interviews, or providing written responses to PCAOB inquiries. Similar to IQRs, the requests made during an

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<sup>1</sup> Section 109 of SOX specifies that public companies must pay ASF proportionate to their previous year's average monthly market capitalization. The PCAOB has determined that only equity issuers with over \$25 million average monthly market capitalization and investment issuers with over \$250 million average monthly market capitalization are required to pay ASF.

Inspections create intrinsic costs of compliance; namely, audit firms encounter opportunity costs when staff resources dedicated to Inspection compliance are unable to participate in other chargeable client engagements as well as generating new business or reinforcing existing client relationships. While the PCAOB has the ability to offset the costs of performing Inspections through increased ASF, audit firms cannot easily offset the costs of Inspection compliance; therefore, similar to IQR compliance costs the potential exists that auditors will also pass on Inspection compliance costs to the issuer.

### **Post-Audit Review Salience and Substantive Testing**

#### *Audit Risk Literature – An Auditor’s Perspective*

Simunic (1980) suggests a positive model of audit fee determination that incorporates the concept of opportunity costs into audit fees. Specifically, Simunic proposes that, in addition to other variables, auditors will likely take into consideration the cost of audit firm resources, including opportunity costs, which are monopolized by a client (e.g., potential compliance costs with a post-audit review). Houston et al. (1999) extend Simunic’s model to include expected costs that the auditor will suffer as a result of being associated with the issuer’s financial statements other than undetected material misstatements (i.e., nonaudit risk). Houston et al. (2005) further suggest that auditors price audits from three perspectives – as an auditor (audit risk), an insurer (residual litigation risk), and a businessperson (other nonlitigation risk).

Houston et al. suggest that the portion of the audit fee designated to cover the cost of the audit function represents all costs associated with attaining an acceptable level of audit risk. By definition, overall acceptable audit risk should be influenced by the potential of being selected for either an Inspection or an IQR since audit risk represents the risk that the auditor is willing to

accept that they issue an incorrect opinion – the higher the cost of being wrong, the lower the auditor should set acceptable audit risk.

*Ceteris paribus*, the salience of a potential IQR or Inspection increases the costs of issuing an incorrect opinion (e.g., impacted performance reviews, possible restatements, firm/profession reputation, etc.). While control risk and inherent risk should remain unchanged, the lower level of acceptable audit risk suggests a greater level of audit effort. That is, IQR and Inspection salience should increase substantive testing from an audit risk model perspective.

#### *Accountability and Sanction Threat Literature*

From an accountability and sanction standpoint, Inspections and IQRs create a situation where auditors' judgments could be influenced because of both the increased accountability presented by the salience of a post-audit review, and the potential for formal sanctions being levied against the auditor. Both of these potential effects are used to further support the prediction that Inspections and IQRs will result in increased substantive testing.

Prior accounting research has investigated the effects of accountability on auditor judgments. For example, DeZoort et al. (2006) show that increased accountability pressure increases auditors' judgment conservatism, decreases auditors' judgment variability, and increases auditor effort (i.e., time spent on tasks). The DeZoort et al. study confirmed and extended prior accounting research suggesting that auditors' increased accountability results in increases in effort and improves performance (Kennedy, 1993; Ashton, 1992).

The salience of a post-audit review is expected to increase accountability due to increased feedback pressure. DeZoort et al. (2006) define feedback pressure as pressure that emerges in situations where individuals expect formal evaluation feedback on their decisions/judgments. Both Inspections and IQRs provide feedback to auditors and, therefore, are expected to create

feedback pressure. Accordingly, increased salience of an Inspection or IQR is expected to result in increased accountability pressure, which should increase auditor effort.

Additionally, part of the pressure that arises from the knowledge of formal evaluation and feedback is the potential for sanctions (e.g., impacted reputations and disciplinary actions). The effects of sanctions in an accounting context have been examined as both financial (e.g., litigation) risk to the firm/partner (Farmer, Rittenberg, & Trompeter, 1987) and reputational (e.g., peer review) risk (Shafer, Morris, & Ketchand, 1999).

Inspections carry with them the possibility of not only negatively influencing auditor reputation, but also prompting a PCAOB investigation. SOX empowers the PCAOB to initiate investigations of public accounting firms if the PCAOB believes that a firm has violated any provision of SOX, a professional standard, or law relating to the preparation and issuance of audit opinions (PCAOB, 2009). Further, these investigations can lead to hearings and, in some cases, sanctions against the firm such as monetary penalties or revocation of a firm's registration (PCAOB, 2009). IQRs, like peer reviews, on the other hand, may or may not lead to investigations or disciplinary actions by the PCAOB, but should be viewed as a sanction threat since the evaluations have the potential to impact the auditor's reputation among his/her peers in the firm (e.g., Houston and Stefaniak 2009, Shafer et al. 1999).

Prior accounting research suggests that increased sanction risk increases auditor conservatism (Schafer et al. 1999; Farmer et al. 1987). Because Inspections and IQRs both have the potential to sanction auditors, it is expected that increased Inspection and IQR salience will be associated with more audit effort to ensure more accurate reporting decisions. Combining this stream of research with the research on accountability and audit risk, it is possible to predict

that increased post-audit review salience will result in increased substantive testing. The hypothesis is formally stated as:

**H<sub>1</sub>:** Increased post-audit review salience will result in increased planned substantive testing.

### **Post-Audit Review Salience and Audit Fees**

Houston et al. (2005) also suggest that auditors will charge fee premiums for those costs other than audit risk and residual litigation risk, which they refer to as nonlitigation risk.

Houston et al. suggest that there are two forms of nonlitigation risk – opportunities for future audit and nonaudit revenue and potential damage to the auditor’s reputation. The potential exists for both IQRs and Inspections to influence both of these nonlitigation risk components.

As mentioned earlier, compliance with the both Inspections and IQRs has the potential to interfere with other business opportunities; namely, resources utilized to comply with Inspection and IQR requests are unable to be utilized on other chargeable engagements. Further, manager-level resources utilized to facilitate the Inspection or IQR are not only unable to be utilized on other chargeable engagements, but also unable to pursue new business opportunities. Also, both IQRs and Inspections have the potential to damage the auditor’s reputation because poor IQR or Inspection performances could negatively impact performance evaluations. We expect that auditors will pass on all or part of these costs to clients.

