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The Effect of Quality Assessment and Directional Goal Commitment on Auditors’ Acceptance of Client-Preferred Accounting Methods

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ABSTRACT: Previous research demonstrates that auditors’ directional goals influence their reporting decisions. For example, when auditors have goals of accepting client-preferred accounting methods, they tend to exploit ambiguity in reporting standards to justify those methods, even when they are aggressive (Hackenbrack and Nelson 1996). We report an experimental investigation of the likely effectiveness of regulation designed to curb this tendency. Specifically, regulators suggest that having auditors identify benchmarks or assess the quality of various methods will “raise the bar” for method acceptability, thereby reducing auditor acceptance of aggressive reporting methods. However, this reasoning ignores the fact that ambiguity typically surrounds quality assessment. Following motivated reasoning theory, we argue that, in order to meet the increased standard for acceptability, auditors with high commitment to directional goals will exploit the ambiguity surrounding the quality of various methods when making quality assessments, with the result that the client-preferred method will be deemed best, or at least of high enough relative quality to be used. This theory suggests that auditor acceptance will increase with goal commitment, and that the increase will be most dramatic when quality assessment is performed. Results of our experiment support our hypotheses that performing a quality assessment amplifies the effects of auditors’ directional goals on their acceptance of client-preferred methods and on their ratings of the quality of that method. Moreover, auditors making quality assessments


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759
are more likely to identify the client's method as the most appropriate method when they are more committed to their directional goals. An implication of our theory and results is that regulation (such as SAS No. 90) that requires auditors to make quality assessments may decrease auditors' objectivity when auditors have directional goals to accept client methods.

**Keywords:** objectivity; motivated reasoning; financial reporting; earnings quality.

**Data Availability:** Contact authors.

I. INTRODUCTION

The SEC has expressed concern that companies are not using the most appropriate accounting methods for their circumstances, and, as a result, the quality of financial reporting is suffering (Levitt 1998). A recent auditing standard, SAS No. 90, Audit Committee Communications, addresses this issue by requiring auditors to discuss the quality of client accounting methods with audit committees (AICPA 2000). Some argue that extending auditors' responsibilities beyond compliance to include assessments of the quality or appropriateness of clients' accounting methods will improve auditor objectivity, thereby reducing auditors' willingness to allow clients to use their preferred, aggressive reporting methods (Advisory Panel on Auditor Independence 1994). Ultimately, it is argued, improved auditor objectivity will elevate the quality of financial reporting (Public Oversight Board [POB] 1995; Whitehead et al. 1999). Others argue that unintentional self-serving biases preclude auditors from being objective about client accounting, and so attempts to induce objectivity are unlikely to be successful (Bazerman et al. 1997). The purpose of this paper is to investigate whether requiring auditors to identify the highest quality (i.e., most appropriate) accounting method could actually decrease their objectivity by amplifying their tendency to support aggressive, client-preferred accounting methods.

We base our investigation on an extension of motivated reasoning theory. Motivated reasoning theory holds that individuals who are committed to directional goals engage in biased reasoning to reach those goals (Kunda 1990, 1999). Directional goals imply that one conclusion is preferred above others. Individuals with directional goals search for, interpret, and process information in a biased manner and, consequently, are more likely to reach the preferred conclusion (Kunda 1990). Consistent with auditors having a directional goal of supporting client method choices, accounting research demonstrates that auditors tend to interpret ambiguous standards in ways that lend support to client-preferred accounting methods (Hackenbrack and Nelson 1996). We expect that the higher auditors' commitment to such directional goals, the more likely they are to accept client-preferred methods, as long as the methods can be justified (i.e., as long as reasonableness constraints are not binding).

Individuals will not reach preferred conclusions that cannot be justified, regardless of their commitment to a directional goal (Kunda 1990). For example, auditors support client-preferred methods when in-house precedents are ambiguous, but not when precedents unambiguously support alternative treatments (Salterio and Koonce 1997). In general, divergence of the preferred conclusion from salient benchmarks threatens reaching preferred conclusions (Pyszczynski and Greenberg 1987; Kruglanski 1989). Thus, a potential solution to auditors' tendency to support client-preferred methods is to make benchmarks more salient. The Advisory Panel on Auditor Independence (1994) suggests that this can be done by asking auditors to identify the best method or to discuss the relative quality of alternative methods that could be applied. If auditors make objective quality assessments, then the
Auditors' Acceptance of Client-Preferred Accounting Methods

quality gap between the aggressive method that the client prefers and the most appropriate method may cause auditors to disallow the client-preferred method for financial reporting purposes. This approach is essentially the one taken in SAS No. 90 (AICPA 2000).

We predict, however, that auditors will not make quality assessments in an objective manner under some commonly occurring conditions. Extending motivated reasoning theory, we predict that when there is ambiguity surrounding the identity of the best method and the relative quality of alternative methods, auditors will engage in directional processing when asked to assess accounting method quality. Moreover, requiring a quality assessment will threaten auditors’ ability to achieve their directional goal by making alternative high-quality methods salient, potentially raising the bar for reporting quality (i.e., instead of determining whether a method is merely acceptable, auditors may consider whether the method is close enough in quality to the best method). As a result, auditors will increase the intensity of effort devoted to justifying the client-preferred method. This additional justification effort will increase both the perceived quality and acceptability of that method. Thus, we expect that performing a quality assessment will amplify the influence of directional goals on auditors’ decisions about the acceptability of a client’s method.

We test for the presence of this ordinal interaction of quality assessment and directional goal commitment in a Web-based experiment in which we asked auditors to determine whether an aggressive client-preferred accounting method is acceptable. We manipulated quality assessment by asking half the participants to identify the most appropriate accounting method before deciding on the acceptability of the client’s method. We measure commitment to the goal of supporting the client method with a validated scale from the organizational behavior literature. We manipulated engagement pressure to induce variability in auditors’ directional goals (i.e., to support the use of the client’s preferred method) and to address generalizability of our theory. In the lower engagement pressure condition, the auditor learned of the accounting issue after the transaction had been executed but before public reporting. In the higher pressure condition, the auditor learned of the issue only after interim financial statements using the method had been publicly released.

