



# THE ABO Reporter

ACCOUNTING, BEHAVIOR AND ORGANIZATIONS SECTION

Fall 2010

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## Greetings from the Editor

Hello ABO Members:

Welcome to the Fall 2010 issue of the ABO Reporter. I hope you had a great semester. We have two interesting articles in this issue along with the regular items. Thanks to the contributors. They are the ones who make the ABO Reporter a success. Don't forget the paper submission of January 5th deadline for the AAA Annual Meeting. Also, be sure to look at the upcoming meetings.

I wish everyone happy holidays and a great new year.

Yours truly,  
Don Kent, Editor

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## 2010-2011 ABO Officers and Committee Chairpersons

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Arizona State University  
School of Accountancy  
PO BOX 873606  
Tempe, AZ 85287-3606  
Phone: 480-965-6498

[Email](#)

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Frank Hodge  
Accounting Department  
University of Washington  
PO Box 353200  
Seattle, WA 98195-3200  
Phone: 206-616-8598

[Email](#)

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Anna Cianci  
Schools of Business  
Kirby Hall  
Wake Forest University  
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Phone: (336) 758-5304

[Email](#)

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School of Business  
Portland State University  
PO Box 751  
Portland, OR 97207-0751  
Phone: 503-725-3729

[Email](#)

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Mississippi State University  
Richard C. Adkerson School of Accountancy  
P.O. Box EF  
Mississippi State, MS 39762  
Phone: 662-325-1637

[Email](#)

### **Nominations Committee Chair**

Elizabeth Almer  
School of Business  
Portland State University  
PO Box 751  
Portland, OR 97207-0751  
Phone: 503-725-3729

[Email](#)

## Council Representatives

Steven E. Kaplan  
Arizona State University  
Phone: 480-965-6498  
[Email](#)

Frank Hodge  
University of Washington  
Phone: 206-616-8598  
[Email](#)

## Editors

### **Journal (*Behavioral Research in Accounting*)**

Theresa Libby  
Accounting Area  
School of Business and Economics  
Wilfrid Laurier University  
Waterloo, ON N2L 3C5  
CANADA  
Phone: 519-884-0710  
[Email](#)

### **Newsletter (*The ABO Reporter*)**

Don Kent  
Department of Business Administration and  
Economics  
SUNY College at Brockport  
350 New Campus Drive  
Brockport, NY 14420-2914  
Phone: 585-395-5521  
[Email](#)

### **Webmaster**

Charles D. Bailey  
School of Accountancy  
200 Fogelman College Admin Bldg  
The University of Memphis  
Memphis, TN 38152-3120  
Phone: 901-678-5614  
[Email](#)

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### **Working Paper Series Coordinator**

John T. Rigsby  
Mississippi State University  
Phone: 662-325-3710  
[Email](#)

### **ABO Awards Committee**

Jacqueline S. Hammersley  
University of Georgia  
Phone: 706-542-3500  
[Email](#)

**Publications Committee**

Bryan Church  
Georgia Tech  
Phone: 404-894-3907

[Email](#)

**2010 ABO Research Conference  
Coordinator**

Kimberly Sawers  
Seattle Pacific University  
Phone: 206-281-2221

[Email](#)

**2010 ABO Research Conference  
Coordinator**

Priscilla Wisner  
University of Tennessee-Knoxville  
Phone: 865-974-4631

[Email](#)

**2011 ABO Research Conference  
Coordinator**

Priscilla Wisner  
University of Tennessee-Knoxville  
Phone: 865-974-4631

[Email](#)<

**2011 ABO Research Conference  
Coordinator**

Cindy Blanthorne  
University of Rhode Island  
Phone: 401-874-4363

[Email](#)

**2010 AAA Annual Meeting Coordinator**

Robin Romanus  
Texas Tech University  
Phone: 806-742-3991

[Email](#)

**2010 AAA Annual Meeting Assistant  
Coordinator**

Pennie Bagley  
Texas Tech University  
Phone: 806-742-2397

[Email](#)

**2011 AAA Annual Meeting Assistant  
Coordinator**

Pennie Bagley  
Texas Tech University  
Phone: 806-742-2397

[Email](#)

**2011 AAA Annual Meeting Assistant  
Coordinator**

Allen Blay  
Florida State University  
Phone: (850) 644-9847

[Email](#)

**AAA Commons Coordinator**

Tom Clausen  
University of Illinois at Springfield  
Phone: 217-206-8366

[Email](#)