Combining the increased nonlitigation risks with the prediction that Inspections and IQR salience will increase substantive testing supports a hypothesis that audits with increased post-audit review salience will result in higher audit fees. Formally stated, the hypothesis predicts:

**H<sub>2</sub>:** Increased post-audit review salience will result in increased audit fees

## **Mediating Effect of Substantive Testing on Audit Fees**

The prior discussion suggests that post-audit review salience will influence audit fees. However, an auditor *should* charge higher fees when planned substantive testing is greater. Consequently, we expect that the salience of a post-audit review will affect the fees charged to the client and that this effect will be caused, at least in part, by the auditor's planned substantive testing, yielding the following mediation hypothesis:

**H<sub>3</sub>:** The salience of a post-audit review will increase audit fees through its effect on auditors' estimated substantive testing.

## **IV. METHODOLOGY**

### **Participants**

We distributed and collected cases with the assistance of contact partners at eight offices of five of the 10 largest U.S. public accounting firms (including all Big Four firms). The contacts provided an estimate of the number of participants they would enlist in the study, and an appropriate number of USB drives containing the experiment were mailed to the contact. The contact coordinated the distribution within his/her office. Contact partners did not know which version of the case was included on any given USB drive. Participants returned completed cases to the office contact, who in turn returned all the USB drives to the authors.<sup>2</sup>

### **Experimental Design**

Each participant was randomly assigned to one of three experimental conditions based on a 1 x 3 between-subjects design that manipulated the salience of a specific inspection type. The three conditions assessed audit planning decisions made by auditors when (1) the salience of an

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<sup>2</sup> We sent extra USB drives to each contact partner, some of which may not have been distributed; consequently we do not have an exact response rate. However, at least 80 percent of the case materials distributed were completed.

IQR is high, (2) the salience of an Inspection is high, or (3) when no mention of either an IQR or Inspection is made (i.e., a control group).

## **The Experimental Case**

### *Introduction and Background*

In the first section of the case, participants were provided with an introductory letter informing them that all responses would remain strictly confidential. The second section contained a brief introduction to the audit engagement. Specifically, participants were first told to assume that they were an audit partner for ABC Audit firm and, because of mandatory partner rotation requirements, were in charge of the audit of Wareham, Inc. (a client ABC has audited for several years). Participants were instructed that this was their first time auditing Wareham and that they would be the only audit partner on the engagement team. Also, participants were provided a short background about Wareham (i.e., Wareham is a retailer of consumer electronics, is a major client for the office, and generates an audit fee significant to the office).

The third section provided participants with a more thorough summary of Wareham's operations, organizational structure, management personnel, board of directors, and internal audit department. The fourth section informed participants that ABC had audited Wareham every year since it went public in 1991, consistently issued standard, unqualified audit reports and internal control opinions, and had not yet determined fees for the upcoming year's audit.

### *Independent Variable Manipulation*

The fifth section of the case presented participants with the salience manipulation through a summary of a recent conversation that the office managing partner (OMP) had with the participant about the upcoming Wareham audit. In the control condition, the OMP reminded the participant that ABC has forged a strong professional relationship with Wareham over the years,

Wareham is an important client in ABC's portfolio, and the inventory valuation allowance likely will be a topic of discussion because of the nature of Wareham's industry.

The high Inspection salience condition and the high IQR salience condition both contained the same dialogue about the upcoming Wareham audit as the control condition, but these two conditions interjected the salience manipulations within the conversation. Specifically, in the high Inspection salience condition, the OMP briefly described an Inspection, and reminded the participant that it has been two years since the PCAOB inspected the participant's local office. The OMP also stated that, while he is not positive that the Wareham audit will be selected for an Inspection (because the PCAOB makes that decision), he suggests that the participant plan the upcoming Wareham audit as if it were going to be selected for an Inspection.

The high IQR salience condition was very similar to the high Inspection salience condition, but instead focused on IQR salience. Specifically, the OMP first defined an IQR as a review of a completed audit that is performed by teams drawn from within ABC to assess the quality of the work and highlight common issues or trends that might require firm-wide education or rectification. Next, the OMP stated that, while he was not positive that the Wareham audit would be selected for an IQR (because others within the firm make that decision), he suggests that that the participant plan the upcoming Wareham audit as if it were going to be selected for an IQR.

The operationalization of Inspection and IQR salience was chosen specifically to increase external validity. That is, suggesting that an audit should be planned in anticipation of an Inspection or IQR, without indicating that it *will* be selected for a post-audit review, provides the benefits of making participants aware of the possibility of an Inspection or IQR without imposing an unrealistic probability. Further, Houston and Stefaniak (2009) find that 63 (62)

percent of their respondents can or try to anticipate which engagements will be selected for IQR (Inspection), providing a justification for manipulating the salience of both IQR and Inspection.

#### *Control and Dependent Variable Questions*

The sixth section, which was identical in all conditions, contained Wareham's unaudited income statement and balance sheet. Participants were asked to set planning materiality for the Wareham audit, as well as assess Wareham's operating performance and financial condition. Between the sixth and seventh sections, participants were instructed on two important points. First, that the questions on the next three pages asked them to assess some aspect of Wareham or its audit on a scale ranging from "Much Lower than Normal" to "Much Higher than Normal". Participants were instructed to define "normal" as a typical publicly-held audit client of a size similar to Wareham (i.e., sales of around \$1 billion) with which they were familiar.<sup>3</sup>

Additionally, participants were informed that they could review the financial statements by clicking a button labeled "Review Financial Statements". If clicked, the participant would be presented with Wareham's financial statements. Once the participant had finished reviewing the financial statements, participants would be returned to the referring page, with answers intact.