Results support our hypotheses that performing a quality assessment amplifies the effect of directional goal commitment on auditors’ acceptance rates and their assessments of the quality of the client-preferred method. In other words, performing a quality assessment reduces auditor objectivity. Auditors who make a quality assessment are more likely to accept the client’s method when they are more committed to their directional goals to do so, whereas auditors not making a quality assessment are less susceptible to directional goal commitment. Auditors’ ratings of the appropriateness of the client-preferred method follow the same pattern. Further, auditors making quality assessments are more likely to identify the client-preferred method as the most appropriate method when their commitment to their directional goals is greater. Thus, it appears that instead of improving the quality of financial reporting by making it more difficult for auditors to accept aggressive client-preferred reporting methods, quality assessment causes auditors to ascribe higher quality to these methods, increasing the likelihood that such methods are deemed suitable for financial reporting. An implication of the theory and findings is that regulation requiring auditors to identify benchmarks or assess the quality of methods (such as SAS No. 90) is unlikely to improve, and may even reduce, auditor objectivity when auditors are committed to the directional goal of supporting clients’ choices.

The remainder of the paper is organized as follows. The Section II explains the theory and hypotheses. The Sections III and IV describe the experimental method and the results, respectively. The Section V provides discussion and concluding comments.

The Accounting Review, July 2003
II. THEORY AND HYPOTHESES

Directional Goals and Auditor Acceptance of Client-Preferred Accounting Methods

The motivated reasoning literature demonstrates that individuals’ goals influence their decision processes (e.g., Kunda 1990, 1999). In particular, individuals committed to directional goals, or goals to reach a preferred conclusion, are more likely to reach their desired conclusion, subject to reasonableness constraints (Kunda 1990). Directional reasoning employs a variety of mechanisms. Individuals committed to directional goals conduct biased searches for and overweight the importance of evidence that supports the desired conclusion (Lundgren and Prislin 1998). They choose statistical decision rules and construct new beliefs so as to increase the likelihood that the desired conclusion will be reached (Pyszczynski and Greenberg 1987; Kunda 1990). In addition, they are more skeptical of information that is inconsistent with their preferences than of information that is consistent with their preferences (Ditto and Lopez 1992; Ditto et al. 1998) and they process preference-inconsistent information in a more error-prone manner (Hales 2002). The result of this biased reasoning is that decision makers with higher commitment to directional goals perceive that goal-consistent conclusions are of higher quality, and thus more acceptable, than they otherwise would.

Prior research in accounting is consistent with auditors having directional goals to support client management’s method choices and engaging in directional processing. For example, audit seniors tend to choose client-preferred methods and exploit ambiguity in financial accounting standards to justify those methods (Hackenbrack and Nelson 1996). In addition, very experienced auditors tend to make inventory write-down recommendations that are consistent with stated client preferences (Haynes et al. 1998).

Although directional reasoning is pervasive, commitment to directional goals will not always ensure that one will reach goal-consistent decisions. Auditors will reach preferred conclusions only when they can justify them while maintaining the illusion of objectivity (Pyszczynski and Greenberg 1987; Kunda 1990). As a result, directional processing is successful only in conditions of normative ambiguity, or vagueness about what conclusions should or should not be reached. In such cases, one can construct plausible justifications for a variety of conclusions (Pyszczynski and Greenberg 1987). In an auditing context, Johnstone et al. (2001) argue that ambiguity about what alternatives are acceptable is an antecedent to independence impairment. Consistent with this argument, Entwistle and Lindsay (2002) demonstrate that audit partners are more likely to allow clients to use their preferred, aggressive methods when there is greater ambiguity about what methods are acceptable. When normative ambiguity is insufficient, the effect of directional reasoning on decision outcomes is diminished. For example, when in-house precedents unambiguously support alternative treatments (Salterio and Koonce 1997), auditors reduce their tendency to accept aggressive, client-preferred methods.

Effect of Quality Assessment on Directional Reasoning

When a preferred (i.e., goal-consistent) conclusion diverges from salient benchmarks, justifying the preferred conclusion becomes more challenging (Pyszczynski and Greenberg 1987). A sufficiently large divergence between the preferred conclusion and the benchmark threatens the reasonableness of preferred conclusions (Kruglanski 1989), thereby invoking

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1 Directional goals arise from a variety of sources. The cited research indicates that auditors’ goals tend to be in favor of supporting client management’s reporting choices. We expect that these goals arise from social incentives in the form of accountability and from monetary incentives in the form of audit fees or compensation incentives for retaining profitable clients (see Johnstone et al. 2002).

The Accounting Review, July 2003
reasonableness constraints. In the financial reporting context, the most appropriate accounting method is likely an important benchmark. Moreover, the availability of a potentially more appropriate method likely threatens the reasonableness of using the client-preferred method for financial reporting purposes (Salterio and Koonce 1997). Thus, a potential solution to the problem of auditors being influenced by directional goals to support client preferences is to make high-quality benchmarks more salient. This could be accomplished by requiring auditors to identify the best method or to assess the relative quality of various methods that could be applied (Advisory Panel on Auditor Independence 1994, 21). SAS No. 90 (AICPA 2000) takes this approach, requiring auditors to make “judgments about the quality, not just the acceptability, of the entity’s accounting principles as applied in its financial reporting” and to discuss these judgments with the audit committee.

An important question, however, is whether directional goals also bias individuals’ judgments about the identity of the benchmark and how favorably preferred conclusions compare with benchmarks. Comparisons to benchmarks are more likely to be effective when the benchmarks are objectively determined and differences between preferred and benchmark conclusions are objectively evaluated. Where there is normative ambiguity surrounding these issues, as is often the case in difficult financial reporting contexts, motivated reasoning theory suggests that benchmarks and relative quality assessments will not be determined in an objective, unbiased manner. Consequently, we expect the influence of an auditor’s directional goal to allow the client to use its preferred accounting method to extend to identification of the benchmarks and to evaluations of differences between the preferred method and the benchmark. In other words, auditors will exploit the normative ambiguity surrounding the relative quality of various methods to meet their directional goal of supporting the use of the client-preferred method.

