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### Auditor Independence

#### **Study Suggests Audit Reviews Can Absorb Biases of Auditors**

**A** study from the American Accounting Association's journal, the Accounting Review, found that the reviews of outside auditors' work were influenced by the "biased" information about whether the audit preparer liked or disliked the controller.

The bias could lead to widely different recommendations, depending on whether the audit reviewers were told that the auditor had found the controller to be "extremely pleasant" or "extremely unpleasant, arrogant and condescending."

The online study contacted 119 audit managers and senior managers from two Big Four accounting firms with an average of 9 years experience. They were given identical background information—including that of competent client personnel and low audit risk—and asked to assume the role of an audit manager assigned to review inventory judgments made by a hypothetical senior auditor.

In half of the cases, the audit preparer had reached a conclusion that no write-down of inventory was required, while in the other half the preparer recommended a "highly unfavorable" write-down of \$1.2 million, the study said. The reviewers were either given "biased" information that the preparer had found the client very pleasant—with no write-down recommended by preparer—or they were told that the preparer had found the client arrogant, condescending and unpleasant, resulting in a recommended write-down of \$1.2 million. A third batch, known as the "control group," was given no "biased" preparer information.

The results found that reviewers who were told how pleasant the client was urged an even lower write-down than recommended. Those who were told the client was extremely unpleasant called for much higher write-downs.

The authors of the study concluded that this is what is known as the "ironic rebound effect," which occurs when people attempt to ignore or minimize facts. The subconscious effect is that the information is made more prominent in the memory, and it has more rather than less of an effect on judgment.

The authors, who were auditors at Big Four accounting firms before pursuing careers in academia, believe that reviewers need to be made more aware of this unconscious bias (10 APPR 1117, 12/5/14) to try to counteract it.

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*The study can be purchased through the American Accounting Association at <http://aaajournals.org/doi/abs/10.2308/accr-50873>.*

*For a discussion of auditor independence principles and their application, see 5502, Sarbanes-Oxley: Auditor Independence, at 5502.*