The seventh section of the case starts a three-page portion of the case including questions related to the planning of the Wareham audit. For each page in this section, participants were unable to progress to the next page until they responded to all questions on the page. The first

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<sup>3</sup> Asking questions relative to a "normal" audit was intended to maximize variance in responses. That is, by asking questions relative to normal, participants had some flexibility in their responses for questions that otherwise would typically approach the scale end-points. For example, the likelihood that the participant would emphasize proper documentation on a scale from "Very Unlikely" to "Very Likely" would most likely yield a normative response around the "Very Likely" endpoint (leaving little room for participants to indicate a "more than normal" amount of documentation emphasis). However, by asking questions relative to "normal", the normative response ought to center on the scale mid-point, and allow response variance to increase and decrease more freely.

page asked participants to assess acceptable audit risk, risk of material misstatement, fraud risk, litigation risk and overall risk.

Some risk questions were asked to control for specific issues related to manipulating the salience of a post audit review. For example, risk of material misstatement investigates the effects of post-audit review salience on perceived risk that a material misstatement exists in the client's unaudited financial statements. Existing literature suggests that both Inspections (PCAOB, 2008) and IQRs (Houston and Stefaniak, 2009) target riskier clients.

Because auditors typically are aware of this focus on riskier clients (Houston and Stefaniak, 2009), the possibility exists that the salience of an Inspection or IQR could increase auditors' risk perceptions because audits chosen for Inspection or IQR could be perceived to be more complicated or possess a higher risk of material misstatement. Interpreting the results of differences in audit planning decisions would be more difficult if participants perceived differences in risk of material misstatement because participants in the control condition and the post-audit review salience conditions would be planning audits for financial statements with different perceived risk levels. However, if no difference exists in perceptions of risk of material misstatement, the results of audit planning decisions will be more easily interpreted.

The other auditing planning questions related to staffing and planning decisions. Specifically, participants were asked to estimate the timing of audit tests (i.e., interim or year-end), extent of audit tests (i.e., substantive testing), partner time, non-partner staffing, review time, concurring partner review time, proper documentation emphasis, reliance on internal audit, estimated budgeted hours, and estimated audit fees.

The next section of the case contained questions about the case in general, including a manipulation check question that examined whether the salience of post-audit review was

adequately manipulated. Finally, participants were asked about case realism and understandability, as well as several demographic questions. The final page thanked participants for their participation in the case, and provided space for any comments they would like to provide.

## V. RESULTS

### Manipulation Checks and Related Issues

To examine whether the salience of the post-audit review was adequately manipulated, participants in the Inspection (IQR) salient condition were asked, “During your conversation, did the office managing partner suggest that you plan the upcoming Wareham audit as if it were going to be selected for a PCAOB Inspection (IQR)?” For the control condition, participants were asked, “During your conversation, did the office managing partner suggest that you plan the upcoming Wareham audit as if it were going to be selected for a PCAOB Inspection or an Internal Quality Review (i.e., performed by others within your firm)?” All conditions responded to the question with either a “yes” or a “no” response.

Of the 63 responses received, 56 (89 percent) passed the manipulation check. For conservatism, participants who failed the manipulation check, as well as two participants who took significantly longer to complete the case compared to other respondents were excluded from statistical analyses, leaving 54 responses for hypothesis testing.<sup>4</sup> Table 1 provides demographics for participants used in hypothesis testing.

[Please insert Table 1 about here]

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<sup>4</sup> Results were unaffected if participants who failed manipulation checks were not eliminated. Additionally, time to complete each section of the case was recorded. Two responses were removed from hypothesis testing because the overall completion time was too large. Specifically, the two responses that were removed took 204 minutes and 103 minutes to complete the case, while the mean completion time for responses used in hypothesis testing was 28 minutes. Results were qualitatively similar if these two participants were not eliminated.

Participants consisted of 11 partners, 20 senior managers, 18 managers, and 5 seniors.<sup>5</sup> On average, each participant had approximately 11 years of experience. Participants in the control condition were marginally more experienced ( $M_{CONTROL} = 13.00$ ,  $M_{IQR} = 9.39$ ,  $p = 0.10$ , two-tailed) and older ( $M_{CONTROL} = 37.05$ ,  $M_{IQR} = 32.61$ ,  $p = 0.05$ , two-tailed) than the IQR condition; however, no demographic data differed between the control condition and the Inspection condition or between the Inspection condition and the IQR condition.

Additionally, 78 percent of all participants had been reviewed as part of their firm's IQR process, and 79 percent had been inspected by the PCAOB.<sup>6</sup> Overall, participants viewed the scenario as realistic ( $M = 8.06$  on an eleven-point scale with "1 = not at all realistic" and "11 = very realistic") and understandable ( $M = 8.93$  on an eleven-point scale with "1 = not at all understandable" and "11 = very understandable").

### **Descriptive Summary and Correlations – Audit Fees**

Table 2 presents a summary of all variables in the audit planning section of the case, including t-test comparisons among conditions. The data are presented in five categories – (1) control condition responses, (2) aggregate post-audit review condition responses, (3) Inspection condition responses, (4) IQR condition responses, and (5) all responses.<sup>7</sup> Additionally, Table 3 presents the correlations among the audit planning variables.<sup>8</sup>

[Please insert Table 2 about here]

[Please insert Table 3 about here]

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<sup>5</sup> Each of the audit seniors were included by our contacts because they are rising managers. Primary results were unaffected if audit senior participants were removed from the analysis.

<sup>6</sup> Primary results were qualitatively unaffected by removing participants without any public clients, without IQR experience, and without PCAOB inspection experience. Additional analyses also suggest that differences in experience did not affect any of the results.

<sup>7</sup> Responses from the high PCAOB Inspection salience condition and the high IQR salience condition were combined to create an aggregate high Post-Audit Review salience condition.

<sup>8</sup> Because there was a difference in the perceived financial condition of Wareham between the Inspection and Control condition, ANCOVAs were performed. Results were found to be robust to perceived financial condition.