Consistent with this reasoning, Kunda (1990, 487) asserts that asking individuals with directional goals to identify the best conclusion (i.e., a benchmark) may facilitate construction of justifications for desired conclusions by increasing the directional processing devoted to reaching those conclusions. Introducing a benchmark likely increases the difficulty of justifying a desired conclusion, so one must work harder to support it. In our financial reporting setting, asking auditors to engage in quality assessment as a precursor to communicating with the audit committee about the overall quality, and not just acceptability, of the client’s method raises the possibility that “mere acceptability” may be viewed as an insufficient basis for allowing the client-preferred method for reporting purposes. To be acceptable under such conditions, a method must be the best method or sufficiently close in quality to that method. Thus, when high-quality alternative methods are available, auditors will have to devote effort to directional reasoning to convince themselves, and others, that the client-preferred method is of sufficiently high quality to be used. As long as reasonableness constraints are not binding, as directional goal commitment increases, we expect that performing a quality assessment will amplify auditors’ tendency to support the client-preferred method. Accordingly, we expect that quality assessment and directional goal commitment will generate an amplifying form of an ordinal interaction on auditors’ propensity to accept client-preferred accounting methods.

Figure 1 illustrates our hypothesized ordinal interaction. The solid line demonstrates the influence of directional goal commitment on auditors’ assessments of the quality of the client’s method when no quality assessment is performed. When directional goal commitment is very low, directional goals have no discernable influence on acceptance rates.

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2 This reasoning is consistent with Boiny et al.’s (1997) finding that the amount of directional processing applied increases only when it becomes apparent that more is needed to ensure attainment of directional goals.
However, as directional goal commitment increases, the motivation to ensure use of the client-preferred method becomes stronger. With sufficiently high commitment to directional goals, auditors’ reasoning becomes biased in favor of the client-preferred method, increasing the probability of acceptance. Further increases in directional goal commitment continue to increase the probability of acceptance until reasonableness constraints are binding. Because the probability of acceptance is conditional on, instead of independent of, directional goal commitment, auditors can be said to lack objectivity. Performing a quality assessment amplifies the effect of directional goal commitment on auditors’ decisions about the acceptability of the client-preferred method, as illustrated by the dotted line. In Figure 1, the steeper positive slope of the dotted line, as compared with that of the solid line, indicates further impairment of auditor objectivity when quality assessment is performed. This pattern of expected acceptance rates is summarized in our first hypothesis:

The Accounting Review, July 2003
H₁: Acceptance of the client-preferred method will be highest when quality assessment is performed and goal commitment is relatively high, lower when quality assessment is not performed and goal commitment is relatively high, and lowest when goal commitment is relatively low, regardless of level of quality assessment.

Because we expect this pattern of acceptance to be based on biased assessments of the quality of the client-preferred method, we hypothesize the same ordinal interaction will emerge in ratings of the quality of the client-preferred method. That prediction is our second hypothesis:

H₂: Rated appropriateness of the client-preferred method will be highest when quality assessment is performed and goal commitment is relatively high, lower when quality assessment is not performed and goal commitment is relatively high, and lowest when goal commitment is relatively low, regardless of level of quality assessment.

As noted above, auditors’ attempts to meet their directional goals are expected to increase the assessed quality of the client-preferred method. When alternative methods of high quality are available, auditors highly committed to directional goals likely will elevate the judged quality of the client-preferred method to that of the benchmark—the most appropriate method. Our third hypothesis follows:

H₃: Auditors asked to identify the highest quality method will be more likely to identify the client-preferred method as the highest quality method when directional goal commitment is relatively high than when it is relatively low.

III. EXPERIMENTAL METHOD

We test our hypotheses in an experiment in which we manipulated the requirement that the auditor perform a quality assessment (present, absent) between participants and measured commitment to the goal of accepting the client-preferred method (higher, lower). We manipulated engagement pressure (higher, lower) between participants to ensure sufficient variability in the auditors’ commitment to directional goals. Participants’ primary task was to determine whether to allow the aggressive accounting method proposed by a client in an ambiguous financial reporting situation.

An international accounting firm agreed to let us use its Web-based survey technology to administer our study. Increasingly popular, Web-based research provides access to difficult-to-reach participants who are typically absent from convenience samples (Birnbaum 2001). To date, Web-based findings have been congruent with laboratory findings across diverse research designs, independent variables, and participant pools (Baron and Siepmann 2000; Krantz and Dalal 2000). Further, Web-based data generally are at least as high in quality as laboratory-based data (Birnbaum 1999).

Manipulations and Independent Variables

Quality Assessment

All participants were instructed that they would be asked to decide whether the revenue-recognition method proposed by a new client was acceptable. To accomplish the quality assessment manipulation, we provided half of the participants with additional instructions to identify a benchmark, as follows (italics in original materials):

Before assessing the acceptability of the client-preferred method, however, you will be asked to indicate what you believe to be the most appropriate revenue-recognition
method under GAAP for the circumstances described. The most appropriate method is the one that is most consistent with the conceptual framework and accounting standards and that best captures the economic substance of the transaction under consideration.

As you know, auditors are required to discuss with audit committees the quality, not just the acceptability, of the client company’s accounting principles and underlying estimates. The audit committee of the client in this case has a typical level of financial literacy. Your objective assessment of accounting method appropriateness will facilitate open and candid discussions with the audit committee about the quality of the client’s accounting principles and estimates.

After reading several pages of case materials and immediately before making a decision about the acceptability of the client-preferred method, quality assessment condition participants (only) were asked to identify the most appropriate accounting method. At this point, the instrument included a reminder of the meaning of “most appropriate”:

Recall that the most appropriate method is the one that is most consistent with the conceptual framework and accounting standards and best captures the economic substance of the transaction under consideration.

This language, though not identical to that used in SAS No. 90, captures its focus on the conceptual framework as a benchmark for quality of accounting methods.³

Engagement Pressure

We manipulated engagement pressure to ensure variability in auditors’ directional goal commitment. Specifically, we varied the timing of the auditor’s involvement in the financial reporting issue. In the lower engagement pressure condition, materials indicate that the auditor is performing interim audit testing when the financial reporting issue is identified and that no financial statements containing revenue from the contract has been released to the public. In the higher pressure condition, the materials indicate that the auditor is performing fieldwork testing after year-end and that two sets of interim financial statements using the client-preferred method already have been publicly released.⁴

We constructed the experimental materials such that use of the client-preferred revenue recognition method avoids a negative earnings surprise and keeps intact a prized sequence of annual earnings increases (see Barth et al. 1999), while salient, less aggressive alternative methods do neither. A recent survey suggests that auditors are sensitive to the use of revenue recognition methods in managing earnings (Nelson et al. 2002). To further increase the salience of the public release of information, we included a mock newspaper article describing the first quarter operating results and favorable market reaction to those results in the higher pressure condition. The public release severely limits the client’s ability to provide the market with a timely earnings-surprise warning, which could mitigate the client’s costs of using an alternative accounting method (Skinner 1994; Kasznik and Lev 1995; Libby and Tan 1999).