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Alfred R. Michenzi  
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[Email](#)

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[Email](#)

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University of South Florida  
Phone: 813-974-6566

[Email](#)

**Western**

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Gonzaga University  
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[Email](#)

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Illinois State University  
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[Email](#)

**Ohio**

Andrew Reffett  
Miami University - Ohio  
Phone: 513-529-6212

[Email](#)

**Southwest**

Janet Samuels  
Arizona State University, West Campus  
Phone: 602-543-6222

[Email](#)

**International Coordinators****Canadian Region**

Susan McCracken  
McMaster University  
Phone: 905-525-9140

[Email](#)

**Australian and New Zealand Region**

Axel K. Schulz  
Monash University  
Phone: 610-399-034786

[Email](#)

**Europe**

John A. Brierley  
Sheffield University  
Phone: +44 114-222-3431

[Email](#)

**Asia**

Neale O'Connor  
University of Hong Kong  
Phone: 852-930-45964

[Email](#)

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# THE ABO Reporter

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## Transitioning from a Long-Time Academic Life to Retirement

Donald F. Arnold, Sr. Ph.D., Professor Emeritus  
School of Management  
Union Graduate College, Schenectady, NY

So you are thinking about retiring? What is that going to be like? After over thirty years serving as a professor of accounting in a setting that I enjoyed and working with colleagues whom I respected, I decided that it was time to consider delegating the responsibilities of my professorship to others and allowing my wife and myself to begin enjoying the TIAA-Cref retirement fund build up. But like most folks who had an active career, I wondered if I was making the right decision. One often hears about the horror stories that retirees experience in going from the daily routine of a rigorous work schedule to a daily questioning of "what do I now do with my life?" Will the abrupt change from full-time teaching to retirement be troublesome?

I started the decision process by listing out the factors that I had enjoyed in my chosen career and questioned how I was going to replace them in my retired years. That list included the presence of the intellectual curiosity and stimulation found in a university setting, working with young people wishing to obtain the skills and knowledge needed to advance in their own career and the desire to be associated with colleagues who had similar goals. If I liked these factors so much, why was I considering retiring? First, I no longer enjoyed the "service work" associated with job (especially with the endless new accreditation requirements of AACSB, Middle-States, CPA program registrations, etc.) Second, there were opportunities I was missing by remaining fully employed such as international travel during the academic year. And third was the need to continue the seemingly endless composition and grading of examinations. So the question became "Was is possible to keep what I liked and escape what I disliked?" This is what I found.

Many colleges now have a phase-out program for faculty members. My college's calendar follows a tri-mester (three 11-week terms) schedule. So for three years, I reduced my teaching to two of the three terms (with an appropriate reduction in salary) followed by two years of teaching in only one of the three terms. As long as I had a planned and approved phase out plan, I was able to start withdrawing funds from my TIAA-Cref retirement account. Therefore, the retirement process was gradual. I highly recommend this approach to anyone. By time I reached the last term, I was ready



to let go of the teaching portion of the profession.

Second, I continued to attend academic conferences but without the need to present a research paper. I accepted the fact that my employer would not be providing me with as much expense reimbursement as I received when I was a full-time faculty member and presenting a research papers. But by eliminating the stress of “gearing up for those presentations”, I was able to enjoy the intellectual curiosity element by simply attending sessions, especially those outside of my own academic sub-field within Accounting. Among other things, I learned how interesting other sub-fields really were. So – did it now cost me more (out of my own pocket) to attend these academic conferences than when I was still employed? Yes. But I did not want for the lack of intellectual stimulation.

Furthermore, when one retires there is no need to give up the research element of the professorial positions. Why can't a retired faculty member continue to do the research and writing that was done while still employed? I don't know of any journal that requires authors to be currently employed. If you conducted your research merely because your employer required it or because you sought out a year-end salary raise, then the incentive to continue a research program obviously ends with retirement. But I hope that is not the driving force for your research program.

How about the desire to work with the students seeking to obtain the skills and knowledge to advance in their own career? Well – who says that a college will not hire a retired faculty member to teach one course per year as an adjunct faculty? I would imagine that as long as I wish to do so, I can be hired back to teach one night per week for one term per year. In addition to the opportunity to work with students, it provides me with a little extra cash flow (maybe an extra trip or cruise per year) and serves the college in providing them with an extra “academically qualified” faculty member teaching a course (...can't forget about those AACSB requirements).