## **Primary Analysis**

### *Hypothesis 1 – Substantive Testing*

Four separate t-tests were conducted for each hypothesis test. We test the hypotheses by comparing the high Post-Audit Review salience condition (i.e., the aggregated responses from the Inspection and IQR salient conditions) and the control condition. This comparison provides a high-level understanding of auditors' decisions when post-audit review is salient. Second, we compared the control condition and the high PCAOB Inspection salience condition, as well as the control condition and the high IQR salience condition. These comparisons provide a detailed understanding of the effects of both PCAOB Inspection salience and IQR salience on auditor decisions. Finally, we compared the high PCAOB Inspection salience condition and the high IQR salience condition to explore whether the effects of Inspection and IQR salience differ.

Hypothesis 1 predicts that increased post-audit review salience will result in increased estimated substantive testing effort. Consistent with H1, we find that post-audit review salience ( $M = 6.56$ ) significantly increases auditors' substantive testing levels compared to the control condition ( $M = 5.61$ ,  $p < 0.01$ , one-tailed). Further analysis reveals that this difference holds for both the Inspection salient condition ( $M = 6.78$ ,  $p < 0.01$ , one-tailed), and the IQR salient condition ( $M = 6.33$ ,  $p = 0.03$ , one-tailed). Finally, we find no significant difference between auditors' substantive testing levels between the Inspection salient condition and the high IQR salience condition ( $p = 0.145$ , two-tailed). Panels A and B of Table 4 present the descriptive statistics and t-tests for substantive testing, respectively.

[Please insert Table 4 about here]

### *Hypothesis 2 – Audit Fees*

Hypothesis 2 predicts that increased post-audit review salience will result in increased audit fees. Panels A and B of Table 5 presents descriptive statistics and t-tests for auditors' estimated audit fees, respectively. Consistent with H2, we find that audit fees are significantly greater for high post-audit review salience ( $M = 6.47$ ) than the control condition ( $M = 5.94$ ,  $p < 0.01$ , one-tailed). Additionally, we find a significant difference between both the Inspection salient condition ( $M = 6.56$ ) and the control condition ( $p < 0.01$ , one-tailed), as well as between the IQR salient condition ( $M = 6.39$ ) and the control condition ( $p = 0.02$ , one-tailed). Again, we find no difference between the Inspection and the IQR condition ( $p=0.167$ , two-tailed).

[Please insert Table 5 about here]

### *Hypothesis 3 – Post-Audit Review Salience Mediation Analysis*

Hypothesis 3 predicts a mediating relationship among post-audit review salience, substantive testing, and audit fees. Specifically, H3 predicts that the salience of a post-audit review will increase audit fees through its effect on auditors' estimated substantive testing. We analyze the mediating relationship using Baron and Kenny's (1986) mediation methodology. That is, a full mediating relationship will be demonstrated if four conditions are met: (1) post-audit review salience (*PAR*) significantly influences estimated audit fees (*FEES*), (2) post-audit review salience significantly influences substantive testing levels (*EFFORT*), (3) *EFFORT* significantly influence *FEES* independently, and (4) when *EFFORT* is included in the model, the effect of *PAR* on *FEES* becomes insignificant. We present the resulting coefficients of these regressions and their significance levels in Panels A and B of Table 6.

[Please insert Table 6 about here]

We find that Condition 1 is met as the coefficient for *PAR* is significant when the mediator is not included in the model ( $p < 0.01$ , two-tailed). Further, Condition 2 is met as *PAR* also significantly influences *EFFORT* ( $p < 0.01$ , two-tailed) and Condition 3 is met as *EFFORT* significantly influences *FEES* independently ( $p < 0.01$ , two-tailed). Finally, full mediation is indicated as the effect of *EFFORT* on *FEES* remains significant ( $p < 0.01$ , two-tailed), while the effect of *PAR* on *FEES* becomes insignificant ( $p = 0.129$ , two-tailed).<sup>9</sup>

We conducted additional testing to explore whether the mediating effect of substantive testing held in both the Inspection and IQR salient conditions independently. Tables 7 and 8 present mediation analyses for each Inspection and IQR salient conditions, respectively. We find a mediating effect of substantive testing in the Inspection salient condition, and a marginally significant mediating effect of substantive testing in the IQR salient condition.

[Please insert Table 7 about here]

[Please insert Table 8 about here]

## **Supplemental Analyses**

### *Risk of Material Misstatement Analysis*

Recall that we elicited perceptions of risk of material misstatement to investigate the effects of post-audit review salience because existing literature suggests that both Inspections (PCAOB, 2008) and IQRs (Houston and Stefaniak, 2009) target riskier clients. The potential exists that the mere possibility of an Inspection or IQR could increase the perceived risk of material misstatement on a client's financial statements because audits chosen for Inspection or IQR could be perceived to be more complicated or at a higher risk for fraud. However, we find

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<sup>9</sup> Sobel ( $p = 0.009$ , two-tailed), Aroian ( $p = 0.011$ , two-tailed), and Goodman ( $p = 0.009$ , two-tailed) tests, which indicate whether a mediator carries the influence of an independent variable to a dependent variable, all indicate successful mediation.

that, across all conditions, auditors assessed statistically equivalent risk of material misstatement, with an average risk of material misstatement that approximates normal ( $M = 5.74$ ).

### *Documentation Effort*

We find that auditors are aware of the emphasis the PCAOB places on documentation. Specifically, we find that high post-audit review salience ( $M = 8.00$ ) significantly increases auditors' estimated emphasis on proper documentation compared to the control condition ( $M = 6.89$ ,  $p < 0.01$ , two-tailed). We also find that this effect holds for both the Inspection salient condition ( $M = 8.28$ ,  $p < 0.01$ , two-tailed), and the IQR salient condition ( $M = 7.72$ ,  $p = 0.05$ , two-tailed). Finally, we find no difference between auditors' emphasis on proper documentation between the Inspection salient condition and the IQR salient ( $p = 0.192$ , two-tailed). Panels A and B of Table 9 present the descriptive statistics for emphasis on proper documentation, as well as related t-tests, respectively.