³ SAS No. 90 reads, in part “the auditor should discuss with the audit committee the auditor’s judgments about the quality, not just the acceptability, of the entity’s accounting principles as applied in its financial reporting...The discussion should be tailored to the entity’s specific circumstances.” (See AICPA 2000.)

⁴ To avoid confusion about whether the participant’s firm had implicitly approved the method in a timely review, the materials explicitly state in the higher pressure condition that the predecessor auditor had reviewed the quarterly statements.
Goal Commitment

Recall that we manipulated engagement pressure to induce variability in commitment to the directional goal of accepting the client-preferred accounting method. Because our hypotheses relate auditors' judgments or decisions to their goal commitment, we use goal commitment rather than engagement pressure as the independent variable in our analyses.

Goal commitment is a measure of motivation and is critical to many organizational behavior theories. Accordingly, researchers in that field have developed and tested scales measuring goal commitment. We used a scale recently refined and validated by Klein et al. (2001), which is based on a longer scale developed by Hollenbeck et al. (1989). The Klein et al. scale requires participants to indicate their level of agreement with five items for each goal on five-point Likert scales. The five items are shown in Exhibit 1. Participants provided agreement ratings for several goals; the goal of interest is to "[b]uild a justifiable case for characterizing [client's] straight-line method to be an acceptable revenue-recognition method in the circumstances."

To develop our measure of goal commitment, we first perform factor analysis on responses to the five items. The eigenvalue for the first factor is 3.11 and all other eigenvalues are less than 1. In addition, the first factor explains 62 percent of the variance in the measures, and Cronbach's alpha is 0.848. This analysis confirms that the five items measure a unitary construct of commitment to the goal of supporting the client-preferred method (e.g., Johnson and Wichern 1988). We perform a median split on this factor score to divide participants into higher and lower goal commitment "conditions" for our subsequent analyses (Johnson and Wichern 1988, 489).

Experimental Case and Procedure

The revenue-recognition issue in our case was adapted from Johnstone et al. (2002). In our version, a first-year audit client has an agreement to provide satellite communication services to a customer at contractual rates, with a predetermined minimum for the first year of the contract. In the lower (higher) pressure condition two (eight) months have passed, and the customer's usage is not keeping pace with the contractual minimum. Johnstone et al. (2002) report that the Big 6 firm with which they developed their case was unable to identify unambiguous professional guidance or precedents for this issue. While we were also unable to identify unambiguous guidance about the most appropriate method, we expected that auditors would view some methods as more appropriate than others for this contract.

EXHIBIT 1
Goal Commitment Measures

1. I thought this was a good goal to shoot for.
2. I was strongly committed to pursuing this goal.
3. It was hard to take this goal seriously. (R)
4. Quite frankly, I didn't care if I achieved this goal or not. (R)
5. It wouldn't have taken much to make me abandon this goal. (R)

We used these five items to measure goal commitment. The items comprise a scale developed by Klein et al. (2001), and were applied to the goal to "[b]uild a justifiable case for characterizing [client's] straight-line method to be an acceptable revenue-recognition method in the circumstances." Items followed by (R) are reverse-scored.
Materials include brief instructions, client background information, a description of the contract, and a description of the client’s preferred revenue-recognition method. The client prefers to allocate the minimum-guaranteed contract revenue evenly across the 12 months of the initial contract period. The first eight months of the initial contract period occur in the current fiscal year. The client justifies its straight-line method in terms of simplicity and argues that alternative methods would push significant revenue into the first quarter of next year, generating unrealistic earnings expectations for the remainder of next year. No alternative methods are described in the initial case materials. The client-preferred method is aggressive in that methods based on actual use of satellite time allocate less than half as much revenue to the current year. The difference between revenue under the client-preferred method and methods based on actual satellite use is approximately 3 percent of current-year revenue.

After reading background and contract information, participants in the quality assessment conditions were asked to identify the most appropriate accounting method by either selecting the client-preferred method or identifying a different method. Next, all participants indicated (by binary choice) whether the client’s accounting method was acceptable, provided goal commitment ratings, and rated the appropriateness of the client-preferred method (as well as two alternative methods) on a scale from 1 = Not at all Appropriate to 7 = Completely Appropriate. A post-experimental questionnaire included manipulation checks and demographic items. Main dependent measures are participants’ decisions about the acceptability of the client-preferred accounting method, assessments of the most appropriate accounting method, and ratings of the appropriateness of the client-preferred method.

IV. RESULTS

Response Rate

The survey administrator announced the study via email to approximately 3,500 of the firm’s auditors in the United States with a rank of supervising senior, manager, or partner. Auditors could click on a hyperlink in the email to be connected with one of four Web sites, corresponding to the four conditions in the study. The initial email messages counterbalanced auditor rank and geographic location across conditions. A total of 227 auditors completed the instrument online during a one-week response period during December 2001, yielding an overall response rate of 6.48 percent. This rate, while low, is consistent with the survey administrator’s expectations, given the nature and length of the experimental instruments. Mean (standard deviation of) audit experience of respondents was 9.63 (7.26) years.

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5 We chose a binary dependent measure because, ultimately, auditors must decide whether to accept or reject client accounting methods. Although continuous response modes also are well suited for testing our theory, it is possible that statistically different judgments may fall on the same side of decision thresholds (e.g., Gilliland et al. 1998). To avoid the risk of identifying differences in judgment that do not result in differences in ultimate decisions, we use this binary measure in our primary analyses.

6 Because they allow for particularly easy and anonymous withdrawal, Web-based experiments are better than laboratory experiments at detecting participants’ aversion to difficult or contentious experimental conditions (Reips 2000). Consistent with differential aversion across conditions, our manipulations of quality assessment and engagement pressure interactively affected the number of responses received (Mantel-Haenszel $\chi^2 = 4.24$, $p = 0.04$). We received the fewest responses in the quality assessment/higher pressure condition ($n = 43$ or 4.9 percent), the next fewest in the no quality assessment/higher pressure condition ($n = 55$ or 6.3 percent), the next fewest in the quality assessment/lower pressure condition ($n = 62$ or 7.1 percent), and the most responses in the no quality assessment/lower pressure condition ($n = 67$ or 7.7 percent).