Then what about the opportunities to continue to associate, professionally, with your colleagues (assuming that you do indeed wish to continue that association)? Can you name a one department chair or a one dean who would say no to the following request – “After I retire, is there anything that I still could do around the school that would provide the school with a little help and provide me with an opportunity to participate in the life of the college?” Such activities might include helping out with a student club, periodically meeting with prospective students or help planning an orientation for new students. If there is no financial remuneration for these activities, most Deans would probably love it all the more to have you aboard. Once again if you participate in such activities when employed merely because it is a required part of the job, then there would be no purpose in continuing to do these activities after retirement. But if you enjoy doing them while working, most Deans would love to have you continue doing them after retirement. Even if you retire because you no longer enjoyed working with your colleagues or your school's administration or you no longer enjoyed teaching the students at your college, you could consider continuing these activities at another area college – assuming there is one in your location.

Note the general theme that I present – after retirement you still have the OPPORTUNITY to do a few university/academic related activities, even though you no longer receive a salary. Your salary becomes the satisfaction of doing what you enjoy. And it sure beats staying home and spending the day watching television.

Once again the reader might ask “If you liked these activities, why did you retire?” Remember that I



was only interested in doing them when and where I wanted to. Furthermore there were other activities I also wanted to pursue that were not possible when teaching full-time. For example, while the typical required teaching schedule only takes up about 30-32 weeks a year, that schedule is totally inflexible. My wife and I like to take cruises in the fall and spring – but that was very difficult to achieve when teaching during the school year. So now we can do these activities as well as participate, to a limited extent, in the activities I always liked doing – a little teaching, a little research, attending a few academic conferences and being associated with the college on a very limited basis – all on my own schedule. I seem to have the best of all worlds.

Well – how about the poor soul who never really liked being a professor, but did it simply to obtain that weekly paycheck. Those are the folks who cannot wait to retire and get away from it all. I have no suggestions for them because I never had such an experience. But for those who like what we do as a professor, I can easily see that the best of all worlds is available for the retiree.

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## Future Behavioral Directions of Fraud and Forensic Accounting <sup>1</sup> Research

[D. Larry Crumbley\\*](#)

There has been little academic research on the behavioral aspects of fraud. Joe Koletar, a former FBI agent, told me a number of years ago that a good accountant must first be an excellent investigator. Look at people and lifestyles first, and then look at the records.

Lee Child in one of his novels says “that ninety-nine percent of the time it’s ninety-nine percent about people. A good investigator is a person with a feel for people.”<sup>2</sup>

One of the early books on forensic accounting provided an iceberg theory<sup>3</sup> about detecting fraud. The top one-third of the iceberg (out-of-the-water) involves structural consideration, such as hierarchy, financial resources, goals of the organization, skills and abilities of personnel, technological state, and performance measurement. But just like an IRS agent, a forensic accountant should be aware of the lifestyles of employees. The lifestyle of an individual may give clues as to the possibility of fraud.

So Bologna and Lindquist believe that fraud auditors should look at the two-thirds of the iceberg below the water. They suggest looking below the water line, at

- attitudes
- feelings (fear, anger, etc.)
- values
- norms
- interactions
- supportiveness
- satisfaction<sup>4</sup>

Tracy Coenen, of Sequence, Inc., gives seven examples of an employee mind-set that may be used to spot the behavioral red flags of fraud:<sup>5</sup>

- Weak code of ethics. If a person is willing to engage in dishonest behavior in other parts of his or her life, it often follows that the same inclination exists in the workplace.
- Propensity to work “outside” the system. This means not following the rules that everyone else abides by... not following established job procedures and workplace policies...and repeatedly trying

to “beat the system.”

- Poor work performance. When coupled with rationalization or justification of substandard performance, this can be an indicator of disrespect for the organization which in turn can be a driver of internal fraud.
- Excessive drive to achieve. Employees who desperately try to improve performance or meet certain targets may find it tough to resist the temptation to circumvent fraud controls.
- Over-protectiveness of data and key documents. Dishonest employees are often reluctant to share information with co-workers or managers. To conceal their illegal activity, they may go to great lengths to ensure that sensitive documents are never out of their sight.
- Persistent demoralization. When you spot an employee who shows constant dissatisfaction with his or her status in the organization, job duties, coworkers or supervisors, it's time to keep a close eye on the person.
- Being the first one in or the last one out. An employee who looks for ways to be alone in the workplace could pose a problem. Little or no vacations.