[Please insert Table 9 about here]

## **VI. CONCLUSIONS**

### **Implications**

We report the results of an experiment that examines the effects of post-audit review salience on auditors planning reporting decisions. We hypothesize and find that auditors increase substantive testing and charge higher audit fees when the possibility of either a PCAOB Inspection or Internal Quality Review is salient. We also find that substantive testing mediates the effect of post-audit review salience on audit fees. Accordingly, we contend that the effect of post-audit review salience on audit fees is attributable to its influence on substantive testing.

This paper provides two primary contributions to the literature. First, we provide initial evidence that the salience of a post-audit review can influence both audit planning decisions and

total fees charged to the client. Second, these results provide relevant experimental evidence to accounting researchers, audit firms, and regulators who are interested in evaluating the effectiveness of the two primary types of post-audit reviews currently employed by the accounting profession to monitor its adherence to regulatory requirements and firm methodologies – PCAOB Inspections and Internal Quality Reviews.

Given Houston and Stefaniak's (2009) findings that the majority of auditors can or try to anticipate the audits that will be subject to post-audit reviews, our findings indicate a potential loss of utility from the Inspection and IQR processes. That is, if auditors are able to anticipate the audits that will be subject to post-audit reviews, and modify their audit planning decisions accordingly, then the ensuing post-audit review is not capturing a true sample of an engagement team's performance. Consequently, the decisions formed based on the results of the post-audit review (e.g., firm-wide training initiatives and rectification actions) potentially focus on the wrong areas, or potentially will not emphasize a particular issue, because of the extra effort put forth by the engagement team on the audit was not indicative of a normal audit.

### **Future research opportunities**

While this study provides a preliminary investigation of the effects of post-audit reviews on audit planning decisions and audit fees, future research could continue to investigate the effects of post-audit reviews. Specifically, researchers might consider investigating the effects of Inspections on small audit firms (where the client issuer and year of Inspection might be even more easily anticipated). Additionally, future research could investigate the IQR selection process, lower-level auditors' perceptions of the process, or firms' usage of IQR results.

## **Limitations**

The results of this study should be considered in light of the following limitations. First, best efforts have been made to manipulate IQR and Inspection salience in as realistic a manner as possible. We understand that engagements are quasi-randomly chosen by the PCAOB, and that the engagements they choose can be difficult to anticipate. However, Houston and Stefaniak's (2009) findings provide survey evidence that auditors, to some extent, can anticipate both PCAOB Inspections and IQRs. Additionally, the case was written as efficiently as possible in order to maximize response rates. Accordingly, participants were not presented with the amount of evidence they might be accustomed to, but should have been able to make reasonable estimates based upon the information provided.

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**Table 1**  
**Demographic Summary**

**Panel A: Demographics by Position**

	<b>Sr.</b>				
	<b>Senior</b>	<b>Manager</b>	<b>Manager</b>	<b>Partner</b>	<b>All</b>
<b>n</b>	5	18	20	11	54
<b>Experience</b>	4.00	7.28	11.30	19.55	10.96
<b>(SD)</b>	(0.71)	(1.64)	(3.26)	(5.66)	(5.94)
<b>Females</b>	2	6	5	3	16
<b>Males</b>	3	12	15	8	38

**Panel B: Mean (SD) [median] Demographics by Condition**

	<b>Control</b>	<b>Post-Audit</b>	<b>PCAOB</b>	<b>Internal</b>	<b>All</b>
	<b>Condition</b>	<b>Review</b>	<b>Inspection</b>	<b>Quality Review</b>	<b>Conditions</b>
<b>n</b>	18	36	18	18	54
<b>Age</b>	37.05	32.97**	33.35	32.61**	34.11
	(7.89)	(4.59)	(4.55)	(4.74)	(6.37)
<b>Experience</b>	13.00	9.94*	10.50	9.39*	10.77
	(7.63)	(4.68)	(4.57)	(4.85)	(6.10)
<b>Public</b>	2.11	1.42	1.58	1.27	1.53
<b>Clients</b>	(1.74)	(1.46)	(0.91)	(1.81)	(1.23)
	[2.00]	[1.00]	[1.00]	[1.00]	[1.00]

**Panel C: Count (%) of IQR and PCAOB Inspection Experience by Condition**

	<b>Control</b>	<b>Post-Audit</b>	<b>PCAOB</b>	<b>Internal Quality</b>	<b>All Conditions</b>
	<b>Condition</b>	<b>Review</b>	<b>Inspection</b>	<b>Review</b>	
<b>n</b>	18	36	18	18	54
<b>IQR</b>	16	26	14	12	42
<b>Experience</b>	(89%)	(72%)	(78%)	(67%)	(78%)
<b>Inspection</b>	15	28	13	15	43
<b>Experience</b>	(83%)	(77%)	(72%)	(83%)	(79%)

\*\*\*, \*\*, \* Condition mean is significantly different from Control Condition (p < 0.01, p < 0.05, p < 0.10, two-tailed, respectively)

†††, ††, † PCAOB Inspection and IQR Condition means are significantly different for the variable (p < 0.01, p < 0.05, p < 0.10, two-tailed, respectively)