7 Mean audit experience is likely understated because the instrument truncated experience at 25 years, and 17 participants recorded 25 or more years of experience.
Manipulation Checks

Quality Assessment

Of the 98 quality assessment condition participants, 28 indicated that the client’s method was the most appropriate method and 70 participants indicated that another method was the most appropriate. Sixty-eight of 70 participants who chose an alternative method (97.1 percent) provided the requested written justification for their choice. These results indicate that quality assessment condition participants attended to the quality assessment instruction.8

Engagement Pressure

We asked participants in the post-test, “In the case that you read, to what extent was there pressure to accept [the client’s] straight-line method?” The response scale had endpoints labeled 1 = Very Low Pressure and 7 = Very High Pressure and a midpoint labeled 4 = Average Pressure. Perceived pressure was higher in the higher pressure condition than in the lower pressure condition (means [standard deviations] are 6.38 [0.98] and 6.01 [1.11], respectively, t(161) = 2.21, one-sided p = 0.01), indicating a successful manipulation.9 Perceived pressure is not associated with quality assessment (t(161) = 0.74, p = 0.46), indicating independence of the two manipulations.10

Directional Goal Commitment

Goal commitment scores exhibit substantial variation within and across engagement pressure conditions. Given lower engagement pressure, the average (median) goal commitment score is 0.14 (0.20), and the standard deviation (inter-quartile range) is 0.95 (−0.41 to 0.82). Given higher engagement pressure, the average (median) goal commitment score is −0.16 (−0.19), and the standard deviation (inter-quartile range) is 1.03 (−0.95 to 0.80). Analysis of variance (ANOVA) for goal commitment factor scores reveals that average reported goal commitment is significantly lower in the higher engagement pressure condition than in the lower engagement pressure condition (F(1,223) = 4.86; p = 0.03). Neither the presence or absence of quality assessment (F(1,223) = 0.96, p = 0.33) nor the interaction of engagement pressure and quality assessment (F(1,223) = 0.12, p = 0.73) influence goal commitment factor scores.

We use a median split on goal commitment factor scores in our analyses, although results are similar when using the continuous goal commitment scores. Mean (standard deviation) scores for the high and low commitment conditions are 0.81 (0.58) and −0.81 (0.59), respectively. These values are statistically significantly different from one another (t(225) = 10.84, p < 0.01). In the analyses, we report tests for our hypothesized ordinal interaction between directional goal commitment and quality assessment both aggregated across engagement pressure conditions and separately within each of the lower and the

8 It is possible that participants in the no quality assessment condition spontaneously considered what method would be most appropriate. To the extent that they did so, our tests would be biased against finding effects of the quality assessment manipulation on auditors’ decisions and judgments.

9 All p-values are two-sided except when otherwise noted. We use one-sided p-values only for tests using non-categorical dependent measures for which our theory implies a directional effect.

10 We also asked participants to identify whether the client had publicly recognized revenue from the new contract in any quarterly financial statements filed with the SEC. Participants in the higher pressure condition were more likely to respond positively than were participants in the lower pressure condition (95.2 versus 15.6 percent; \( \chi^2(1) = 143.59, p < 0.01 \)). The proportion of positive responses is independent of quality assessment condition \( \chi^2(1) = 0.14, p = 0.71 \).
higher engagement pressure conditions. Separate tests provide evidence about the generalizability of our theory over levels of engagement pressure.

**Tests of Hypotheses about Acceptance of the Client-Preferred Method**

Mean rates of acceptance of the client-preferred method are graphed in Panel A of Figure 2 for the conditions relevant to our hypotheses. Table 1 provides the percentage of participants who accepted the client’s method by conditions—both aggregated over engagement pressure conditions and separately for higher and lower engagement pressure. Overall, 32.2 percent of participants accepted the client’s method. We interpret the low acceptance rate as evidence that auditors found justifying the client’s method to be challenging.

Our first hypothesis examines whether performing a quality assessment amplifies the influence of auditors’ directional goal commitment on their acceptance of the client-preferred method. It defines a specific pattern of acceptance rates across the four experimental conditions that obtain by crossing quality assessment (absent versus present) and the median split on goal commitment factor scores (lower versus higher). Specifically, it predicts that acceptance of the client-preferred, aggressive method is highest when a quality assessment is performed and goal commitment is higher, lower when there is no quality assessment and goal commitment is higher, and lowest in the two lower goal commitment conditions. Accordingly, we test H1 with a linear contrast of cell means (Buckless and Ravenscroft 1990; Keppel 1991). We use contrast weights of +3 for the quality assessment, higher goal commitment condition, +1 for the no quality assessment, higher goal

![FIGURE 2](image-url)

**Observed Acceptance and Appropriateness of the Client-Preferred Accounting Method**

Panel A: Acceptance of Client Method (H1)

Panel B: Appropriateness of Client Method (H2)

_The Accounting Review, July 2003_
commitment condition and −2 for each of the lower goal commitment conditions (Rosnow and Rosenthal 1995).

A traditional categorical ANOVA model is provided in Panel A of Table 2, and our hypothesis test (using the above contrast weights) as well as the simple effects of directional goal commitment are provided in Panel B. As reported, the hypothesis test is statistically significant ($\chi^2 = 12.27$, $p < 0.01$), supporting $H_1$. Simple effect tests (also in Panel B) reveal that the influence of directional goal commitment on acceptance rates is not statistically significant when quality assessment is not performed ($\chi^2 = 0.11$, $p = 0.74$), but that higher directional goal commitment is associated with higher acceptance of the client-preferred method when quality assessment is performed ($\chi^2 = 11.78$, $p < 0.01$).