The Australian Institute of Criminology states that the risk of fraud is a product of both personality and environmental (or situational) variables. They explain fraud by three factors:

- Supply of motivated offenders.
- Availability of suitable targets.
- Absence of capable guardians (e.g., internal controls).

They believe that some fraudsters wish to make fools of their victims. They take delight in the act itself.<sup>6</sup>

A 2007 study discovered that the primary reasons for fraud are “pressures to do whatever it takes to meet goals” (81 percent of respondents) and “to seek personal gains” (72 percent). Many respondents indicated that “they do not consider their actions fraudulent” (40 percent) as a reason for wrongful behavior.<sup>7</sup>

Behavioral psychologists call this rationalization “reframing,” where someone who is about to cheat will adjust the definition of cheating to exclude his or her actions. Dan Ariely says “people who would never take \$5 petty cash have no problem paying for a drink for a stranger and putting it on a company tab.”<sup>8</sup>

Many fraud schemes cannot be effectively found using data-driven approaches and sampling, such as corruption, bribery, and kickbacks. Ramamoorti and Curtis state that searching relevant transaction data for patterns and unexplained relationships often fails to yield results because the information may not be recorded, per se, by the system. Behavioral concepts and qualitative factors frequently allow the auditor to look beyond the data, both with respect to data that is there and the data that isn't.”<sup>9</sup>

The 2010 ACFE Report to the Nations provides these sixteen behavioral red flags ranked from highest to lowest.

Behavioral Red Flag	Number of Cases	Percent of Cases
Financial difficulties	392	44.7%
Living beyond means	391	44.6%
Control issues, unwillingness to share duties	205	23.4%
Divorce/family problems	201	22.9%
Wheeler-dealer attitude	173	19.7%
Unusually close association with vendor	141	16.1%
Irritability, suspiciousness or defensiveness	127	14.5%
Addiction problems	124	14.2%
Past employment-related problems	85	9.7%
Past legal problems	75	8.6%
Refusal to take vacations	74	8.4%
Complaining about inadequate pay	64	7.3%
Instability in life circumstances	54	6.2%
Excessive pressure from within organization	51	5.8%
Excessive family/peer pressure	39	4.5%
Complaining about lack of authority	37	4.2%

There could be academic research for all of these factors.

A 2002 Ernst & Young Study found that women and older employees are more likely to report fraudulent activities.<sup>10</sup> A member of ABO should hook-up with a member of the forensic and investigative accounting (FIA) section and investigate these premises.

I certainly encourage each ABO member to join my FIA section (<http://aaahq.org/fia/index.html>). We need behavioralists to research in the fraud area. Likewise, please consider sending any forensic accounting manuscripts to me ([dcrumb1@lsu.edu](mailto:dcrumb1@lsu.edu)) for presentation at our Second Annual FIA Research Conference in New Orleans on March 25/26, 2011. Our dinner speaker will be Sam Antar of Crazy Eddie fame. This convicted felon and former CPA used skimming, money laundering, insurance fraud, and other criminal activities to pull off a half a billion dollar statement fraud. Why don't the ABO section and FIA section have a combined midyear meeting in the future? Would anyone like to be on my editorial advisory board for the *Journal of Forensic and Investigative Accounting* (<http://www.bus.lsu.edu/accounting/faculty/lcrumbley/>)

[jfia/](#))? Send me a short piece for the AAA *Forensic Accounting Educator* (<http://www.aaahq.org/fia/attachments/FIA-Newsletter-V2N2.pdf>).

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<sup>1</sup>\* Dr. Crumbley, CPA, CFF, CrFA, CFFA, is KPMG Endowed Professor at Louisiana State University. He is editor of the Journal of Forensic and Investigative Accounting, and founder and first president of the AAA's Forensic and Investigative Accounting section.

For a description of Forensic Accounting, go to "[So What Is Forensic Accounting?](#)" *The ABO Reporter*, Fall 2009.

<sup>2</sup> Lee Child, *Echo Burning*, N.Y.: Jove Books, 2001, p.281.

<sup>3</sup> G.J. Bologna and R.J. Lindquist, *Fraud Auditing and Forensic Accounting*, 2nd edition, New York: John Wiley, 1995, pp.36-37.

<sup>4</sup> Ibid.