**Table 2**  
**Descriptive Summary [Means (SD)] of Audit Planning Decisions**

	<b>Control Condition</b>	<b>Post-Audit Review</b>	<b>PCAOB Inspection</b>	<b>Internal Quality Review</b>	<b>All Conditions</b>
<b>Materiality</b>	\$2,485,556 (\$828,771)	\$2,298,056 (\$873,393)	\$2,399,444 (\$639,517)	\$2,196,667 (\$1,067,592)	\$2,360,556 (\$855,582)
<b>Operating Performance</b>	8.00 (1.28)	7.64 (1.40)	7.56 (1.58)	7.72 (1.23)	7.76 (1.36)
<b>Financial Condition</b>	8.56 (1.38)	7.94* (1.09)	7.89* (0.90)	8.00 (1.28)	8.15 (1.22)
<b>Acceptable Audit Risk</b>	5.83 (1.20)	6.17 (1.78)	6.28 (1.41)	6.06 (2.13)	6.06 (1.61)
<b>Risk of Material Misstatement</b>	5.83 (1.34)	5.69 (1.26)	5.44 (0.92)	5.94 (1.51)	5.74 (1.28)
<b>Fraud Risk</b>	6.11 (1.28)	6.11 (1.47)	6.11 (1.49)	6.11 (1.49)	6.11 (1.40)
<b>Litigation Risk</b>	5.22 (1.35)	5.67 (1.12)	5.72 (1.02)	5.61 (1.24)	5.52 (1.21)
<b>Overall Risk</b>	5.61 (1.14)	6.17 (1.16)	6.28** (0.67)	6.06 (1.51)	5.98 (1.17)
<b>Interim Work</b>	6.28 (1.13)	6.64 (1.55)	6.50 (1.76)	6.78 (1.35)	6.52 (1.42)
<b>Substantive Testing</b>	5.61 (1.38)	6.56*** (0.91)	6.78*** (0.94)	6.33** (0.84)	6.24 (1.16)
<b>Partner Time</b>	7.06 (1.16)	7.14 (1.38)	7.22 (1.44)	7.06 (1.35)	7.11 (1.30)
<b>Non-Partner Time</b>	6.56 (0.92)	6.89 (1.39)	6.94 (1.51)	6.83 (1.29)	6.78 (1.25)
<b>Review Time</b>	6.39 (0.70)	6.86 (1.10)	7.17*** (0.92)	6.56 (1.20)	6.70 (1.00)
<b>Concurring Partner Review</b>	5.89 (1.02)	6.42* (1.11)	6.50* (0.79)	6.33 (1.37)	6.24 (1.10)
<b>Audit Documentation</b>	6.89 (1.18)	8.00*** (1.26)	8.28*** (1.23)	7.72** (1.27)	7.63 (1.34)
<b>Internal Audit</b>	6.50 (1.25)	6.19 (0.98)	6.22 (0.88)	6.17 (1.10)	6.30 (1.08)
<b>Budgeted Hours</b>	6.28 (0.83)	6.72* (0.74)	6.89** (0.76)	6.56 (0.70)	6.57 (0.79)
<b>Audit Fees</b>	5.94 (0.64)	6.47*** (0.61)	6.56*** (0.62)	6.39** (0.61)	6.30 (0.66)

All variables, except Materiality are measured on an eleven-point Likert-type scale with (1) = "Much Lower than Normal" and (11) = "Much Higher than Normal". Variables defined in Table 3  
\*\*\*, \*\*, \* Condition mean is significantly different (p < 0.01, p < 0.05, p < 0.10, respectively) from Control Condition. All p-values are two-tailed except for Substantive Testing, Litigation Risk (Inspection only), and Audit Fees, which were hypothesized.  
†††, ††, † PCAOB Inspection and IQR Condition means are significantly different for the variable (p < 0.01, p < 0.05, p < 0.10, two-tailed, respectively)

**Table 3**  
**Correlation Matrix**

	OM	OP	FC	AAR	RMM	FR	LR	OR	IW	ST	PT	NPT	RT	CPR	AD	IA	BH	AF
OM		0.12	0.19	0.11	0.01	-0.09	-0.04	-0.12	-0.10	0.01	0.13	0.08	0.05	-0.08	0.16	0.05	-0.08	-0.12
OP	0.12		0.53*	-0.04	-0.04	-0.06	-0.11	-0.27†	0.40*	-0.18	0.05	0.10	0.04	-0.01	-0.02	0.14	-0.24‡	-0.09
FC	0.19	0.53*		0.04	-0.12	-0.02	-0.18	-0.16	0.10	-0.37*	-0.02	-0.03	-.07	-0.04	-0.20	0.35*	-0.29†	-0.24‡
AR	0.11	-0.04	0.04		0.04	-0.10	-0.17	-0.14	-0.03	0.04	-0.32†	-0.13	-0.26‡	-0.32†	-0.21	0.02	-0.16	-0.12
RMM	0.01	-0.04	-0.12	0.04		0.16	0.25‡	0.39*	-0.05	0.21	-0.05	0.07	-0.06	0.15	0.12	-0.16	0.11	0.11
FR	-0.09	-0.06	-0.02	-0.10	0.16		0.46*	0.67*	0.07	0.44*	0.49*	0.48*	0.47*	0.55*	0.33†	-0.02	0.52*	0.29†
LR	-0.04	-0.11	-0.18	-0.17	0.25‡	0.46*		0.69*	-0.09	0.47*	0.3†	0.35*	0.28†	0.54*	0.26‡	-0.11	0.47*	0.44*
OR	-0.12	-0.27†	-0.16	-0.14	0.39*	0.67*	0.69*		-0.04	0.51*	0.42*	0.43*	0.43*	0.63*	0.37*	-0.22	0.62*	0.37*
IW	-0.10	0.40*	0.10	-0.03	-0.05	0.07	-0.09	-0.04		-0.01	0.06	0.22	0.00	0.04	0.20	-0.03	0.13	-0.05
ST	0.01	-0.18	-0.37*	0.04	0.21	0.44*	0.47*	0.51*	-0.01		0.52*	0.46*	0.51*	0.56*	0.43*	-0.34†	0.69*	0.57*
PT	0.13	0.05	-0.02	-0.32†	-0.05	0.49*	0.3†	0.42*	0.06	0.52*		0.71*	0.59*	0.62*	0.46*	-0.24‡	0.65*	0.47*
NPT	0.08	0.10	-0.03	-0.13	0.07	0.48*	0.35*	0.43*	0.22	0.46*	0.71*		0.64*	0.45*	0.48*	-0.19	0.59*	0.49*
RT	0.05	0.04	-0.07	-0.26‡	-0.06	0.47*	0.28†	0.43*	0.00	0.51*	0.59*	0.64*		0.51*	0.54*	-0.25‡	0.65*	0.62*
CPR	-0.08	-0.01	-0.04	-0.32†	0.15	0.55*	0.54*	0.63*	0.04	0.56*	0.62*	0.45*	0.51*		0.45*	-0.25‡	0.58*	0.44*
AD	0.16	-0.02	-0.20	-0.21	0.12	0.33†	0.26‡	0.37*	0.20	0.43*	0.46*	0.48*	0.54*	0.45*		-0.32†	0.54*	0.51*
IA	0.05	0.14	0.35*	0.02	-0.16	-0.02	-0.11	-0.22	-0.03	-0.34†	-0.24‡	-0.19	-0.25‡	-0.25‡	-0.32†		-0.36*	-0.26‡
BH	-0.08	-0.24‡	-0.29†	-0.16	0.11	0.52*	0.47*	0.62*	0.13	0.69*	0.65*	0.59*	0.65*	0.58*	0.54*	-0.36*		0.61*
AF	-0.12	-0.09	-0.24‡	-0.12	0.11	0.29†	0.44*	0.37*	-0.05	0.57*	0.47*	0.49*	0.62*	0.44*	0.51*	-0.26‡	0.61*	