To test the generalizability of these findings, we examine whether the hypothesized ordinal interaction between quality assessment and goal commitment obtains in both engagement-pressure conditions using a median split on goal commitment within each of

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**TABLE 1**

Proportion (Percentage) of Auditors Accepting the Client-Preferred Method by Condition

<table>
<thead>
<tr>
<th>Engagement Pressure (EP)</th>
<th>Collapse across EP and Goal Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lower Goal Commitment</strong></td>
<td><strong>Higher Goal Commitment</strong></td>
</tr>
<tr>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td><strong>Quality Assessment</strong></td>
<td><strong>Quality Assessment</strong></td>
</tr>
<tr>
<td>4/21 (19.0)</td>
<td>16/34 (47.1)</td>
</tr>
<tr>
<td>10/32 (31.3)</td>
<td>11/35 (31.4)</td>
</tr>
<tr>
<td>14/53 (26.4)</td>
<td>27/69 (39.1)</td>
</tr>
<tr>
<td>6/28 (21.4)</td>
<td>11/15 (73.3)</td>
</tr>
<tr>
<td>7/33 (21.2)</td>
<td>8/29 (27.6)</td>
</tr>
<tr>
<td>13/61 (21.3)</td>
<td>19/44 (43.2)</td>
</tr>
<tr>
<td>10/49 (20.4)</td>
<td>27/49 (55.1)</td>
</tr>
<tr>
<td>17/65 (26.2)</td>
<td>19/64 (29.7)</td>
</tr>
<tr>
<td>27/114 (23.7)</td>
<td>46/113 (40.7)</td>
</tr>
<tr>
<td>37/98 (37.8)</td>
<td>73/227 (32.2)</td>
</tr>
</tbody>
</table>

Lower (higher) goal commitment refers to below- (above-) median factor scores based on participants’ responses to the Klein et al. (2001) scale items (see Exhibit 1) measuring commitment to the goal to "[b]uild a justifiable case for characterizing [client's] straight-line method to be an acceptable revenue-recognition method in the circumstances." Quality assessment was manipulated by asking auditors to identify the most appropriate method for the client’s situation before asking whether the client-preferred method is acceptable (quality assessment condition), or not asking auditors to identify the most appropriate method (no quality assessment condition). Engagement pressure was manipulated by varying the timing of auditor involvement in the financial reporting issue. In the lower engagement pressure condition, the auditor became aware of the accounting issue before financial information using the client-preferred method was released. In the higher engagement pressure condition, the auditor became aware of the issue after two sets of interim statements using the client-preferred method had been released. The dependent measure reflects participants’ (binary) decisions as to whether the client-preferred, aggressive accounting method is acceptable.

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11 Rosnow and Rosenthal (1995, 7) identify these weights as appropriate for the form of our hypothesized ordinal interaction. We do not rely only on the interaction term from the traditional ANOVA model because our hypothesized interaction is ordinal in form, and traditional ANOVA models allocate much of the variance attributable to ordinal interactions to simple main effects instead of the interaction term (Buckless and Ravenscroft 1990; Dawes 1988; Rosnow and Rosenthal 1995). We present the traditional ANOVA results for completeness.

12 Viewed another way, the simple effects of quality assessment are statistically significant given higher goal commitment ($\chi^2 = 7.56$, $p < 0.01$), but not given lower goal commitment ($\chi^2 = 0.58$, $p = 0.45$).
### TABLE 2
Inferential Statistics Regarding Auditor Acceptance of the Client-Preferred Method

#### Panel A: Categorical ANOVA

<table>
<thead>
<tr>
<th>Source</th>
<th>df</th>
<th>$\chi^2$</th>
<th>Two-Sided p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1</td>
<td>25.78</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Quality Assessment</td>
<td>1</td>
<td>1.53</td>
<td>0.22</td>
</tr>
<tr>
<td>Goal Commitment</td>
<td>1</td>
<td>7.96</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Quality Assessment by Goal Commitment</td>
<td>1</td>
<td>5.66</td>
<td>0.02</td>
</tr>
</tbody>
</table>

#### Panel B: Planned Contrasts

<table>
<thead>
<tr>
<th>Hypothesized Contrast</th>
<th>df</th>
<th>$\chi^2$</th>
<th>Two-sided p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$H_i$: Acceptance is highest in the quality assessment/higher goal commitment condition, lower in the no quality assessment/higher goal commitment condition, and lowest in the two lower goal commitment conditions (contrast weights are +3, +1, -2, and -2, respectively).</td>
<td>1</td>
<td>12.27</td>
<td>&lt; 0.01</td>
</tr>
</tbody>
</table>

#### Simple Main Effects of Goal Commitment

<table>
<thead>
<tr>
<th>Description</th>
<th>df</th>
<th>$\chi^2$</th>
<th>Two-sided p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptance is higher for higher versus lower goal commitment for no quality assessment participants.</td>
<td>1</td>
<td>0.11</td>
<td>0.74</td>
</tr>
<tr>
<td>Acceptance is higher for higher versus lower goal commitment for quality assessment participants.</td>
<td>1</td>
<td>11.78</td>
<td>&lt; 0.01</td>
</tr>
</tbody>
</table>

See Table 1 for descriptions of all variables.

The lower and higher engagement pressure conditions. In the lower pressure conditions, the hypothesized ordinal interaction is statistically significant ($\chi^2_{1} = 4.70$, $p = 0.03$). The simple effect of directional goal commitment is statistically significant when quality assessment is present ($\chi^2_{1} = 5.01$, $p = 0.03$), but not when quality assessment is absent ($\chi^2_{1} = 0.02$, $p = 0.88$). Given higher pressure, the hypothesized ordinal interaction is again statistically significant ($\chi^2_{1} = 12.97$, $p < 0.01$). The simple effect of directional goal commitment is statistically significant when a quality assessment is performed ($\chi^2_{1} = 10.74$, $p < 0.01$), but not when quality assessment is absent ($\chi^2_{1} = 0.55$, $p < 0.46$).14

---

13 Because these median splits occur within pressure conditions, they occur at different values than the median splits used to test the overall hypothesis (those upon which Tables 1 and 3 are based). In both cases, the average goal commitment factor score is significantly lower in the higher engagement pressure condition than in the lower engagement pressure condition.

14 If we substitute manipulated engagement pressure for the measured goal commitment variable, quality assessment is marginally associated with acceptance ($p = 0.10$), but no other effects are statistically significant. In the presence (absence) of quality assessment, 37.8 percent (27.9 percent) of auditors accept the client method. When only higher goal commitment participants are considered, though, an interaction of quality assessment and engagement pressure, analogous to $H_i$, is marginally statistically significant ($p = 0.06$).

(continued on next page)
Consistent with \( H_1 \), auditors who assess quality appear to be more susceptible to their own directional goals (i.e., are less objective) in making decisions about whether to accept a client-preferred accounting method. Even though auditors in higher pressure conditions reported lower commitment to the pro-client directional goal, the interaction between quality assessment and goal commitment is not weaker with higher engagement pressure.

