

Thesis abstract

Examining the role of auditor-audit firm and auditor-client relationships on auditors' professional skepticism

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Professional skepticism (PS), which is regarded as one of the most important responsibilities in the audit profession and a “critical attribute of auditor performance” (Nelson, 2009, p.5), has been increasingly emphasized by regulators, standard setters, professional bodies, and researchers. However, prior research has not paid adequate attention to the role of the relationships between auditors and various participants within the audit process — such as their firms and their clients — in driving PS. While these relationships within the audit context have the potential to generate attitudinal and behavioural outcomes that are advantageous to audit firms, and can build on their existing initiatives to enhance audit quality, they have not been adequately examined. Therefore, this thesis contributes to the literature by examining aspects of the auditor-audit firm and auditor-client relationship along with the mechanisms through which these relationships impact auditors' PS in the Philippines. The Philippines is an appropriate national context for the thesis since it has fully adopted the International Standards on Auditing (ISAs) upon which pronouncements on PS are largely based. Findings from the thesis's theoretical models in the Philippine setting may be extrapolated for many other countries that have adopted the ISAs. Additionally, regu-

latory bodies such as the Public Company Accounting Oversight Board (PCAOB) have expressed persistent concerns over the lack of PS in the Philippines. While all countries face challenges in ensuring and enhancing PS, the choice of the Philippine context is particularly apposite as a site where issues of audit quality and PS have been identified. Importantly, the prevalence of such issues on financial reporting and audit quality in the Philippines provides an appropriate “test bed” for examining factors that may affect PS. This thesis adopts an interdisciplinary approach by drawing on the literature and theoretical perspectives on social psychology, organizational behaviour, and service science to provide an in-depth understanding of the psychological mechanisms through which auditor-audit firm and auditor-client relationships operate to drive PS. The aim of this thesis is attained through three empirical papers utilizing quantitative (Papers 1 and 2) and qualitative (Paper 3) research designs.

The first paper extends the literature by developing and testing a theoretical model that examines perceived organizational support (POS) as a focal predictor of auditors' intentions to engage in skeptical action. This paper also examines organizational identification as a relevant psychological mechanism through which POS affects

auditors' PS. Specifically, this paper argues that organizational identification mediates the relationship between auditors' POS and their intentions to engage in skeptical action. Moreover, this paper also develops alternative hypotheses to examine whether firm type moderates the link between POS, organizational identification, and intentions to engage in skeptical action. The paper's theoretical model was tested in a survey involving 198 auditors in the Philippines. The findings show that organizational identification mediates the relationship between POS and auditors' intentions to engage in skeptical action. The study also found that the conditional indirect effect of POS on auditors' intentions to engage in skeptical action via organizational identification is stronger for non-Big 4 firms compared to Big 4 firms. The results highlight the importance of providing a supportive environment to encourage auditors to form intentions to engage in skeptical action.

The second paper contributes to the literature by developing a theoretical model that examines the auditor-audit firm relationship from a psychological contract perspective. Specifically, this paper examines how ideological psychological contract (IPC) fulfillment is associated with auditors' intentions to engage in skeptical actions and organizational citizenship behaviour (OCB). This paper hypothesizes that work meaningfulness mediates the relationships between IPC fulfillment and auditors' intentions to engage in skeptical actions, and between IPC fulfillment and OCB. This paper's theoretical model was tested by conducting a two-wave online survey involving 250 auditors in the Philippines, and after which, both an *ex-ante* procedural remedy and an *ex-post* test were performed to mitigate

common method bias. Findings show that IPC fulfillment reinforces auditors' perceived work meaningfulness, which then motivates them to form greater intentions to engage in skeptical actions and OCB. By invoking psychological contract theory, this paper provides additional insights into how auditor-audit firm relationships anchored on ideologies reinforce aspects of auditor performance that can contribute to firms' audit quality initiatives.

The third paper contributes to the literature by examining audit engagements from a co-production perspective. This study analysed interviews of 24 audit partners and 26 CFOs and controllers to ascertain whether auditors and audit clients view the audit as a co-production and if so, how do these impact PS. Moreover, it also mobilized Knechel et al., (2020)'s thesis that an audit is a professional service, and social exchange theory (SET) to answer the study's research questions. Findings show that auditors and clients perceive that they co-produce audits as they each contribute resources and competencies that are combined at each stage of the audit. The results demonstrate that co-production is facilitated by relationships that are characterized by reciprocity and trust between auditors and clients. The study also found that a shared notion of audits as co-production helps overcome information asymmetries, which then enables auditors to exercise PS. Nonetheless, the study also found evidence to support Knechel et al., (2020)'s proposition that there is a "fine line that separates participating in a collaborative network" that may facilitate skeptical judgments and actions, from "abdication of professional responsibilities" that result in impaired PS.

Findings from this thesis provide additional insights into existing theoretical PS models. Most theoretical frameworks such as those of Hurtt et al. (2013) and Nolder & Kadous (2018) operationalize organizational factors influencing PS via specific aspects of audit firm culture. This thesis complements these models by demonstrating the relevance of examining aspects of the auditor-audit firm and auditor-client relationships as factors affecting PS. This thesis further advances existing theoretical PS models by mobilizing unique theoretical perspectives in examining the underlying psychological mechanisms that link situational factors and skeptical behaviour. This thesis demonstrates the importance of unpacking these relevant mechanisms to provide additional insights into *how* situational factors are linked to auditors' PS. Moreover, findings

of this thesis which are based on auditors' and clients' perceptions anchored in their actual experiences, provide opportunities for audit researchers to use latent variables to capture aspects of the audit firm environment and auditor-client relationship to better understand their role in enhancing skeptical behaviour. Lastly, this thesis also provides practical implications for global audit firms and their networks, regulators, and standard setters consistent with their initiatives to improve PS and strengthen audit quality.

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