\*, †, ‡ Correlation is significant at the 0.01, 0.05, 0.10 level (2-tailed), respectively.

M = Materiality, OP = Operating Performance, FC = Financial Condition, AAR = Acceptable Audit Risk, RMM = Risk of Material Misstatement, FR = Fraud Risk, LR = Litigation Risk, OR = Overall Risk, IW = Interim Work, ST = Substantive Testing, PT = Partner Time, NPT = Non-Partner Time, RT = Review Time, CPR = Concurring Partner Review Time, AD = Audit Documentation = IA = Internal Audit, BH = Budgeted hours, AF = Audit Fees

All variables except Operating Performance and Financial condition are measured on a scale from (1) = "Much Lower than Normal" to (11) = "Much Higher than Normal and (6) = "Normal". *Operating Performance* = Assess Wareham's operating performance for 2008 (1= "Very Weak" to 11 = "Very Strong). *Financial Condition* = Assess Wareham's financial condition for 2008 (1= "Very Weak" to 11 = "Very Strong). *Acceptable Audit Risk* = For the Wareham audit, what is the risk you are willing to accept that your firm will render an unqualified opinion on financial statements that are materially misstated? *Risk of Material Misstatement* = What is the overall risk that Wareham's unaudited financial statements contain a material misstatement? *Fraud Risk* = How much time would you devote to the fraud risk assessment process (e.g., brainstorming)? *Litigation Risk* = Assess your firm's exposure to litigation associated with the Wareham audit engagement. *Overall Risk* = What is the overall risk associated with the Wareham audit engagement? *Interim Work* = Estimate the extent to which you would perform substantive tests of balances before year-end (i.e., at interim dates). *Substantive Testing* = Estimate the extent of substantive testing necessary to audit Wareham. *Partner Time* = How much time would you budget for yourself on the Wareham audit? *Non-Partner Time* = Estimate the extent to which you would assign more experienced auditors to the Wareham audit. *Review Time* = Estimate the amount of time you would budget for the review process (e.g., seniors reviewing staff work). *Concurring Partner Review* = How much time do you think the concurring partner will spend reviewing the Wareham audit? *Audit Documentation* = Estimate the extent to which you would emphasize proper documentation on the Wareham audit. *Internal Audit* = Estimate the extent to which you would rely on work performed by Wareham's internal auditors. *Budgeted Hours* = Estimate the total budgeted hours for the Wareham audit engagement. *Audit Fees* = Estimate the total audit fees for the Wareham audit engagement

**Table 4**  
**The Effect of Post-Audit Review Saliency on Estimate Extent of Substantive Testing**

**Panel A: Estimated Extent of Substantive Testing Descriptive Summary**

	<i><u>Control Condition</u></i>	<i><u>High Post-Audit Review Saliency</u></i>	<i><u>High PCAOB Inspection Saliency</u></i>	<i><u>High Internal Quality Review Saliency</u></i>
<i>Mean</i>	5.61	6.56	6.78	6.33
<i>(SD)</i>	(1.38)	(0.91)	(0.94)	(0.84)
<i>[n]</i>	[18]	[36]	[18]	[18]

**Panel B: Estimated Extent of Substantive Testing Comparisons**

<i><u>Comparison</u></i>	<i><u>t-statistic</u></i>	<i><u>p-value*</u></i>
Control vs. High Post-Audit Review Saliency	-3.02	0.002
Control vs. PCAOB Inspection	-2.97	0.003
Control vs. Internal Quality Review	-1.90	0.033
PCAOB Inspection vs. Internal Quality Review	0.39	0.145

\* All p-values one-tailed except for Inspection vs. IQR comparison

Variable Coding:

*Estimated Extent of Substantive Testing* = Estimate the extent of substantive testing necessary to audit Wareham (1 = "Much Lower than Normal" to 11 = "Much Higher than Normal")

*High Post-Audit Review Saliency* = Aggregate responses from High PCAOB Inspection Saliency and High Internal Quality Review Saliency conditions

*High PCAOB Inspection Saliency* = Participants were instructed to plan the audit as if it were going to be inspected by the PCAOB as part of a PCAOB inspection

*High Internal Quality Review Saliency* = Participants were instructed to plan the audit as if it were going to be reviewed by another partner as part of an internal quality review

**Table 5**  
**The Effect of Post-Audit Review Saliency on Audit Fees**

**Panel A: Audit Fees Descriptive Summary**

	<u>Control Condition</u>	<u>High Post-Audit Review Saliency</u>	<u>High PCAOB Inspection Saliency</u>	<u>High Internal Quality Review Saliency</u>
<i>Mean</i>	5.94	6.47	6.56	6.39
<i>(SD)</i>	(0.15)	(0.10)	(0.62)	(0.61)
<i>[n]</i>	[18]	[36]	[18]	[18]

**Panel B: Audit Fees Comparisons**

<u>Comparison</u>	<u>t-statistic</u>	<u>p-value*</u>
Control vs. High Post-Audit Review Saliency	-2.95	0.003
Control vs. PCAOB Inspection	-2.92	0.003
Control vs. Internal Quality Review	-2.14	0.020
PCAOB Inspection vs. Internal Quality Review	0.82	0.167