Tests of Hypotheses about Appropriateness of the Client-Preferred Method

Cell means of rated appropriateness, or quality, of the client-preferred, aggressive accounting method are graphed in Figure 2, Panel B. Cell means and standard deviations, both aggregated across engagement pressure levels and separately by engagement pressure level, are provided in Table 3.

In \( H_2 \), we predict that rated appropriateness of the client-preferred accounting method will increase with goal commitment, and that the increase will be larger for auditors in the quality assessment condition. In other words, we expect appropriateness ratings to follow the same pattern as hypothesized for acceptance decisions. Accordingly, we use the same contrast weights to test \( H_2 \) that we used to test \( H_1 \). A traditional ANOVA analysis and the applicable contrast tests appear in Panels A and B of Table 4, respectively.

As indicated in Panel B of Table 4, the hypothesized contrast is statistically significant \( (t_{223} = 3.64, \text{ one-sided } p < 0.01) \), supporting \( H_2 \). Simple effects tests show that directional goal commitment is statistically significant when a quality assessment is performed \( (t_{223} = 3.22, \text{ one-sided } p < 0.01) \), but not when quality assessment is not performed \( (t_{223} = 1.27, \text{ two-sided } p = 0.23) \).

### TABLE 3

Mean (Standard Deviation) Auditor Ratings of the Appropriateness of the Client-Preferred Method by Condition

<table>
<thead>
<tr>
<th></th>
<th>Engagement Pressure (EP)</th>
<th>Collapsed across Goal Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td></td>
<td>Goal Commitment</td>
<td>Goal Commitment</td>
</tr>
<tr>
<td></td>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td>Quality Assessment</td>
<td>2.47 (1.89)</td>
<td>3.61 (2.03)</td>
</tr>
<tr>
<td>No Quality Assessment</td>
<td>3.00 (1.65)</td>
<td>2.75 (1.81)</td>
</tr>
<tr>
<td>Collapsed across Quality</td>
<td>2.64 (1.83)</td>
<td>3.30 (1.86)</td>
</tr>
<tr>
<td>Assessment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The dependent measure reflects participants' evaluations, on a scale ranging from 1 to 7, of the appropriateness of the client-preferred, aggressive accounting method. See Table 1 for descriptions of the independent variables.

Footnote 14, continued

We conducted an earlier pencil-and-paper experiment that was very similar to the Web-based experiment reported herein, except that participants predominantly were audit senior attendees at a national training session for new managers, and no participants dropped out from the experiment. We did not measure goal commitment in that experiment. In that experiment, an interaction of quality assessment and (manipulated) engagement pressure, analogous to \( H_1 \), obtained \( (p = 0.01) \).
TABLE 4
Inferential Statistics Regarding Rated Appropriateness of the Client-Preferred Method

Panel A: ANOVA

<table>
<thead>
<tr>
<th>Source</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>Two-Sided p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Assessment</td>
<td>1</td>
<td>5.77</td>
<td>1.63</td>
<td>0.20</td>
</tr>
<tr>
<td>Goal Commitment</td>
<td>1</td>
<td>37.67</td>
<td>10.62</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Quality Assessment by Goal Commitment</td>
<td>1</td>
<td>9.00</td>
<td>2.54</td>
<td>0.11</td>
</tr>
<tr>
<td>Residual</td>
<td>223</td>
<td>3.55</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Panel B: Planned Contrasts

<table>
<thead>
<tr>
<th>Hypothesized Contrast</th>
<th>df</th>
<th>t</th>
<th>One-Sided p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H2: Rated appropriateness of the client-preferred method is highest in the quality assessment/higher goal commitment condition, lower in the no quality assessment/higher goal commitment condition, and lowest in the two lower goal commitment conditions (contrast weights are +3, +1, -2, and -2, respectively).</td>
<td>223</td>
<td>3.64</td>
<td>&lt;0.01</td>
</tr>
</tbody>
</table>

Simple Main Effects of Goal Commitment

<table>
<thead>
<tr>
<th>Hypothesized Contrast</th>
<th>df</th>
<th>t</th>
<th>One-Sided p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rated appropriateness of the client-preferred method is higher for higher versus lower goal commitment for no quality assessment participants.</td>
<td>223</td>
<td>1.27</td>
<td>0.10</td>
</tr>
<tr>
<td>Rated appropriateness of the client-preferred method is higher for higher versus lower goal commitment for quality assessment participants.</td>
<td>223</td>
<td>3.22</td>
<td>&lt;0.01</td>
</tr>
</tbody>
</table>

See Table 1 for descriptions of the independent variables.
See Table 3 for a description of the dependent variable.

As we did for acceptance rates, we perform separate tests for the hypothesized ordinal interaction in the two engagement pressure conditions using median splits on goal commitment within each pressure condition. In the lower pressure condition, the hypothesized ordinal interaction is statistically significant ($t_{118} = 2.66$, one-sided p < 0.01). The simple effect of directional goal commitment is statistically significant when quality assessment is present ($t_{118} = 2.59$, one-sided p < 0.01), but not when quality assessment is absent ($t_{118} = 0.50$, one-sided p = 0.31). When pressure is higher, the hypothesized ordinal interaction is again statistically significant ($t_{101} = 3.28$, one-sided p < 0.01). The simple effect of directional goal commitment is statistically significant both when a quality assessment is performed ($t_{101} = 2.71$, one-sided p < 0.01) and when a

15 The simple effects of quality assessment are statistically significant given higher goal commitment ($t_{223} = 2.03$, one-sided p = 0.02) but not given lower goal commitment ($t_{223} = 0.22$, p = 0.82)
Auditors' Acceptance of Client-Preferred Accounting Methods 775

quality assessment is not performed ($t_{118} = 1.66$, one-sided $p = 0.05$).\(^\text{16}\) This pattern of results, observed both for quality ratings for the client-preferred method ($H_2$) and acceptance decisions about that method ($H_1$), suggests that requiring auditors with directional goals to perform quality assessments can intensify directional processing.\(^\text{17}\)

**Tests of Hypothesis about Identification of Client's Method as Most Appropriate**

$H_2$ is also supported. For participants making a quality assessment, 19 of 49 (39 percent) participants with higher commitment to the directional goal identified the client-preferred method as most appropriate, while only nine of 49 (18 percent) lower goal commitment participants did so. This difference is statistically significant (Fisher’s Exact Test, $p = 0.02$). Consistent with our expectations, auditors performing a quality assessment are more likely to identify the client-preferred method as the most appropriate method. Taken together, the results for $H_2$ and $H_3$ suggest that biased benchmarks and biased ratings of method quality are likely responsible for the joint influence of quality assessment and directional goals on acceptance of the client-preferred method.