<sup>5</sup> "How to Detect Behavioral Red Flags", [http://www.sequenceinc.com/index.php?option=com\\_content&view=article&id=185:how-to-detect-behavioral-red-flags-of-fraud](http://www.sequenceinc.com/index.php?option=com_content&view=article&id=185:how-to-detect-behavioral-red-flags-of-fraud)

<sup>6</sup> Grace Duffield and Peter Grabosky, "The Psychology of Fraud, Australian Institute of Criminology," No.19.

<sup>7</sup> Oversight Systems Report on Corporate Fraud, 2007, [www.oversightsystems.com](http://www.oversightsystems.com); Managing the Business Risk of Fraud: A Practical Guide, IIA, AICPA, ACFE; <http://www.acfe.com/documents/managing-business-risk.pdf>, 2008, p. 6

<sup>8</sup> S.L. Mintz, "The Guage of Innocence," CFO, April 2009, p.56

<sup>9</sup> S. Ramamoorti and S. Curtis, "Procurement Fraud & Data Analytics," *Journal of Government Financial Management*, Winter 2003, Vol. 52, No. 4, pp. 16-24.

<sup>10</sup> Ernst & Young, "American Works: Employers Lose 20 Percent of Every Dollar to Work Place Fraud." (2002) available at [http://www.ey.com/global/Conent.nsf/US/Media\\_Release\\_-\\_08-05-02DC](http://www.ey.com/global/Conent.nsf/US/Media_Release_-_08-05-02DC)

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# THE ABO Reporter

ACCOUNTING, BEHAVIOR AND ORGANIZATIONS SECTION

Fall 2010

## Have You Seen...?

By John T. Rigsby  
Adkerson School of Accountancy  
Mississippi State University

I would appreciate hearing from any section member with suggestions for papers you believe would be of interest to other members. Please send citations to [jrigsby@cobilan.msstate.edu](mailto:jrigsby@cobilan.msstate.edu)

Abbott, L. Parker, S., and Peters, G. (2010). "Serving Two Masters: The Association Between Audit Committee Internal Audit Oversight and Internal Audit Activities." **Accounting Horizons**, Vol. 24, No. 1, pp. 1-24.

The authors investigated the association between the audit committee's oversight of the internal audit function and the nature of internal audit function activities. They surveyed 134 chief internal auditors regarding the amount of internal audit resources allocated across internal audit activities and then constructed a composite measure of audit committee oversight contingent on the relative control that the audit committee had over internal audit function versus management. Consistent with their expectations, they found a strong, positive relationship between audit committee oversight and the amount of the internal audit function budget allocated to internal control based activities.

Bedard, J. and Gendron, Y. (2010). "Strengthening the Financial Reporting System: Can Audit Committees Deliver?" **International Journal of Auditing**, Vol. 14, No. 2, pp. 174-210.

The authors reviewed the literature on audit committees to evaluate the extent to which committees are effective in terms of strengthening financial reporting. They sought to (1) provide updated information on the effectiveness of audit committees, and (2) identify research opportunities. They used a meta-perspective to investigate a broad spectrum of theoretical perspectives from various fields, methods and countries.



Bowrin, A. and King, J. (2010). "Time Pressure, Task Complexity, and Audit Effectiveness." ***Managerial Auditing Journal***, Vol. 25, No. 2, pp. 160-181.

Because of conflicting results in prior time pressure studies, the authors examined the relationships among time pressure, task complexity, and audit effectiveness and found a negative, interactional relationship among the three variables. They suggest that audit firms may need to resist the urge to reduce the time allowed for performing compliance testing and provide training to improve the detection rate for all types of compliance deviations.

Gibbins, M., McCracken, S. , and Salterio, S. (2010). "The Auditor's Strategy Selection for Negotiation with Management: Flexibility of Initial Accounting Position and Nature of the Relationship." ***Accounting, Organization and Society***, Vol. 35, No. 6, pp. 579-595.

The authors examined five strategies (2 integrative, 3 distributive) used by 140 highly experienced audit partners and measured the audit partners' intent to use these strategies' associated tactics in response to a case scenario that incorporated two key theoretical variables: the flexibility of the client initial accounting position and the nature of the prior relationship between the auditor and client management. They found that their audit partners generally favored the use of integrative tactics over distributive ones when entering negotiations, irrespective of circumstance.