\* All p-values one-tailed except for Inspection vs. IQR comparison

Variable Coding:

*Audit Fees* = Estimate the total audit fees for the Wareham audit engagement (1 = "Much Lower than Normal" to 11 = "Much Higher than Normal")

*High Post-Audit Review Saliency* = Aggregate responses from High PCAOB Inspection Saliency and High Internal Quality Review Saliency conditions

*High PCAOB Inspection Saliency* = Participants were instructed to plan the audit as if it were going to be inspected by the PCAOB as part of a PCAOB inspection

*High Internal Quality Review Saliency* = Participants were instructed to plan the audit as if it were going to be reviewed by another partner as part of an internal quality review

**Table 6**  
**Mediation Test Results for Post-Audit Review Salience,  
 Substantive Testing Level, Overall Risk, and Budgeted Hours on Audit Fees**

**Panel A: Independent Regression Equations (n = 54)**

<u>Dependent Variable</u>	<u>Independent Variable</u>	<u>Intercept</u>	<u>Coefficient</u>	<u>p-value (two-tailed)</u>
<i>FEES</i>	<i>PAR</i>	5.94	0.53	0.005
<i>EFFORT</i>	<i>PAR</i>	5.61	0.94	0.004
<i>FEES</i>	<i>EFFORT</i>	4.29	0.32	<0.001

**Panel B: Regressing *PAR*, *EFFORT*, *RISK*, and *HOURS* on *FEES* (n=54)**

<u>Independent Variable</u>	<u>Coefficient</u>	<u>p-value (two-tailed)</u>
Intercept	4.37	<0.001
<i>PAR</i>	0.28	0.129
<i>EFFORT</i>	0.26	<0.001

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Variable Coding: *PAR*, Post-Audit Review Salience, is measured as either 0 (Control Condition) or 1 (High PCAOB Inspection or Internal Quality Review Salience). *FEES* (Estimated Audit Fees) and *EFFORT* (Substantive Testing Level) are defined in Table 3.

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**Table 7**  
**Mediation Test Results for PCAOB Inspection Saliency,  
 Substantive Testing Level, Overall Risk, and Budgeted Hours on Audit Fees**

**Panel A: Independent Regression Equations (n = 36)**

<u>Dependent Variable</u>	<u>Independent Variable</u>	<u>Intercept</u>	<u>Coefficient</u>	<u>p-value (two-tailed)</u>
<i>FEES</i>	<i>PCAOB</i>	5.94	0.61	0.006
<i>EFFORT</i>	<i>PCAOB</i>	5.61	1.17	0.006
<i>FEES</i>	<i>EFFORT</i>	4.15	0.34	<0.001

**Panel B: Regressing *PAR*, *EFFORT*, *RISK*, and *HOURS* on *FEES* (n=36)**

<u>Independent Variable</u>	<u>Coefficient</u>	<u>p-value (two-tailed)</u>
Intercept	4.31	<0.001
<i>PCAOB</i>	0.27	0.183
<i>EFFORT</i>	0.29	0.001

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Variable Coding: *PCAOB*, measured as 0 (Control Condition) or 1 (High PCAOB Inspection Saliency). *FEES* (Estimated Audit Fees) and *EFFORT* (Substantive Testing Level) are defined in Table 3.

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**Table 8**  
**Mediation Test Results for Internal Quality Review Salience,  
 Substantive Testing Level, Overall Risk, and Budgeted Hours on Audit Fees**

**Panel A: Independent Regression Equations (n = 36)**

<u>Dependent Variable</u>	<u>Independent Variable</u>	<u>Intercept</u>	<u>Coefficient</u>	<u>p-value (two-tailed)</u>
<i>FEES</i>	<i>IQR</i>	5.94	0.44	0.040
<i>EFFORT</i>	<i>IQR</i>	5.61	0.72	0.066
<i>FEES</i>	<i>EFFORT</i>	4.31	0.31	<0.001

**Panel B: Regressing *PAR*, *EFFORT*, *RISK*, and *HOURS* on *FEES* (n=36)**

<u>Independent Variable</u>	<u>Coefficient</u>	<u>p-value (two-tailed)</u>
Intercept	4.38	<0.001
<i>IQR</i>	0.24	0.211
<i>EFFORT</i>	0.27	0.002

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Variable Coding: *IQR*, measured as 0 (Control Condition) or 1 (High Internal Quality Review Salience). *FEES* (Estimated Audit Fees) and *EFFORT* (Substantive Testing Level) are defined in Table 3.

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**Table 9**  
**The Effect of Post-Audit Review Salience on Proper Documentation Emphasis**

**Panel A: Proper Documentation Emphasis Descriptive Summary**

	<u>Control Condition</u>	<u>High Post-Audit Review Salience</u>	<u>High PCAOB Inspection Salience</u>	<u>High Internal Quality Review Salience</u>
<i>Mean</i>	6.89	8.00	8.28	7.72
<i>(SD)</i>	(1.18)	(1.26)	(1.23)	(1.27)
<i>[n]</i>	[18]	[36]	[18]	[18]

**Panel B: Proper Documentation Emphasis Comparisons**

<u>Comparison</u>	<u>t-statistic</u>	<u>p-value (two-tailed)</u>
Control vs. High Post-Audit Review Salience	-3.11	0.003
Control vs. PCAOB Inspection	-3.45	0.001
Control vs. Internal Quality Review	-2.03	0.050
PCAOB Inspection vs. Internal Quality Review	1.33	0.192

Variable Coding:

*Documentation Emphasis* = Estimate the extent to which you would emphasize proper documentation on the Wareham audit (1 = "Much Lower than Normal" to 11 = "Much Higher than Normal")

*High Post-Audit Review Salience* = Aggregate responses from High PCAOB Inspection Salience and High Internal Quality Review Salience conditions

*High PCAOB Inspection Salience* = Participants were instructed to plan the audit as if it were going to be inspected by the PCAOB as part of a PCAOB inspection

*High Internal Quality Review Salience* = Participants were instructed to plan the audit as if it were going to be reviewed by another partner as part of an internal quality review