V. CONCLUDING REMARKS

Motivated reasoning theory predicts and previous accounting studies suggest that auditors’ decisions about the acceptability of client-preferred accounting methods are influenced by auditors’ directional goals to accept client-preferred methods (e.g., Hackenbrack and Nelson 1996). In this study, we extend motivated reasoning theory to predict that asking auditors to identify the most appropriate, or benchmark, method will amplify the influence of their directional goals on their acceptance decisions. This issue is relevant to accounting practice because requiring some form of quality assessment has been suggested as a potential way of improving the quality of reporting (e.g., Advisory Panel on Auditor Independence 1994) and is an integral part of a recent auditing standard, SAS No. 90 (AICPA 2000).

Results of our experiment support our hypotheses. In particular, we find that asking auditors to identify the best method increases the influence of commitment to their own directional goals on their tendency to accept a client-preferred method, even though that method is aggressive and methods of potentially higher quality are available. Moreover, auditors are more likely to identify the client-preferred method as the most appropriate method when they are more committed to their directional goal.

This study has implications for the audit standard-setting process. SAS No. 90 requires discussion between auditors and audit committees about the relative quality of a client’s chosen accounting methods (AICPA 2000). Conventional wisdom suggests that requiring auditors to assess the quality of potential accounting methods will improve auditor objectivity (Advisory Panel on Auditor Independence 1994) and reduce aggressive reporting by

\(^\text{16}\) If we substitute manipulated engagement pressure for the measured goal commitment variable, no effects are statistically significant either overall or when examining lower commitment participants only (all $p > 0.22$). Among higher goal commitment participants, though, the ordinal interaction between quality assessment and engagement pressure is statistically significant ($p = 0.05$). In the pencil-and-paper experiment described in footnote 14, we observed an analogous interaction ($p = 0.04$).

\(^\text{17}\) Audit experience has a small, marginally statistically significant, negative correlation with acceptability and appropriateness of the client-preferred method ($r = -0.13$, $p = 0.06$ for acceptability and $r = -0.12$, $p = 0.07$ for appropriateness). Audit experience is not statistically significantly related to whether the participant identifies the client-preferred method as most appropriate ($X^2 = 0.50$, $p = 0.45$). We repeated all analyses while controlling for audit experience, and inferences are identical to those reported. Further, experience does not significantly interact with either quality assessment or goal commitment.

The Accounting Review, July 2003
providing audit committee members with objective information about the quality of alternative accounting methods (Whitehead et al. 1999). Our study, however, suggests that this standard is likely to decrease auditor objectivity when auditors have directional goals to support the client-preferred method. As auditors’ commitment to pro-client directional goals increases, requiring quality assessments evidently increases auditors’ motivation to engage in reasoning that supports acceptance of a client-preferred method. Quality assessment amplifies the effects of directional goal commitment on auditors’ judgment processes, causing them to ascribe higher quality to the client’s method than they otherwise would. The result is that benchmarks and quality assessments, and thus acceptance decisions, are more biased in favor of the client-preferred method.

While this study demonstrates the potential dangers of mandating quality assessment in an environment in which auditors have directional goals to support client-preferred methods, it does not thoroughly investigate the conditions under which auditors become more or less committed to pro-client directional goals. It should be noted that our theory predicts that performing a quality assessment amplifies prevailing directional goals, regardless of whether these goals favor client management. At present, auditors have significant social and financial incentives to please management (Bazerman et al. 1997; Johnstone et al. 2002), and audit committees are unlikely to develop and effectively communicate reporting preferences that differ from methods preferred by management and supported by the auditor. Consequently, pro-client directional goals generally prevail. However, if the costs of being strongly committed to pro-client directional goals were to increase sufficiently (e.g., due to litigation risk as in Farmer et al. [1987]) or if knowledgeable audit committees were able to hold auditors accountable for high-quality, transparent reports, auditors’ directional goals could change. In either case, we would expect quality assessment to amplify the new directional goal.

This study also provides insight into likely impacts of the SEC’s recent rule requiring timely reviews of quarterly financial statements on acceptance of client-preferred accounting methods (SEC 2000). We find that for auditors involved in the decision process only after quarterly financial statements have been issued, engagement pressure is higher, but reported goal commitment is lower. Despite lower reported overall levels of goal commitment, our hypotheses are supported in the higher pressure conditions. In fact, results appear strongest in these conditions (e.g., see Tables 1 and 3) and mean acceptance rates and appropriateness ratings for the client-preferred method are higher when engagement pressure is higher (see Table 2, Panel A for acceptance and Table 4, Panel A for appropriateness). Thus, bias in auditors’ quality assessments and acceptance decisions is likely exacerbated by higher pressure. Accordingly, if timely reviews reduce engagement pressure by increasing the likelihood of early auditor involvement in controversial reporting decisions, then the SEC’s rule will likely be effective in mitigating aggressive reporting.

This experimental investigation, like others, is limited in the number of real-world features of audit practice that it encompasses. It is possible that including such factors could

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18 According to a recent survey, 31 percent of audit committees for large firms do not satisfy recommendations regarding financial literacy and independence from management and 52 percent do not meet as frequently as financial statements are issued (Read and Raghunandan 2001).

19 In a related experiment, we placed all participants (auditing students) under higher engagement pressure and held them accountable to an audit committee for their decisions. We manipulated audit committee member preferences and quality assessment. Half of the audit committees emphasized the costs associated with restatements, while the others emphasized the cost of litigation due to overly aggressive accounting. Consistent with theory, we find that audit committee preferences influence participants’ willingness to accept the client-preferred method and that performing quality assessment amplifies the effect of that influence ($X^2 = 6.61, p = 0.04$).
moderate the effects we observed. For example, we did not collect any measures related to participants’ task-specific knowledge. Johnstone et al. (2002) find that knowledge influences the generation of alternative accounting methods for a similar contract. Such knowledge may moderate the extent to which quality assessment and goal commitment interactively affect auditors’ propensity to accept, or ascribe high quality to, a client-preferred method.

REFERENCES


The Accounting Review, July 2003