Hassink, H., Meuwissen, R. and Bollen, L. (2010). "Fraud Detection, Redress and Reporting by Auditors." ***Managerial Auditing Journal***, Vo. 25, No. 9, pp. 861-881.

This study examined to what extent auditors comply with auditing standards once they encounter fraud and if auditing is associated with fraud characteristics, auditor experience, and type of audit firm. The role of auditors in redressing fraud, i.e., taking measures to nullify the consequences of fraud to the extent possible, was also examined. They found that auditors fail to comply with some important elements of fraud standards, that there are substantial differences among audit firms regarding compliance with relevant auditing standards, and that about half of the auditors believe that they have a significant effect on redressing fraud.

Rose, A., Rose, J. and Dibben, M. (2010). "The Effects of Trust and Management Incentives on Audit Committee Judgments." ***Behavioral Research in Accounting***, Vol. 22, No. 2, pp. 87-103.

The authors investigated the effects of audit committee members' dispositional trust and management incentives on their judgments using a laboratory experiment with 47 experienced audit committee members. They found that (1) when management has incentives to manage earnings, less trusting audit committee members are more likely to support the external auditor than are more trusting audit committee members; (2) when management has incentives to manage earnings, less trusting audit committee members are more likely to perceive that management is not credible, and more likely to perceive that management is being deceptive than are more trusting audit committee members; and (3) the interactive effects of trust and incentives on



decisions to support the auditor are mediated by perceptions of management's intent to deceive. That is, less trusting audit committee members perceive that management's incentives to manage earnings result in potential deception by management, and less trusting audit committee members increase their support for the auditor because of concerns about management deception.

Seifert, D., Sweeney, J. Joireman, J. and Thornton, J. (2010). "The Influence of Organizational Justice on Accountant Whistleblowing." **Accounting, Organizations and Society**, Vol. 35, No. 7, pp. 707-717.

The authors examined whether whistleblowing is likely to increase when organizational whistleblowing procedures, outcomes, and exchanges with superiors are seen as fair. Data was gathered from 447 internal auditors and management accountants. They found that whistleblowing policies and mechanisms involving higher levels of procedural justice, distributive justice, and interactional justice were seen to increase the likelihood that an organizational accountant would internally report financial statement fraud.

Stefaniak, C. and Robertson, J. (2010). "When Auditors Err: How Mistake Significance and Superiors' Historical Reactions Influence Auditors' Likelihood to Admit a Mistake." **International Journal of Auditing**, Vol. 14, No. 1, pp. 41-55.

The authors examined the effects of mistake significance and superiors' historical reactions to mistake admissions on the likelihood that staff auditors will admit mistakes. The procedures performed by auditors are critical to an audit's success and could jeopardize opinions if they are not communicated. While professional standards require auditors to report their errors, auditors have incentives to withhold information about mistakes because they are protective of their professional images. The authors found an interaction suggesting that staff auditors are more likely to admit errors when their superiors have reacted positively, regardless of error significance. Conversely, staff auditors are less likely to admit apparently insignificant errors when their superiors have reacted negatively to prior mistakes.

Ugrin, J. and Odom, M. "Exploring Sarbanes-Oxley's Effect on Attitudes, Perceptions of Norms, and Intentions to Commit Financial Statement Fraud from a General Deterrent Perspective." **Journal of Accounting and Public Policy**, Vol. 29, No. 5, pp. 439-458.

The authors used an experiment to examine how deterrence mechanisms within the Sarbanes-Oxley Act's Sections 404 and 906 influence the fraudulent financial reporting behavior of individuals. They found that the threat of potential jail time can be an effective mechanism for reducing financial statement fraud, but its effectiveness is limited and influenced by a wide range of social, environmental, and demographic factors.

Wang, K. (2010). "Negotiating a Fair Value Under Accounting Uncertainty: A Laboratory Experiment." **Behavioral Research in Accounting**, Vol. 22, No. 1, pp. 109-134.

The author examined bargaining behavior in a setting analogous to one in which a manager and a verifier negotiates a fair value for an asset over a range of possible values. The results have broad implications. A 90 percent agreement rate was found for the renewable-contract game where the manager and the verifier are allowed to form a long-term relationship and are offered mutually beneficial payoffs. A 65 percent agreement rate was found for the one-period contract game where the negotiation pair has to part after each negotiation and the verifier's payoff does not rely upon the cooperation from the manager. In addition, the fair value context was found to affect bargaining behavior in some unique ways.

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